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## SECTION I - INTRODUCTION

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### OVERVIEW

The FY 2005 budget builds upon the foundation laid in the FY 2004 President's Budget, guided by Naval Power 21, the September 2001 Quadrennial Defense Review, and emergent challenges of the past several years, and continues to both respond to current demands and build a force relevant to the threats and opportunities of the 21<sup>st</sup> century.



The September 2001 Quadrennial Defense Review calls on us to give "... priority to investments that improve the ability to swiftly defeat an adversary from a forward deterrence posture." That desire is consistent with the inherent characteristics of naval forces, and that priority has been a guiding principle in the Department of the Navy program and budget for FY 2005. *Naval Power 21 – A Naval Vision*, provides the conceptual framework for the maritime contribution to meeting joint capabilities. The FY 2004 President's Budget took the first significant steps to give form to that framework, identifying the resource planning commitments to realize them and the FY 2005 budget continues that approach.

The FY 2005 budget will deliver the right readiness at the right cost to prosecute the Global War on Terrorism and broadly support the nation's warfighting needs; shape our 21<sup>st</sup> century workforce; continue to recapitalize and transform our force; and improve productivity.

Winning the Global War on Terrorism is our number one priority. Our naval forces will play a leading role both in this historic struggle and in preparedness for future threats to our national security by contributing precise, persistent, and responsive striking power to the joint force, strengthening deterrence with advanced defensive technologies, and increasing operational independence through sea basing. This is the *Naval Power 21* vision.



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## NAVAL POWER 21 – A NAVAL VISION

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As part of a joint warfighting team, the United States Navy and United States Marine Corps will control the sea and project power, defense, and influence beyond the sea. Our forces will use the sovereignty of the sea and enhanced networked sea basing to operate without restriction. Our forward expeditionary nature will provide persistent warfighting capabilities and sustained American influence wherever we may be called to deploy. We will assure our friends and allies, and together with the U.S. Army, U.S. Air Force, and U.S. Coast Guard we will dissuade, deter, and defeat our nation's enemies. Our Sailors, Marines, and civilians will leverage innovative organizations, concepts, technologies, and business practices to achieve order of magnitude increases in warfighting effectiveness. Sea-Air-Land and Space will be our domain.



The Navy and Marine Corps exist to control the seas, assure access, and project power beyond the sea, to influence events and advance American interests across the full spectrum of military operations. Above all, we defend our homeland, both through our actions overseas and by our efforts at home. Our vision to achieve this, is based on three fundamental pillars:

- I. *We assure access.* Assuring sea based access worldwide for military operations, diplomatic interaction, and humanitarian relief efforts. Our nation counts on us to do this.
- II. *We fight and win.* Projecting power to influence events at sea and ashore both at home and overseas. We project both offensive power and defensive capability. It defines who we are.
- III. *We are continually transforming to improve.* Transforming concepts, organizations, doctrine, technology, networks, sensors, platforms, weapon systems, training, education, and our approach to people. The ability to continuously transform is at the heart of America's competitive advantage and a foundation of our strength.

## **Refining the Way Ahead: Navy and Marine Corps Strategies**

The Navy and Marine Corps have defined their respective Service strategies in *Sea Power 21* and *Marine Corps Strategy 21*. These documents define their advance into the future as part of a joint force, and through their implementing capstone concepts focus efforts and resources within each Service.

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### **SEA POWER 21**

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*Sea Power 21* is the Navy's vision to align, organize, integrate, and transform our navy to meet the challenges that lie ahead. It requires us to continually and aggressively reach. It is global in scope, fully joint in execution, and dedicated to transformation. It reinforces and expands concepts being pursued by the other services – long-range strike; global intelligence, surveillance, and reconnaissance; expeditionary maneuver warfare; and light, agile ground forces – to generate maximum combat power from the joint team.

*Sea Power 21* will employ current capabilities in new ways, introduce innovative capabilities as quickly as possible, and achieve unprecedented maritime power. Decisive warfighting capabilities from the sea will be built around:

- *Sea Strike* – expanded power projection that employs networked sensors, combat systems, and warriors to amplify the offensive impact of sea-based forces
- *Sea Shield* – global defensive assurance produced by extended homeland defense, sustained access to littorals, and the projection of defensive power deep overland
- *Sea Basing* – enhanced operational independence and support for joint forces provided by networked, mobile, and secure sovereign platforms operating in the maritime domain.



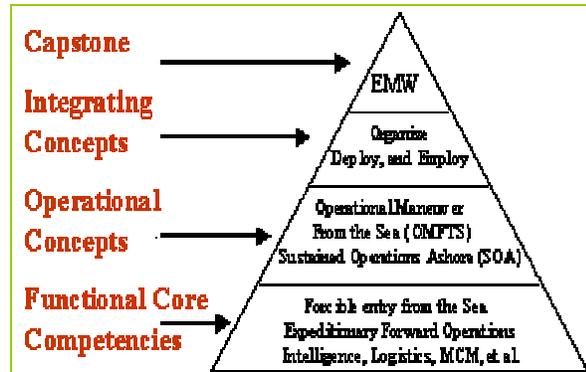
The powerful warfighting capabilities of *Sea Power 21* will ensure our joint force dominates the unified battlespace of the 21<sup>st</sup> century, strengthening America's ability to assure friends, deter adversaries, and triumph over enemies – anywhere, anytime.

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## MARINE CORPS STRATEGY 21

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This strategy defines a Marine Corps tailored to answer the Nation's call at home or abroad. It provides the vision, goals, and aims that support the development of enhanced strategic agility, operational reach, and tactical flexibility that enable joint, allied, and coalition operations. These capabilities will continue to provide the Combatant Commanders with scalable, interoperable, combined arms Marine Air-Ground Task Forces that shape the international environment, respond quickly across the complex spectrum of crises and conflicts, and assure access or prosecute forcible entry where and when required. Fundamental to the Marine Corps vision is:



- Making Marines to win the Nation's battles and create quality citizens
- Optimizing the Corps' operating forces, support, and sustainment base, and unique capabilities
- Sustaining the enduring Navy-Marine Corps relationship
- Reinforcing the Marine Corps' strategic partnership with the Army, Air Force, and U.S. Special Operations Command
- Contributing to the development of joint, allied, coalition, and interagency capabilities
- Capitalizing on innovation, experimentation, and technology

To advance along this axis, the Marine Corps follows *Expeditionary Maneuver Warfare*, a capstone concept that is the union of the Marine Corps' core competencies; maneuver warfare philosophy; expeditionary heritage; sea basing; and integrating operational and functional concepts by which the Marine Corps will organize, deploy, and employ forces today and in the future.

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## **BALANCED SCORECARD**

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The FY 2005 budget emphasizes the Department of the Navy’s commitment in the areas of combat capability, people, technology insertion, and improved business practices. These focus areas are aligned with the Department of Defense’s risk management framework. Regarding combat capability, the primary purpose of the Navy and Marine Corps is to defend our homeland, both through our actions overseas and by our efforts at home. The men and women of the Navy and Marine Corps team are our most valued resource. We continue to strive to achieve a higher quality workplace and higher quality of life for our Sailors, Marines, and civilians. The application of technology insertion is central to the continuation of our Nation’s military strength. As demonstrated in the Global War on Terrorism, we have the most technologically advanced naval force and we must continue to sustain a robust transformation and recapitalization effort to ensure technology proliferation does not diminish future capability. The Department is continuously working to revitalize business practices and achieve business transformation.

<p style="text-align: center;"><b>Combat Capability</b></p> <ul style="list-style-type: none"> <li>◆ Execute Global War on Terrorism</li> <li>◆ Execute Fleet Response Plan</li> <li>◆ Maintain forward seabasing</li> </ul>	<p style="text-align: center;"><b>People</b></p> <ul style="list-style-type: none"> <li>◆ Shape the 21<sup>st</sup> century workforce</li> <li>◆ Improve training and personnel development</li> <li>◆ Streamline and align manpower</li> </ul>
<p style="text-align: center;"><b>Technology Insertion</b></p> <ul style="list-style-type: none"> <li>◆ Accelerate investment to recapitalize</li> <li>◆ Emphasize system survivability</li> <li>◆ Sustain a robust and balanced R&amp;D effort</li> </ul>	<p style="text-align: center;"><b>Improved Business Practices</b></p> <ul style="list-style-type: none"> <li>◆ Improve productivity</li> <li>◆ Support BRAC process</li> <li>◆ Achieve facility support goals</li> </ul>

Remain Ready While Developing Future Capabilities

## RESOURCE TRENDS

The FY 2005 budget continues our focus to “buy down” future risk by pursuing much needed recapitalization. The budget provides resources necessary to recapitalize and invest in transformational capabilities while at the same time, maintaining readiness, and enriching the lives of our people.

**Chart 1 – Department of the Navy Topline FY 2003 – FY 2005**

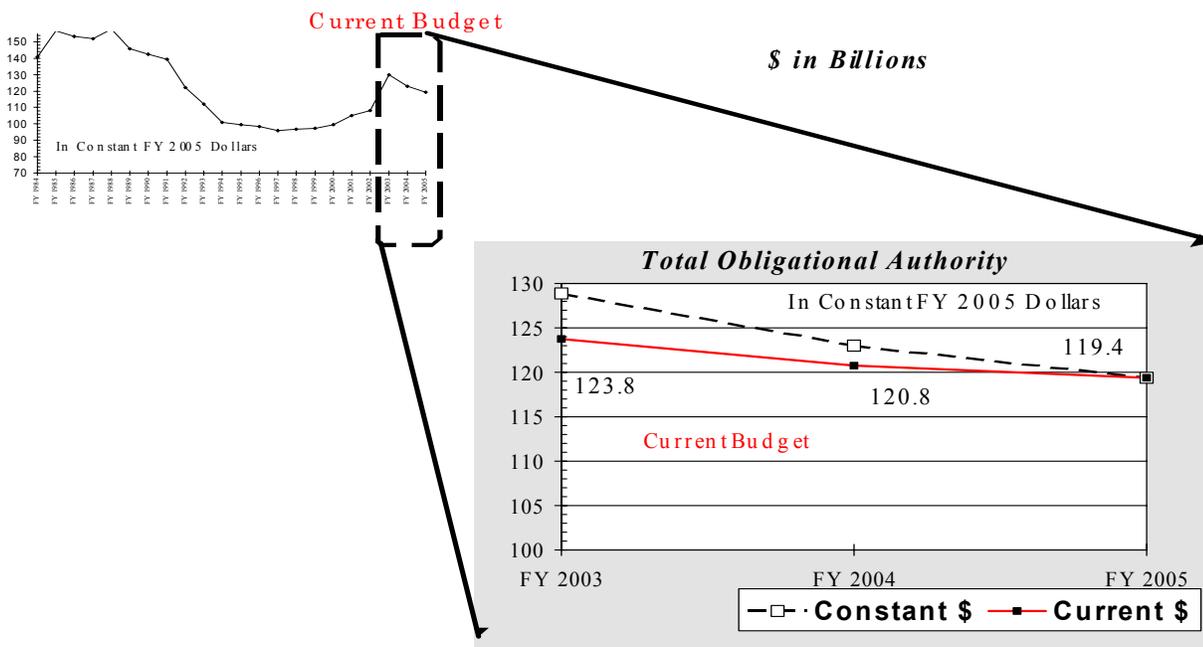


Chart 1 reflects Department of the Navy resources in both current and constant.

As indicated in chart 1, the budget decreases by 1.1% in FY 2005 over FY 2004 levels. While the overall net decrease to the topline is \$1.3 billion, Congress provided \$5.3 billion of supplemental appropriations in FY 2004 for contingency operations. Our investment and development accounts concentrate on minimizing future risk by devoting resources to provide new warfighting assets.

Among the critical challenges we face is finding and allocating resources to recapitalize our Navy and Marine Corps forces. We achieved a projected cost avoidance over \$45 billion over the future years plan by improving business and infrastructure processes; divesting of legacy force structure and programs; and improving acquisition processes through the use of multi-year procurement contracts. This will help

- ✓ **Optimized, supportable future force structure**  
e.g., Accelerated decommissionings of older platforms/systems
- ✓ **Stable, healthy industrial base**  
e.g., Shipbuilding MYP/EOQ procurements
- ✓ **Technologically enabled, interoperable enterprise**  
e.g., Navy Marine Corps Intranet operating seamlessly with joint forces within Global Information Grid
- ✓ **Optimized workforce**  
e.g., Workload validation to focus best blend of military, civilian, and private sector support on core work requirements
- ✓ **Efficient and appropriately sized infrastructure**  
e.g., BRAC/EFI complemented by Regionalization

provide for much needed recapitalization of our force structure. The progress made over the past few years in manpower and current readiness makes it possible to reduce future risk by placing more emphasis on future readiness to transform our Department for the challenges ahead.

**Chart 2 - Trendlines FY 2003 - FY 2005**

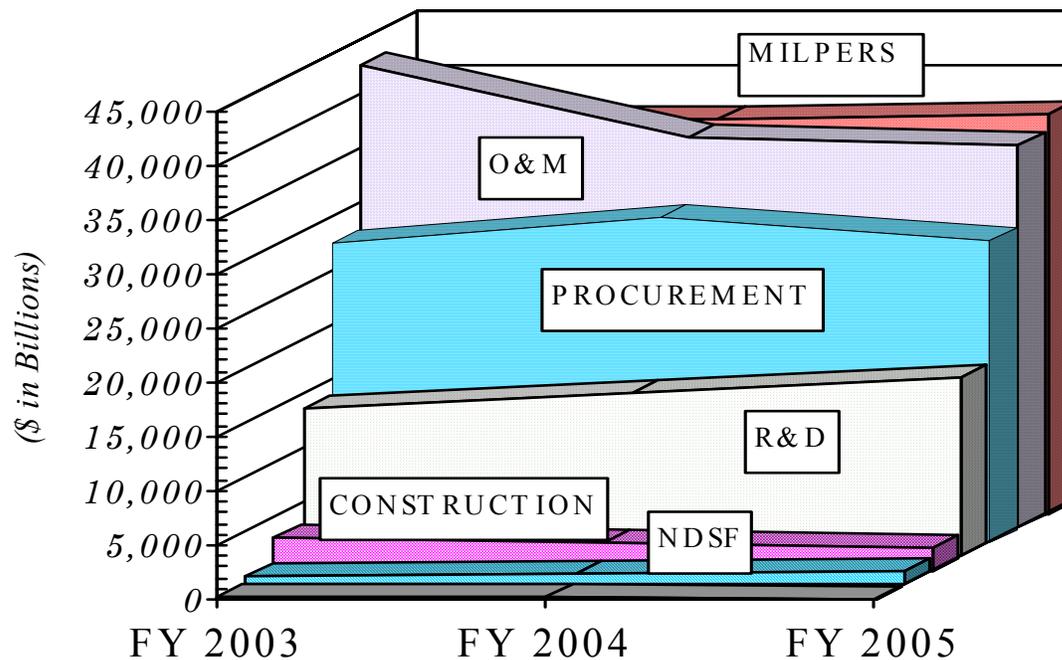


Chart 2 and Table 1 display Department of the Navy appropriations for FY 2003 through FY 2005.

As shown in Chart 2 and Table 1, military personnel and research and development (R&D) accounts are increasing in FY 2005. The military personnel accounts are increasing due to pricing adjustments for pay raises, basic allowance for housing rates, and accrual rates for retired pay and defense health programs. This pricing increase partially masks reduced end strength as we continue to size the force to match current and future requirements. The R&D account increases include funding for ships (i.e., DDX, LCS), aircraft (i.e., VXX) and transformational capabilities (i.e., CVN21, JSF). The procurement account decreases are partially offset by the R&D increases.

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**APPROPRIATION SUMMARY FY 2003 - 2005**


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**Table 1****Department of the Navy****Total Obligational Authority Summary FY 2003 – 2005***(In Millions of Dollars)*

	<b><u>FY 2003</u></b>	<b><u>FY 2004</u></b>	<b><u>FY 2005</u></b>
Military Personnel, Navy	23,820	24,055	24,460
Military Personnel, Marine Corps	9,988	9,736	9,596
Reserve Personnel, Navy	1,861	2,004	2,172
Reserve Personnel, Marine Corps	514	572	655
Operation & Maintenance, Navy	35,555	29,615	29,789
Operation & Maintenance, Marine Corps	5,525	4,608	3,632
Operation & Maintenance, Navy Reserve	1,239	1,167	1,240
Operation & Maintenance, Marine Corps Reserve	218	189	189
Environmental Restoration, Navy	-	255	267
Kaho'olawe Island	86	18	-
Aircraft Procurement, Navy	8,711	9,165	8,768
Weapons Procurement, Navy	2,081	2,080	2,102
Shipbuilding & Conversion, Navy	9,108	11,402	9,962
Other Procurement, Navy	4,608	4,969	4,834
Procurement, Marine Corps	1,522	1,279	1,190
Procurement of Ammunition, Navy & Marine Corps	1,421	928	859
Research, Development, Test & Evaluation, Navy	13,700	14,970	16,346
National Defense Sealift Fund	852	1,091	1,269
Military Construction, Navy	1,327	1,284	1,060
Military Construction, Naval Reserve	76	45	25
Family Housing Construction, Navy & Marine Corps	296	172	139
Family Housing Operations, Navy & Marine Corps	865	841	705
Navy Working Capital Fund	40	130	65
Base Realignment and Closure	474	181	115
<b>TOTAL</b>	<b>\$123,887</b>	<b>\$120,756</b>	<b>\$119,439</b>

Note: Totals may not add due to rounding.

Table 2 displays a track of changes to the Department of the Navy appropriations for FY 2004, beginning with the FY 2004 President's Budget request. The major changes are due to incorporation of congressional action and receipt of supplemental appropriations. Transfers reflect known reprogramming requirements, based on fact of life program changes. These include transfers for active and reserve health care costs, to modernize information technology capabilities, force protection, and other internal realignments needed to execute programs in accordance with congressional intent.

## ***DERIVATION OF FY 2004 ESTIMATES***

***Table 2***

***Department of the Navy***

***Derivation of FY 2004 Estimates***

*(In Millions of Dollars)*

	FY 2004 President's Budget	Congressional Action	Supplemental Appropriations	Transfers	Available Prior Year Balances	FY 2004 Current Estimate
Military Personnel, Navy	25,292	-2,075	816	22	-	24,055
Military Personnel, Marine Corps	9,559	-587	753	11	-	9,736
Reserve Personnel, Navy	-	2,003	-	1	-	2,004
Reserve Personnel, Marine Corps	-	572	-	-	-	572
Operation & Maintenance, Navy	28,288	-509	2,044	-223	15	29,615
Operation & Maintenance, Marine Corps	3,407	13	1,205	-18	1	4,608
Operation & Maintenance, Navy Reserve	1,172	-5	-	-	-	1,167
Operation & Maintenance, MC Reserve	174	-1	16	-	-	189
Environmental Restoration, Navy	256	-1	-	-	-	255
Kaho'olawe Island	-	18	-	-	-	18
Aircraft Procurement, Navy	8,788	255	159	-37	-	9,165
Weapons Procurement, Navy	1,992	88	-	-	-	2,080
Shipbuilding & Conversion, Navy	11,439	-56	-	19	-	11,402
Other Procurement, Navy	4,679	225	76	-11	-	4,969
Procurement, Marine Corps	1,071	86	123	-1	-	1,279
Procurement of Ammunition, Navy/MC	922	6	-	-	-	928
Research, Development, Test & Eval, Navy	14,107	864	34	-35	-	14,970
National Defense Sealift Fund	1,063	4	24	-	-	1,091
Military Construction, Navy	1,133	106	45	-	-	1,284
Military Construction, Naval Reserve	28	17	-	-	-	45
Family Housing, Navy	1,039	-20	6	-12	-	1,013
Navy Working Capital Fund	130	-	-	-	-	130
Base Realignment and Closure	181	-	-	-	-	181
<b>TOTAL</b>	<b>\$114,720</b>	<b>\$1,003</b>	<b>\$5,301*</b>	<b>-\$284</b>	<b>\$16</b>	<b>\$120,756</b>

Note 1: Totals may not add due to rounding; \* total includes \$146.1M for Hurricane Isabel damage.

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## **CONTINGENCY OPERATIONS**

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Additional FY 2004 funds have been appropriated to the Department of the Navy to support the continuing Global War on Terrorism. The purpose of this funding is to (a) sustain higher operating tempos resulting from contingency operations, (b) reconstitute Fleet and Marine Corps operating forces for future near-term contingencies, and (c) constitute Navy and Marine Corps units and support elements to be prepared for future threats.



The FY 2005 budget request supports normal operating tempos for training, operational proficiency, and deployment. Major contingency operations, such as the Global War on Terrorism, require additional or incremental resources to maintain higher operating tempos. That includes activation of Reserve personnel and units, increased fuel consumption and spare parts, additional maintenance resulting from higher usage of equipment, deployment of medical capabilities (hospital ships and deployable fleet hospitals), enhanced communications and intelligence support, and related transportation costs.



Additionally, investment items lost, damaged or in need of replacement due to increased “wear and tear” from the higher operating tempos are also included as contingency costs. These contingency or wartime costs are normally funded through supplemental appropriations.

Funds for contingency operations appropriated in the FY 2004 Supplemental are reported in categories, highlighted in Chart 3, for Operation Noble Eagle (ONE) (Homeland Defense), Operation Enduring Freedom (OEF) (Afghanistan and related areas), and Operation Iraqi Freedom (OIF).

**Chart 3 – Department of the Navy FY 2004 Supplemental**

<b>FY 2004 Contingency Operations Funding Summary by Cost Breakdown Structure (CBS)</b>				
<b>Navy</b>				
<b>\$ (M)</b>	<b>ONE</b>	<b>OEF</b>	<b>OIF</b>	<b>TOTAL</b>
<b>1.0 Personnel</b>	11	662	143	816
<b>2.0 Personnel Support</b>	-	25	67	92
<b>3.0 Operating Support</b>	92	794	852	1,738
<b>4.0 Transportation</b>	1	6	119	126
<b>6.0 Investment</b>	-	-	293	293
<b>Navy Total</b>	<b>\$104</b>	<b>\$1,487</b>	<b>\$1,474</b>	<b>\$3,065</b>
<b>Marine Corps</b>				
<b>1.0 Personnel</b>	10	360	383	753
<b>2.0 Personnel Support</b>	7	148	187	343
<b>3.0 Operating Support</b>	11	169	411	591
<b>4.0 Transportation</b>	-	46	235	281
<b>6.0 Investment</b>	-	-	123	123
<b>Marine Corps Total</b>	<b>\$28</b>	<b>\$723</b>	<b>\$1,339</b>	<b>\$2,091</b>
<b>Department of the Navy</b>				
<b>Grand Total DON</b>	<b>\$132</b>	<b>\$2,210</b>	<b>\$2,813</b>	<b>\$5,156</b>
* Totals exclude \$146M for Navy and Marine Corps Hurricane Isabel damage, highlighted below.				

The FY 2004 Supplemental also included funding for Hurricane Isabel clean-up and repair costs as follows:

<b>Hurricane Isabel Damage</b>				
<b>\$M</b>	<b>O&amp;MN</b>	<b>Milcon</b>	<b>Fam Hsg</b>	<b>Total</b>
Navy Installations (Virginia, District of Columbia, Maryland)	\$87	\$41	\$4	\$132
Marine Corps Installations (North Carolina, Virginia)	\$7	\$5	\$2	\$14
<b>Total</b>	<b>\$94</b>	<b>\$46</b>	<b>\$6</b>	<b>\$146</b>

These amounts include construction of a replacement chiller and electrical plant for the U.S. Naval Academy and an administrative building at Quantico Marine Corps Base.

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## ***PERFORMANCE MEASUREMENT***

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The Department of the Navy, with one of the largest workforces in our nation, is also one of the most visible to the public. With military members and employees in multiple countries, at sea and ashore, in every time zone and in every climactic region, the spotlight never leaves our emblem. Our charter to defend our nation and its interests at home and abroad makes it essential that every military member and employee take an active role in using resources wisely and ensuring success in each endeavor.

The President has stated that this Administration is “dedicated to ensuring that the resources entrusted to the federal government are well managed and wisely used.” To achieve this, the President’s Management Agenda focuses on five basic objectives: (1) Budget and Performance Integration, (2) Strategic Management of Human Capital, (3) Competitive Sourcing, (4) Financial Management Improvement, and (5) Expanding E-Government. Improving programs by focusing on results is an integral component of the Department’s budget and performance integration initiative. The most recent Executive Scorecard grades the Department of Defense as “yellow” on current status for budget and performance integration and “green” for progress. The FY 2005 budget for the Department of the Navy associates performance metrics for sixty percent of requested resources. In an effort to incorporate performance metrics into the budget process, the Office of Management and Budget has instituted Program Performance Assessments which identify programs that will be measured in “getting to green” through a rating system that is consistent, objective, credible, and transparent. The initial Department of the Navy programs reviewed in FY 2004 are outlined in Chart 4, as well as one new program “Military Force Management” in FY 2005. Programs were assessed and evaluated across a wide range of issues related to performance. Amplifying metric information related to these programs can be found in detailed justification materials supporting the budget request.

**Chart 4 - Performance Scorecard**

<b>1. Budget and Performance Integration</b>										
	Program Purpose & Design	Strategic Planning	Program Mgmt	Program Results	Weighted Score	Overall Rating	DON Funding			
							FY03	FY04	FY05	Programs Included
<b>Air Combat</b>	100%	100%	72%	67%	88%	Moderately Effective	5,245	5,564	5,663	F/A-18 E/F, JSF
<b>Shipbuilding</b>	80%	90%	73%	47%	64%	Adequate	9,418	12,124	10,730	New construction
<b>Basic Research</b>	100%	89%	84%	80%	86%	Effective	406	484	477	6.1
<b>Housing</b>	100%	100%	71%	67%	78%	Moderately Effective	5,181	5,086	5,165	FH, BAH
<b>Communications Infrastructure</b>	80%	78%	40%	44%	54%	Results Not Demonstrated	1,198	1,896	1,994	NMCI, Base level comm
<b>Recruiting</b>	80%	100%	71%	75%	78%	Moderately Effective	852	853	307	O&M
<b>Facilities SRM/Demolition</b>	80%	100%	14%	60%	59%	Adequate	2,555	2,130	1,939	O&M
<b>Military Force Management</b>	100%	100%	71%	93%	91%	Effective	36,183	36,367	36,883	MilPers
<b>Total Funding</b>							<b>61,038</b>	<b>64,504</b>	<b>63,158</b>	

- 2. Strategic Management of Human Capital**
  - > Implement NSPS (DoD-wide)
  - > Transform Naval Military Personnel Force
  - > Military/Civilian Conversions
- 3. Competitive Sourcing**
  - > Commitment to study 63,420 positions under A-76 or OMB approved alternatives
- 4. Financial Management Improvement**
  - > FM Modernization Program (DoD-wide)
  - > Enterprise Resource Planning
- 5. Expanding Electronic Government**
  - > Dedicated eBusiness Operations Office
  - > Mandated Reverse Auctions

The September 2001 Quadrennial Defense Review (QDR) established a risk framework that will ensure the Nation’s military is properly prepared to carry out the strategy. Within the framework there are four tenets of risk management: force management, operational risk, future challenges, and institutional risk. Measuring this risk in terms of meaningful metrics and then managing risk is the stated challenge. The Government Performance and Results Act (GPRA) (P.L. 103-62) of 1993 requires federal agencies to submit a comprehensive plan that identifies major goals and objectives. The assessment tools within GPRA will be one of the prime enablers for risk management associated with the tradeoffs in balancing defense strategy, force structure, and resources. Once these risk tenets have been fully assessed, taking action to mitigate potential vulnerabilities will further shape the application of our resources to force structure ensuring that our strategy is viable.

We are in a crucial time of transition for this Department with a strategy that will ensure America’s freedoms through our safety at home and abroad. As we tackle the challenge of the Global War on Terrorism, we must embrace the transformation of our National defense. Transformation is not a goal for the future, rather, a commitment here and now. The performance measures represent the strategic direction of the Department, and were designed to ensure that we are sized, shaped, postured, committed, and managed to achieve key goals. These goals include maintaining a ready and sustainable force to meet today’s challenge, investing in tomorrow’s capabilities, and establishing processes and organizations that make effective and efficient use of our scarce resources. Detailed metrics and goals are included throughout this publication and a summary by each of the four QDR goals is included in Section V.

