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## ***SECTION IV - SUPPORTING THE FORCE ASHORE AND IMPROVING THE SEA ENTERPRISE***

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Quality of life and quality of work remain a primary focus for the Department. Providing our Sailors, Marines, and civilians high quality operating facilities, information technology, and an environment to achieve their goals is fundamental to mission accomplishment. We remain committed to ensuring our Sailors, Marines, and civilian shipmates are compensated with proper pay, attractive housing, generous benefits, quality workspaces, and equipment. Also, the ability to project power through forward deployed naval forces relies heavily on a strong shore support structure at home. We are making progress in eliminating inadequate bachelor housing through the use of additional Public Private Ventures, achieving the DoD goal of a 67 year recapitalization rate by FY 2007, and improving existing facilities to C-2 status beyond the FYDP.

The Department places a premium on ensuring adequate funds are available in these areas, but must remain vigilant about improving the “tooth-to-tail” ratios. Therefore, we have continued to pursue processes to achieve cost reductions. Initiatives undertaken include significant personnel efficiencies, consolidation of management responsibility of naval bases, mission funded shipyards, regionalized maintenance, and use of land sales revenue to finance some BRAC expenses. The Department continues to become more efficient, working on ways to improve “how we do business” corporately rather than concentrating only on specific programs and products. Making the process efficient leads to more effective results and solutions that are affordable. This budget continues with innovative business approaches and exploitation of information technologies as we proceed with our transformation effort into the 21st Century through the use of Navy Marine Corps Intranet (NMCI), enterprise resource planning, electronic business, strategic sourcing, and risk management.

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### ***MILITARY CONSTRUCTION***

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The FY 2004 budget requests 56 military construction projects for the active Navy and Marine Corps, and 2 projects for the Navy and Marine Corps Reserves. Projects incorporated in the budget request include critical mission and quality of life support improvements such as the purchase of Blount Island, FL, a squadron operations facility at Naval Air Station, North Island, CA; aircraft maintenance hangars at Naval Air Station Lemoore, CA and



Marine Corps Air Station, Yuma, AZ; pier replacement for Naval Station, Norfolk, VA and Naval Weapons Station, Earle, NJ; an aircraft control tower and taxiway at Naval Air Station, North Island, CA; 10 new bachelor enlisted quarters at 9 locations in CONUS and overseas including, 2 new enlisted recruit barracks at Naval Training Center, Great Lakes, IL; quality of life facilities including a fitness center addition at Henderson Hall, Arlington, VA; and various world-wide new construction and improvement projects.

<b>FY 2004 MILCON Summary</b>			
<b>(\$M)</b>			
	<b><u>FY 2002</u></b>	<b><u>FY 2003</u></b>	<b><u>FY 2004</u></b>
Navy	837	1,118	879
Marine Corps	<u>355</u>	<u>262</u>	<u>282</u>
Total	1,192	1,380	1,161

The FY 2003 program includes \$228 million for projects requested under the Defense Emergency Response Fund. These one-time requirements were essential to addressing critical force protection and anti-terrorism deficiencies in the Department.

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## ***FAMILY HOUSING***

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The FY 2004 budget continues on course to eliminate inadequate units by FY 2007 as indicated in Chart 12. Overall funding for the family housing accounts is down from FY 2003 levels, reflecting the difficult choices made in order to more fully resource warfighting capability. However, funding levels, coupled with increased emphasis on public-private ventures and increased BAH, enable the Department to meet the DoD goal of zero inadequate family housing units by FY 2007.

The Navy has \$60 million of construction and improvement projects planned for Annapolis, MD, Lemoore, CA, and Pensacola, FL addressing 266 units. In addition, the Navy plans Public Private Venture (PPV) awards in the Hampton Roads, VA, Charleston, SC, Millington, TN, and Seattle, WA, areas correcting 3,334 inadequate units. Finally, the Navy has teamed with the Army in their PPV effort in Monterey, CA, that will correct the Navy's 51 inadequate units.

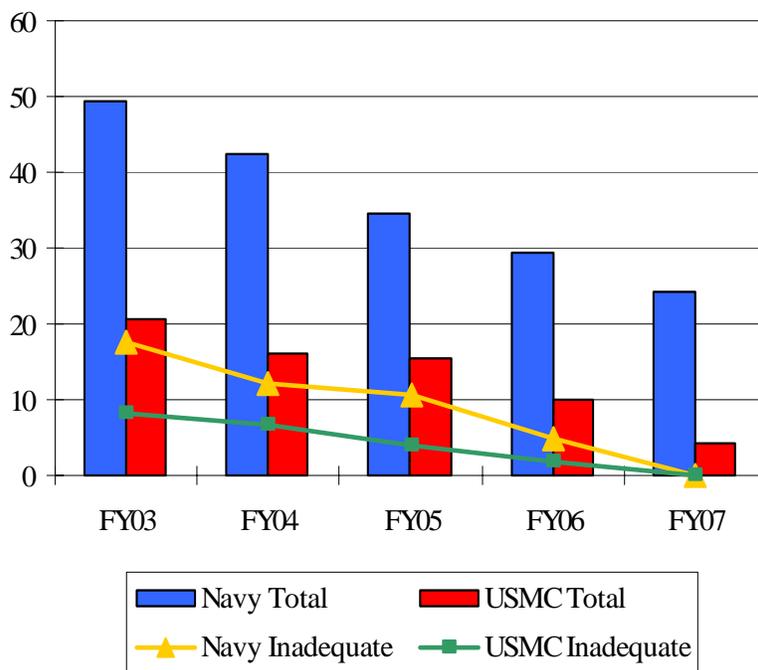
The Marine Corps has budgeted over \$126 million for construction and improvement projects. Two construction projects are planned at Marine Corps Base (MCB), Camp Lejeune and one is planned at Marine Corps Air Station (MCAS), Cherry Point. These projects will demolish and replace 858 homes. In addition, the Marine Corps plans to privatize 821 homes at Marine Corps Air Station, (MCAS) Yuma, AZ, and improve 44 units at Marine Corps Air Station, (MCAS), Iwakuni, Japan.

In addition to government financing, we estimate the private sector will contribute over \$450 million worth of development capital for PPV projects "closed" (or awarded, regardless of which fiscal year funding was appropriated) in FY 2004. All told, through the prudent mix of construction and privatization efforts, the Navy will do away with about 3,650 inadequate units and the Marine Corps nearly 1,500 between FY 2003 and FY 2004.

<b>Family Housing Units</b>			
	<b><u>FY 2002</u></b>	<b><u>FY 2003</u></b>	<b><u>FY 2004</u></b>
New Construction projects	7	10	5
Construction units	576	1,147	1,070
Privatization projects	1,466	11,844	9,731

**Chart 12 - Family Housing End of Year Inventories**

#Units (K)

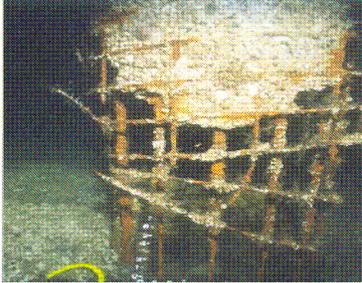


<b><u>Also refer to Appendix A for more information:</u></b>	<b><u>Table</u></b>
Military Construction, Navy and Naval Reserve	A-18
Family Housing, Navy	A-19
Base Realignment and Closure	A-20

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## ***FACILITY SUSTAINMENT, RESTORATION AND MODERNIZATION***

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The Department has transitioned to a more detailed and credible industry based assessment and readiness model of Facility Sustainment, Restoration and Modernization (FSRM) to keep the required facility inventory at an acceptable quality level through life-cycle maintenance and repair. Appropriate investments of facility sustainment funds are designed to maintain an inventory of facilities in good working order and preclude its premature degradation. The facility sustainment requirement is calculated by applying both a unit sustainment cost (based upon industry facility standards) and a geographic area cost factor to each facility type's appropriate unit quantity (square feet, linear feet, etc.). The Department measures the adequacy of infrastructure investment using "deferred sustainment," which is the annual difference between the sustainment requirement and actual sustainment funding. The Department's goal is to have no more than 7% deferred sustainment. Facility improvement (based upon industry facility standards) occurs through restoring aged and damaged facilities and modernizing facilities. The "Restoration and Modernization" requirement is based on bringing all mission areas to C-2 by FY 2010. Readiness ratings are described in the Department of the Navy's Installation Readiness Report. The Department's goal for restoration and modernization is to fully fund the requirement. The current budget has the Department attaining the DoD 67 year recapitalization goal by FY 2007.



Included within the budget is \$43 million in FY 2004 for the demolition of excess facilities.

Table 16 summarizes the Department's Facility Sustainment, Restoration and Modernization program.

**Table 16****Department of the Navy****Facility Sustainment, Restoration and Modernization***(In Millions of Dollars)*

	<b>FY 2002</b>	<b>% of Goal</b>	<b>FY 2003</b>	<b>% of Goal</b>	<b>FY 2004</b>	<b>% of Goal</b>
O&MN/O&MNR	\$1,375		\$1,870		\$1,442	
O&MMC/O&MMCR	436		507		589	
<b>Total DoN O&amp;M Facility SRM</b>	<b>\$1,811</b>		<b>\$2,377</b>		<b>\$2,031</b>	
 <u>Annual Deferred Sustainment</u>						
O&MN/O&MNR	\$152	88%	\$214	84%	\$96	93%
<i>Goal</i>		100%		90%		93%
O&MMC/O&MMCR	40	91%	0	100%	0	100%
<i>Goal</i>		100%		100%		100%
<b>Total DoN Annual Deferred Sustainment</b>	<b>\$192</b>		<b>\$214</b>		<b>\$96</b>	
 <u>Restoration and Modernization (R&amp;M) Shortfall</u>						
O&MN/O&MNR	\$38	88%	\$149	64%	\$519	16%
<i>Requirement</i>	305		410		621	
O&MMC/O&MMCR	55	49%	70	26%	32	73%
<i>Requirement</i>	108		95		119	
<b>Total DoN R&amp;M Shortfall</b>	<b>\$93</b>		<b>\$219</b>		<b>\$551</b>	

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***BASE REALIGNMENT AND CLOSURE (BRAC) III&IV***

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The BRAC process has been a major tool for reducing the domestic base structure and generating savings. Continuing to balance the Department's force and base structures by eliminating unnecessary infrastructure is critical to preserving future readiness. The Department of the Navy supports the need for additional base closures.

The FY 2004 BRAC budget is dedicated exclusively to environmental costs (cleanup and closure related compliance), real estate and caretaker functions prior to property disposal. The DoN has disposed of more than 74,000 acres of base-closure property. An estimated 86,000 acres remain to be conveyed, of which 72,600 acres are at the former NAS Adak, AK. The Department expects to transfer the remaining acreage at Adak in FY 2003.

BRAC III - Costs are related to the closure or realignment of 91 naval facilities in BRAC III, all of which were completed in FY 1999. The Department is committed to make closed facilities available to community reuse groups as fast as possible.

BRAC IV - The 44 bases and facilities included in BRAC IV completed operational closure by January 2002. The budget includes funding for crucial environmental efforts at various locations in California, including the Naval Air Station, Moffet Field; Naval Air Station, Alameda; Hunters Point Naval Shipyard; Marine Corps Air Station, El Toro and Naval Shipyard, Mare Island. The FY 2004 program will be partially financed with land sale revenue projected from the sale of land at various locations.

Overall, steady state savings realized through the prior BRAC processes totaled \$2.6 billion annually.

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## **NAVY WORKING CAPITAL FUND (NWCF)**

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The NWCF continues to be a major support element for the operating forces of the Navy and Marine Corps with total cost of goods and services to be sold by the NWCF projected to exceed \$22 billion in FY 2004 as reflected in table 17. NWCF activities perform a wide variety of functions including Supply Management, Depot Maintenance, Research & Development, Transportation, and Base Support.

The NWCF continues to pursue some important efforts to improve efficiency and maximize effectiveness. NWCF activities are heavily involved in the Department of the Navy's strategic sourcing initiatives and expect to produce savings through actions such as A-76 competitions and functionality reviews. Activities within the Depot Maintenance, Research & Development, and Supply Management areas continue to pursue Enterprise Resource Planning (ERP) pilot projects. ERP will be used to reengineer and standardize business processes, integrate operations and optimize management of resources. The Department also plans to convert the Puget Sound Naval Shipyard from NWCF operation to mission funding in a two year pilot effort aimed at ensuring the success of the consolidation of depot and intermediate ship repair facilities in the Northwest region beginning in FY 2004.

All industrial activity groups will now measure their year end levels of funded workload backlog (carryover) using the newly developed DoD metric which incorporates an outlay-based calculation. Outlay factors are also an important factor for evaluating the execution of general fund programs and are specific to the type of appropriation involved. The new metric will provide better consistency with the way that budget estimates for annual appropriations are reviewed for execution performance and will be tailored to the mix of appropriations received. Since different appropriations are used to fund different types of workload, the new metric will adjust itself as workload mix changes from year to year.

Within the Supply Management area, the Department continues to pursue initiatives that will control costs and improve readiness. Accordingly, this budget continues to fund such initiatives as serial number tracking and ERP. These initiatives will provide the Department better tools to assess program growth and implement cost reducing procedures where appropriate. In that same light, we are continuously looking for opportunities to reduce the cost of operating the Department's supply system. This budget reflects the Department's effort to combine the remaining portion (non-aviation material) of Marine Corps supply into one departmental supply management activity. Additionally, in support of *Seapower 21* vision, the Naval Supply Systems

Command has identified additional ways better to structure and align their organization to optimize logistics support and reduce cost. We are optimistic that these continuing transformational efforts will provide additional funds to help reduce weapon system age and thus stem the tide of spare part cost growth as well as allow the Department to provide our Fleet customers improved logistics support at a lower cost.

In the area of inventory management, obligation authority in FY 2003 increased approximately 13% over the FY 2003 President's Budget submission. While increased program requirements have contributed to some of this growth, the preponderance of the increase is associated with an anticipated delay in transferring afloat fuel accounting to the Defense Logistics Agency. The Defense Logistics Agency has been working closely with the Department to develop the necessary software to assume this responsibility as expeditiously as possible. Current projections indicate the transfer will be complete in FY 2004.

This budget submission also reflects continuation of the Department's inventory augmentation efforts. Inventory augmentation allows the Department to procure new system wholesale stock without creating an excessive burden on the customer or negatively impacting the NWCF cash balance. Inventory augmentation also permits the Department to capture total ownership costs more effectively since the funds are clearly tied to the support of the new weapon systems rather than being accounted for in the cost of operations. The FY 2003 President's Budget included the final \$125 million of obligation authority for an overall requirement of \$250 million, and a direct appropriation to pay for the inventory augmentation material that will deliver in FY 2003. Likewise, this budget includes \$130 million in direct appropriation to pay for the inventory augmentation material that will deliver in FY 2004.

Lastly, FY 2004 NWCF cash balances are projected to exceed the 7-10 day range required to ensure viability of the Fund. Therefore, the budget includes a \$448 million reduction in NWCF cash to finance FY 2004 operation and maintenance requirements.

<p><b><u>Also refer to Appendix A for more information:</u></b> Navy Working Capital Fund</p>	<p><b><u>Table</u></b> A-21</p>
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**Table 17**  
**Department of the Navy**  
**Summary of NWCF Costs**  
(In Millions of Dollars)

	FY 2002	FY 2003	FY 2004
<b><u>COST</u></b>			
Supply (obligations)	6,977	7,797	6,864
Depot Maintenance - Aircraft	2,036	1,969	1,955
Depot Maintenance - Ships	2,507	2,424	1,415
Depot Maintenance - Marine Corps	211	228	198
Transportation	1,553	1,723	1,701
Research and Development	9,517	8,704	8,371
Base Support	1,719	1,541	1,513
<b>TOTAL</b>	<b>\$24,520</b>	<b>\$24,386</b>	<b>\$22,017</b>
<b><u>CAPITAL INVESTMENT</u></b>			
Supply Operations	82	72	50
Depot Maintenance - Aircraft	51	51	39
Depot Maintenance - Ships	126	42	21
Depot Maintenance - Marine Corps	5	3	4
Transportation	10	14	13
Research and Development	116	116	109
Base Support	16	19	19
<b>TOTAL</b>	<b>\$406</b>	<b>\$317</b>	<b>\$255</b>

## **CIVILIAN PERSONNEL**

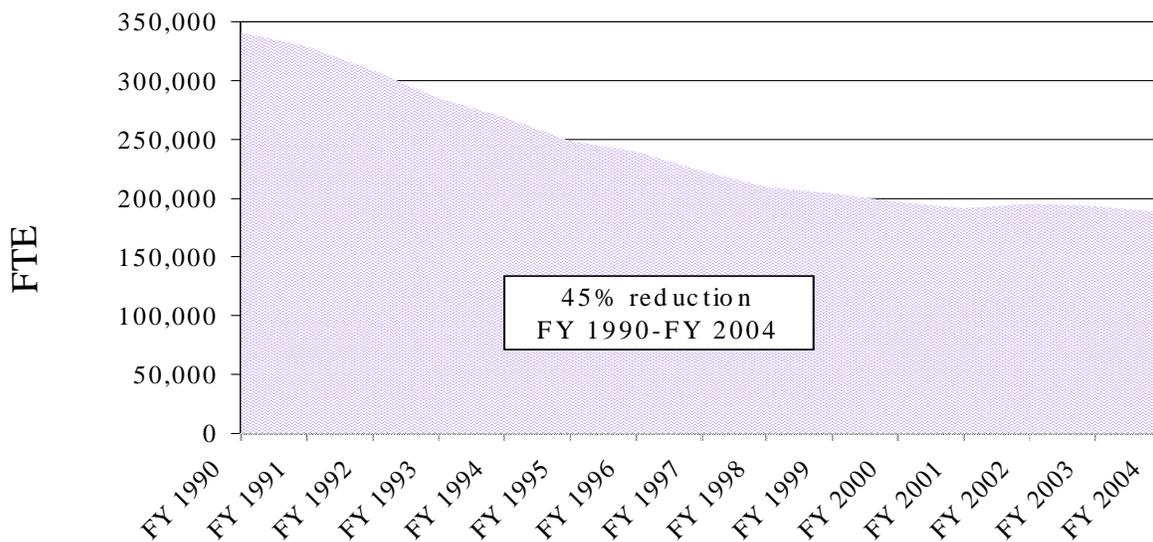
The Department of the Navy budget includes the following civilian personnel end strength and Full Time Equivalent (FTE) workyear estimates:

	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>
End Strength	195,851	193,735	188,633
FTE Workyears	194,998	193,158	188,129

Approximately 55 percent of the Department’s civilian personnel are funded directly by operating appropriations and provide direct fleet support at Navy and Marine Corps bases and stations, the engineering, development, acquisition and life cycle support of weapon systems, as well as Navy Fleet/Marine Corps operations support. A significant portion of civilian personnel work at Navy Working Capital Fund activities supporting depot level maintenance and repair, development of enhanced war-fighting capabilities at warfare centers and direct fleet transportation, supply, and public works support. The remaining civilian personnel provide essential support in functions such as medical care, training, and meteorological and oceanographic support.

The Department of the Navy continues to strive towards a leaner, more efficient organization so that it can best address its warfighting and recapitalization requirements. Chart 13 displays historical FTE reductions in consonance with Departmental downsizing and efficiencies and Table 18 displays total civilian personnel resources.

**Chart 13 Civilian Personnel**



**Table 18**  
**Department of the Navy**  
**Civilian Manpower**  
**Full-time Equivalent**

	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>
<b>Total — Department of the Navy</b>	<b>194,998</b>	<b>193,158</b>	<b>188,129</b>
<b><u>By Service</u></b>			
Navy	178,354	176,823	172,293
Marine Corps	16,644	16,335	15,836
<b><u>By Type Of Hire</u></b>			
Direct	180,650	178,871	173,836
Indirect Hire, Foreign National	14,348	14,287	14,293
<b><u>By Appropriation</u></b>			
Operation and Maintenance, Navy	83,883	80,605	86,434
Operation and Maintenance, Navy Reserve	1,524	1,588	1,510
Operation and Maintenance, Marine Corps	15,008	14,681	14,438
Operation and Maintenance, Marine Corps Reserve	152	156	155
<i>Total — Operation and Maintenance</i>	<i>100,567</i>	<i>97,030</i>	<i>102,537</i>
<i>Total — Working Capital Funds</i>	<i>90,609</i>	<i>90,988</i>	<i>80,525</i>
Military Construction, Navy	2,415	2,360	2,347
Research, Development, Test & Evaluation, Navy	1,340	1,408	1,380
Military Assistance	67	62	62
Family Housing (N/MC)	0	1,310	1,278
<i>Total — Other</i>	<i>3,822</i>	<i>5,140</i>	<i>5,067</i>
<b><u>Special Interest Areas</u></b>			
Fleet Activities	33,943	35,547	42,304
Shipyards*	18,770	19,513	11,250
Aviation Depots	10,660	10,127	10,029
Supply/Distribution/Logistics Centers	6,450	6,171	5,360
Warfare Centers	36,467	36,442	35,812
Engineering/Acquisition Commands	17,314	17,035	17,026
Medical	10,470	10,160	10,072

\*Puget Sound Shipyard will be mission funded beginning in FY 2004.

## ***Strategic Sourcing***

This budget fully supports the use of commercial business practices to improve operational effectiveness and efficiency and realize savings for modernization and recapitalization. The DoN has strived to implement this goal through strategic sourcing and has included in the budget an additional 2,000 studies to be initiated in FY 2004. While OMB Circular A-76 private/public competitions remain a primary strategic sourcing initiative for commercial functions, DoN will consider elimination, consolidation, restructuring and re-engineering options before making a sourcing decision. Strategic sourcing will help shape the DoN infrastructure to meet requirements for the 21<sup>st</sup> century and achieve savings required to modernize and recapitalize our forces.

The Department has refined its objectives and identified in excess of 100,000 civilian and military positions to be reviewed as part of this reinvention process. Additionally, the budget includes savings from planned strategic sourcing initiatives. Of the cost comparisons completed to date, 77 percent of the functions have remained in-house. The Department continues to monitor execution of these studies and current projections indicate the Department is on target to realize budgeted savings. Budget estimates reflect projected strategic sourcing annual steady state net savings of \$1.6 billion beginning in FY 2005.

***Chart 14 - Strategic Sourcing Net Savings***

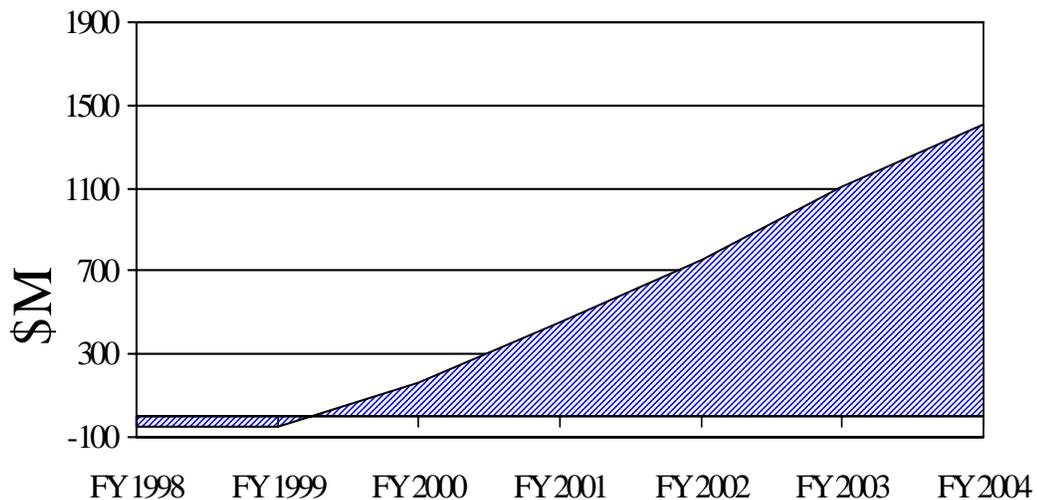


Chart 14 depicts DoN net savings estimates by fiscal year attributable to strategic sourcing initiatives.

## **OTHER BUSINESS INITIATIVES**

### ***Navy Marine Corps Intranet (NMCI)***

NMCI offers the opportunity for the DoN to leverage new technologies and industry innovation to better achieve our global Naval mission. It will enable the connection to the National infrastructure, extend sharing and creation of knowledge and expertise worldwide, empower innovative work and training, and enhance the Quality of Life for every Marine, Sailor and civilian. The connectivity NMCI provides will enable our civilians, Sailors and Marines to increase their productivity and access all the resources that extend throughout the Naval Enterprise and our Nation. NMCI has also been a forcing function causing the Department to take inventory of its legacy application portfolio, which has subsequently been reduced by 57 percent in less than one year. The NMCI contract was awarded in October 2000 for \$6.9 billion and represents the largest service contract ever awarded by the Department of Defense. Congress authorized a two-year extension of the basic five-year contract in September 2002. We have fully accommodated the implementation of the NMCI within existing budget totals and reflected the distributed costs and benefits throughout the operational programs of the Department.

IMPLEMENTATION SCHEDULE							
(Cumulative Seats)							
NMCI Phasing	FY 02 Q4	FY03 Q1	FY03 Q2	FY03 Q3	FY03 Q4	FY04 Q1	Steady State
Total Navy	65,735	134,818	234,283	273,620	283,620	283,620	283,620
Total USMC	-	-	11,093	70,500	81,450	81,450	81,450
Total DoN	65,735	134,818	245,376	344,120	365,070	365,070	365,070

The budget supports total NMCI-specific costs for FY 2004 of \$1.6 billion and implementation of approximately 365,000 seats phased in quarterly as shown in the implementation schedule above with an expected steady state reached in FY 2004. The steady state seat count from the FY 2003 President's Budget has been revised to reflect a change in the strategy for provisioning the Selected Reserve community. Previous budget submissions seat counts included seats for every Reservist. Subsequent to submission of FY 2003 President's Budget, several new remote access solutions have been approved which have eliminated the requirement for a dedicated NMCI seat to access NMCI from a remote location. This less costly approach allows the Department to provide network access to more users while ordering fewer seats. In accordance with the Administration's performance assessment of information technology programs, \$95 million was reduced from our NMCI budget estimates.

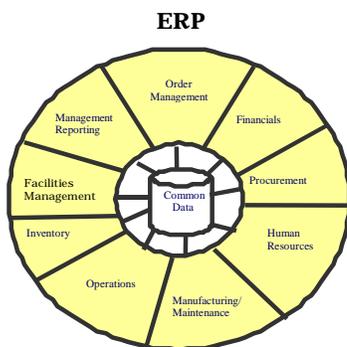
In March of 2002, the Secretary of the Navy appointed a single program manager as directed by FY 2002, National Defense Authorization Act, P.L. 107-107. As of end of first quarter FY 2003, EDS, the NMCI prime contractor, has

assumed responsibility for management of over 124,000 data seats and over 56,000 of those seats have been “cutover” to the new NMCI networking environment. The program is in the process of successfully completing all Congressional and DoD oversight requirements permitting the Department to order a maximum of 310,000 seats. The final step before authorization to proceed to steady state is that NMCI must pass an OSD C3I senior level review after the operational test and evaluation is completed.

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## ***Enterprise Resource Planning***

We also have accommodated the financial requirements of our Enterprise Resource Planning (ERP) pilots. ERP is a business management system that integrates the business processes that optimize functions across the enterprise



(e.g., supply chain, finance, procurement, manufacturing/ maintenance, human resources) and enables elimination of numerous legacy systems and the streamlining of business processes. All essential data and information is entered into the system once and remains accessible to everyone involved in the business process on a real time basis - providing consistent, complete, relevant, timely and reliable information for decision making. The Department has

successfully reached the “go-live” point on all 4 pilots: (1) Program Management (2) Warfare Center Management (3) Aviation Supply and Maintenance and, (4) Regional Ship Maintenance.

All four pilots are using Commercial Off the Shelf (COTS) software that has been approved and certified by the Joint Financial Management Improvement Program (JFMIP) as being compliant with the Chief Financial Officers Act. Through process modernization, ERP will eliminate the need for interface with many non-compliant financial and feeder systems. The Military Sealift Command and Naval Security Group have already successfully implemented limited enterprise software – also COTS. In FY 2004, the Department will continue the pilot operations and is examining opportunities to “converge” the ERP pilots into a standard architecture for the future. All of these efforts are focused on improving the efficiency and performance of the support infrastructure and will enhance the Department’s goal of reducing future operating costs. Savings resulting from the four pilots are estimated to more than double by the end of FYDP as indicated in Chart 15.

**Chart 15 – ERP Savings**

<i>ERP Savings \$M</i>	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Warfare Center Management (CABRILLO)	10	10	10	10	11	11
Program Management (SIGMA)	58	202	381	394	405	521
Aviation Supply and Maintenance (SMART)	27	114	176	214	281	352
Regional Maintenance (NEMAIS)	156	299	340	365	382	384
<b>Total Savings</b>	<b>251</b>	<b>625</b>	<b>907</b>	<b>983</b>	<b>1,079</b>	<b>1,268</b>

**eBusiness**

The DoN eBusiness Operations Office is dedicated to achieving effective business solutions through eBusiness transformation. Chartered in September of 2000, the office improves effectiveness, efficiency, and service delivery across the DoN by guiding change, enabling eBusiness solutions, encouraging knowledge sharing, and returning value. The Office delivers value to the DoN in numerous ways including solutions to eBusiness problems, eBusiness advice and information, pilot funding and support, program management and customer service in both the areas of eBusiness innovation and the card management area. The Office recognizes technology as a key enabler in improving processes and achieving efficiencies; however, it is only part of the solution. The Office actively supports the Department's technology evolution by infusing eBusiness best practices into the DoN and supporting customers' business process re-engineering efforts. To ensure currency and relevancy, we align our efforts closely with those of the Functional Area Managers (FAMs), other DoN and DoD enterprise-wide initiatives, as well as OMB's E-Government Strategy in support of the President's Management Agenda. The office has an established portfolio of solutions applicable across many functional areas.

To date, over 30 eBusiness pilot projects have been funded through rigorous selection criteria. Development of these solutions is accomplished through a rapid prototyping process. This process provides a structured approach to "quick prototyping" (90-120 days) of working eBusiness systems, with limited outlay of capital (under \$1 million). This allows for solutions to be tested on a limited scale to determine whether the solution is viable for use across the Department of the Navy. If solutions are not viable, less time and capital investment is lost than with a full-scale development and implementation, and valuable lessons are learned. Successful pilots form the basis of solutions, which are implemented across the enterprise. These pilot projects have provided solutions in a variety of areas including Distance Support, Maintenance/Engineering, Readiness, Communications, Supply Chain Management, Medical and Procurement. For example, the Medical Appointing project revolutionized customer service in the medical community through infusing technology into the appointment process, allowing for follow on specialty appointments to be made at the time of the initial visit to the primary care provider. Another example of an extremely successful project is Military Flight Operations Quality Assurance

pilot with Office of the Deputy Assistant Secretary of the Navy, Safety (ODASN(S)). This project improved aviation safety and readiness through the use of a small flight recorder, which allows complete flight data to be downloaded into a PDA and transferred to a PC for high fidelity playback of an entire flight, transforming pilot training and minimizing or eliminating willful violations of performance parameters.

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**Managing Risk – Performance Metrics**

The FY 2004 Budget consolidates performance management goals of the President’s Management Agenda with the FY 2001 Quadrennial Defense Review goals under a balanced scorecard for risk management and designates metrics the Department of Defense (DoD) will use to track associated performance results. The initial cascading performance metrics/outcomes for each DoD risk area, are shown below:

FORCE MANAGEMENT RISK		OPERATIONAL RISK	
Maintain a Quality Force	Ensure Sustainable Military Tempo	Do We Have the Forces Available	Are They Currently Ready
Maintain Reasonable Force Costs	Shape the Force of the Future	Are the Critical Needs, Systems, People, Sustainment, and Infrastructure Available	Are We Prepared for Successful Strategy and Plan Execution
INSTITUTIONAL RISK		FUTURE CHALLENGES RISK	
Streamline Decision Processes Drive Financial Management and Acquisition Excellence	Improve the Readiness and Quality of Key Facilities	Drive Innovative Joint Operations (CONOPs, Experiments, etc.)	Define Future Human Capital Skills and Competencies
Manage Overhead / Indirect Cost	Realign Support to the Warfighter	Develop More Effective Organizations	Define and Develop Transformational Capabilities

Performance information developed from these metrics will be used to describe the Department's performance goals and results for all related performance reports, including the President's Management Agenda and the Government Performance and Results Act.

The information below provides pages references to the performance information contained in this document and in detailed budget justification materials supporting the FY 2004 President's budget submission.

**Force Management – providing a trained and ready force is the leading output or business of the Department of Defense**

- Navy/Marine Corps Today 2-1
- Active Navy and Marine Corps End Strength 2-19, 2-21
- Reserve Navy and Marine Corps End Strength 2-20, 2-22
- Enlisted Recruiting and Retention 2-17, 2-19, 2-21
- Quality of Recruits 2-17, 2-21
- Quality of Life (QOL) Initiatives 2-17 – 2-18
- PERSTEMPO 2-16
- Total Paid Compensation 2-17
- Civilian Workforce 4-11

The Navy and Marine Corps maintain a robust overseas presence and rotational posture in support of the defense strategy. Sailors and Marines are based forward and deploy as part of their inherent responsibilities. They join and re-enlist with the understanding that this is part and parcel of their commitment to serve. The Department has budgeted the resources to reduce BAH out of pocket expenses to 3.5% in FY 2004, as well as improved quality of service for our members and their families, to reduce risk in this area. The DoN continues to be encouraged by achievement of recruiting goals and improved retention in the career force.

**Operational Risk – ensuring U.S. military and civilian personnel are ready at all times to accomplish the range of missions assigned in the defense strategy is the leading defense customer priority**

- Navy and Marine Corps Force Levels 2-2 – 2-7
- Deployed OPTEMPO (Ship, Aircraft) 2-3, 2-10 – 2-11
- Forward Stationed Forces 2-1
- Naval Force Readiness 2-1 – 2-15
- Battle Force/Reserve/Strategic Sealift Ships 2-2, 2-4 – 2-5, 3-3
- Aircraft Force Structure 2-9, 3-7
- Marine Corps Land Forces 2-15, 3-13
- Aircraft Flying Hour Program/Mission Readiness 2-10 – 2-11
- Aircraft Squadron Material Readiness 2-12

- Aircraft Depot Maintenance 2-12
- Ship Steaming Days 2-3 – 2-4
- Ship Depot Maintenance 2-5 – 2-6
- Ship Deferred Maintenance 2-6 – 2-7
- Surge Sealift Capacity 2-5

Key readiness accounts are funded to ensure that our forces are prepared to meet any tasking. Deployed air/ship/MEF operations are budgeted to maintain highly ready forces. Non-deployed Optempo levels provide primarily training of fleet units but maintain a combat ready and rapidly deployable force. This budget incorporates force structure changes that clearly reflect the wider range of operations and contingencies called for in the defense strategy. This budget reflects decommissioning of some older ships and aircraft with high operations and support costs relative to the combat capability they provide. Additionally, TACAIR integration is implemented to achieve an optimum balance of efficiency and warfighting effectiveness while reducing the number of F/A-18 squadrons. Funding continues for the 4<sup>th</sup> MEB to detect, deter, defend and conduct initial incident response to combat the threat of terrorism.

**Future Challenges – anticipating future threats and adjusting capabilities to maintain a military advantage against them is the leading learning and growth priority for the Department of Defense.**

- Naval Power 21 1-2 – 1-7
- Ship Programs 3-1 – 3-3
- Aviation Programs 3-6 – 3-7
- USMC Programs – Ground Equipment 3-13 – 3-14
- Major Ship Weapons 3-4
- Major Aviation Weapons 3-8
- R&D Investment on the Future 3-15 – 3-17
- Focus Science & Technology (R&D) Investment 3-15
- C4ISR Programs 3-12, 4-14
- Sea Trials 1-7, 3-15

The Department's budget has bought down future risk with its robust recapitalization program. The budget contains funding for seven new construction ships and 100 aircraft in FY 2004. The program also include funding for transformational initiatives such as JSF, V-22, DD(X), CVN 21, priority aviation capability enhancements (Advanced Hawkeye), and advanced communications (MUOS).

**Institutional Risk – ensuring that DoD financial, acquisition, and resource management processes are streamlined and efficient is what drives the underlying financial principles of doing defense business.**

- Navy Marine Corps Intranet 4-14
- Enterprise Resource Planning 4-15
- e Business 4-16
- Strategic Sourcing/A-76 Competitions 4-13
- Base Realignment and Closure 4-7
- Military Construction and Family Housing 4-1 – 4-4
- Facility Sustainment Restoration and Modernization 4-5
- 67 Year Recaptialization Rate 4-5

This budget represents the Department's commitment to improve the acquisition processes, make facility structure more efficient, and better manage resources. The Navy Marine Corps Intranet, Enterprise Resource Planning, and our E-business office are examples of innovative changes that will significantly improve connectivity, financial and business reporting, and management performance. As a Department, we continue to aggressively challenge our System Commands and other shore activities to find efficiencies, reduce contractor support and eliminate legacy information systems.

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### ***Other Performance Metrics***

Throughout the Highlights Book metrics have been addressed which are included in our performance plan and provide a measure of our overall effectiveness. Within the Department of the Navy, goals and objectives have been implemented through the Planning, Programming, and Budgeting System (PPBS). PPBS accommodates the integration of operational goals, risk management, and performance across the broad spectrum of DoN missions. These metrics are also contained in budget justification materials supporting the FY 2004 President's Budget submission.