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<u>(\$ in Millions)</u>						
FY 2001	Price	Program	FY 2002	Price	Program	FY 2003
<u>Actual</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>
25,438.6*	+436.4	-839.5	26,714.5	+854.6	+1,459.7	29,028.8

* Includes funds from transfer accounts (e.g., Overseas Contingency Operations Transfer Fund; Drug Interdiction and Counterdrug Activities, Defense; and Environmental Restoration, Navy)

The Operation and Maintenance, Navy (O&M,N) appropriation finances the day-to-day costs of operating naval forces, including fuel, supplies, and maintenance of ships, Navy and Marine Corps aircraft, related weapon systems, and the support establishment ashore. The primary focus of the Department's FY 2003 budget is to continue to ensure the readiness of deployed forces. These resources will fund Ship depot maintenance at 95.6 percent against a readiness goal of 97.0 percent. Navy Tactical Aircraft (TACAIR) Operations are funded at the CNO's goal of 89.0 percent of Primary Mission Readiness (PMR).

The FY 2003 estimate of \$29,028.8 million includes a price increase of \$854.6 million. This price increase primarily results from increases in Working Capitol Fund (WCF) rates (\$528.2 million), civilian pay raises (including CSRS and health care accrual changes) (\$345.2 million) and general inflation changes (\$178.1 million), offset by decreases in fuel costs (\$-196.7 million). This budget reflects overall program increases of +\$1,459.7 million (+5.1 percent).

Budget Activity 1: Operating Forces

<u>(\$ in Millions)</u>						
FY 2001	Price	Program	FY 2002	Price	Program	FY 2003
<u>Actual</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>
18,264.5	+254.6	+818.1	19,337.2	+586.9	+1,031.5	20,955.6

The Operating Forces budget activity funds the Navy's air operations, ship operations, combat operations/support, and weapons support programs. Included in this budget activity are the costs associated with operating Navy shore bases to support these missions. Also included are the funds required to maintain combat ready forces necessary to respond to national objectives in joint, naval and combined operations. It supports the forward presence and crisis response capabilities of the National Military Strategy.

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The FY 2003 budget estimate of \$20,955.6 million includes a price increase of \$586.9 million and program increases totaling \$1,031.5 million (5.2 percent). Major program changes include:

- Transfers out include the transfer of the Aviation Consumable Initiative funding to the Defense Working Capital Fund (\$-73.9 million). Transfers in include the transfer of Fleet Marine Forces, Pacific Unit Deployment Program from Operation & Maintenance, Marine Corps to Mission and Other Flight Operations (\$+3.9 million).
- The budget request for Air Operations includes a net decrease of \$78.4 million. In addition to the transfers described above, major program changes include an increase in the Flying Hour Program for increased usage of aviation depot level repairables (AVDLRs) (\$+81.8 million) offset by decreased hours resulting from the decommissioning of F-14s and reduction of S-3B squadrons from 8 to 6 aircraft per squadron (\$-78.5 million); decreased number of Standard Depot Level Maintenance actions (SDLMs), engine overhaul/repairs and other aviation maintenance (\$-96.7 million); and an increase for Enterprise Resource Planning initiatives, which are designed to reengineer and standardize business processes, integrate operations, optimize management of resources and implement regional maintenance (\$15.0 million).
- The budget request for Ship Operations includes a net increase of \$685.0 million. Increases include per diem costs due to the transition of AOE ships to the Military Sealift Command (\$45.6 million), offset by decreases in other MSC services; increase due to the addition of Patrol Coastal functions (\$20.4 million); increases to ship depot maintenance to accomplish a higher percentage of identified requirements and reduce deferred maintenance (\$335.8 million); additional Fleet Modernization Program efforts (\$245.5 million); and an increase for Enterprise Resource Planning initiatives (\$100.5 million). Offsetting these increases are reductions due to the completion of repairs to the USS COLE (\$-101.5 million).
- The budget request for Combat Operations and Support includes a net increase of \$121.3 million. The increase includes funds for increased support for various satellite communication programs (\$15.0 million); cable repairs and other support for the undersea surveillance systems (\$15.5 million); Landing Craft Air Cushioned (LCAC) corrosion repair and C4I upgrades (\$13.2 million); Joint Task Force and other CINC initiatives (\$19.0 million); support for the Naval Construction Battalions and repair of Civil Engineering Support Equipment (CESE) (\$24.3 million); Afloat and Mobile Security Forces and force protection ashore (\$14.0 million) and implementation of Navy-Marine Corps Intranet (NMCI) support at Fleet Headquarters and Unified Commands (\$46.3 million). Decreases in Warfare Tactics reflect completion of repairs and enhancements at the Pacific training ranges (\$-26.0 million).
- The budget request for Weapons Support includes a net increase of \$43.3 million. Major changes to the Cruise Missile program are for the advanced Tomahawk weapons control system transitioning to full operating status (\$16.7 million) and for increased

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Tomahawk recertifications (\$13.3 million). Other increases are for the Harpoon missile, the Joint Standard Imagery Processing System (JSIP), and the Tomahawk nuclear program (\$8.2 million). Changes in Weapons Maintenance include increases for Gun Weapons Systems maintenance and submarine acoustics and mine and undersea warfare equipment and software maintenance (\$17.7 million). The decrease in Fleet Ballistic Missiles reflects the phase down of Trident II (C-4) missile support in anticipation of FY 2005 retirement (\$-12.6 million).

- The budget request for Facilities Sustainment, Restoration and Modernization includes a net increase of \$147.8 million, primarily for shore installation anti-terrorism and force protection physical security projects due to heightened threat level (\$122.0 million).
- The budget request for Base Operations and Support includes a net increase of \$113.9 million. Primary program changes include force protection upgrades (\$16.1 million); an overall increase to reach C2 readiness in mission operations (air and port operations, utilities and force protection) and C3 readiness in all other base support functions (\$99.8 million); an increase to Navy-Marine Corps Intranet (NMCI) Seat Management Phasing Plan (\$17.6 million); and increases to support service craft overhauls (\$4.5 million) and the First Responders CBR Pilot Program (\$5.1 million); offset by decreases due to completion of various FY 2002 projects (\$-41.4 million).

Budget Activity 2: Mobilization

FY 2001	Price	Program	(\$ in Millions)	Price	Program	FY 2003
<u>Actual</u>	<u>Growth</u>	<u>Growth</u>	<u>FY 2002</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>
723.0	+65.8	-4.0	784.8	+17.6	-68.6	733.8

The Mobilization budget activity maintains assets that will support forces that rapidly respond to unforeseen contingencies throughout the world. Also funded are the maintenance, overhaul, and calibration of Navy-Type Navy-Owned (NTNO) equipment installed on Coast Guard ships and aircraft. Additionally, this program funds the inactivation of ships, submarines, and aircraft and includes the maintenance of selected inactive ships and aircraft as well as material disposal costs.

The FY 2003 budget estimate of \$733.8 million includes a price increase of \$17.6 million and program decreases of \$68.6 million (-8.5 percent). Major program changes include:

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- Full year cost of the third MPF(E), USNS WHEAT (\$+6.3 million), a change in the mix of ships participating in exercises (\$+3.2 million), and medical equipment replacement and upgrade (\$+4.9 million).
- Ten more conventional ship inactivations in FY 2003 (\$+40.9 million).
- Four fewer submarine disposals, two fewer submarine inactivations, including disposal, and one less submarine tender decontamination in FY 2003 (\$-109.4 million)
- One less conventional ship disposal and less expensive disposals on smaller ships planned in FY 2003 (\$-13.2 million).

Budget Activity 3: Training and Recruiting

FY 2001	Price	Program	(\$ in Millions)	Price	Program	FY 2003
<u>Actual</u>	<u>Growth</u>	<u>Growth</u>	<u>FY 2002</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>
2,063.5	+40.9	+39.0	2,143.4	+73.7	+142.4	2,359.5

The Training and Recruiting budget activity funds all centrally managed or directed individual training required to meet Navy training standards. This includes accession training, basic skills training, and professional military education provided at the Naval War College, the Naval Postgraduate School, and the Armed Forces Command and Staff College. It also includes Navy recruiting and advertising, centralized civilian training programs, the Junior Navy Reserve Officer Training Corps, and all base operating support for the above programs. Team training for ships of battle groups is funded in the Operating Forces budget activity, as is all advanced and refresher flight training and aircraft carrier qualifications.

The FY 2003 budget estimate of \$2,359.5 million includes a price increase of \$73.7 million and program increases of \$142.4 million (6.4%). Major program changes include:

- Accession Training increases in Officer Acquisition at the US Naval Academy for phased replacement and modernization of classroom and laboratory equipment, developing curriculum improvements aimed at maintaining academic and engineering accreditation and annualization of salaries for staff and instructors added in FY 2002 (\$9.9 million). Also increases for additional entrants in the Seaman to Admiral program (\$4.2 million) and increased contract services at Recruit Training Center (\$3.5 million).

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- Basic Skills and Advanced Training increases in Specialized Skill Training include support of C4I, cryptological, intelligence and other training equipment (\$13.0 million), Homeport Training (relocation of advanced training to Fleet concentration areas), related increased student throughput and for reengineering of Surface Warfare Officer training (\$12.4 million) and the continued conversion of military billets to civilian/contractor (\$8.6 million). Increases in Professional Development Education for increasing capacity of the International Military Education and Training (IMET) program and expansion of graduate programs at both the Naval Postgraduate School and off-duty graduate education (\$14.1 million). Net increase of \$19.5 million in Training Support supports E-Learning planning, development and integration as well as providing NMCI services to the Navy training community.
- Recruiting and Other Training and Education programs have a net increase of \$26.8 million reflecting compliance with DOD guidance on education and staffing of the acquisition workforce (\$7.9 million) and increasing the number of Junior ROTC units (\$2.2 million). The balance of the program change is attributable to an increase in the recruiting and advertising program, primarily for the implementation of NMCI and other recruiter IT support (\$16.7 million). The budget maintains support costs for a production recruiter force of 5,000.
- Facilities Sustainment, Restoration and Modernization includes an increase of \$24.0 million for preventive maintenance inspections, force protection requirements and phased improvement of C3/C4 facility conditions. Base Support also provides increases for force protection as well as furniture, fixtures and equipment for bachelor quarters to meet DOD standards (\$6.2 million).

Budget Activity 4: Administrative and Servicewide Support

FY 2001	Price	Program	(\$ in Millions)	Price	Program	FY 2003
<u>Actual</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>
4,387.6	+75.0	-13.6	4,449.0	+176.5	+354.4	4,979.9

The Administration and Servicewide Support budget activity funds shore based activities required for the effective operation of the Department of the Navy. The general services provided include administration and personnel support, engineering and acquisition support, security and investigative support, humanitarian and civic support, centralized transportation, communications services, and base operating support.

The FY 2003 budget estimate of \$4,979.9 million includes a price increase of \$176.5 million and program increases of \$354.4 million (+7.7%). Major programmatic changes include:

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- Functional transfer of \$2.9 million from O&M, Navy Reserve for Naval Personnel Command Business Process Reengineering and NMCI costs for the Information Technology Center, New Orleans.
- The budget request for Servicewide Support includes a net program decrease of \$5.3 million. Program changes include increases for MWR special projects and military retention programs. (\$11.7 million) and increases to the Chief of Naval Operations (CNO) staff offices including the Navy Chief Information Officer (\$8.9 million). This increase is offset by a decrease of \$4.5 million in Administration for reduced Defense Finance and Accounting Service bills and completion of the pilot program for Lifelines; a decrease of \$6.4 million in savings resulting from Human Resources reengineering efforts, partially offset by an increase in unemployment compensation costs; reduced requirement for claims due to one time payments in FY 2002 to the 1) Government of Bermuda for the Long Bridge (\$-11.2 million) and 2) those affected in the incident in Cavalese, Italy (\$-3.8 million)
- The budget request for Service-Wide Communications includes a net program increase of \$171.0 million. Program changes include increases for DISA Tier I costs (transferred to DISA in FY 2002 only) (\$55.1 million); NMCI service (seat) costs, transition costs and the government management cost (\$67.1 million); deployment and Web enablement of the Navy Standard Integrated Personnel System (NSIPS) (\$10.0 million); establishment of the Naval Network War Command (\$11.2 million); computer network defense, Fleet Systems Engineering Teams 24/7 support and satellite communications (\$18.5 million); and increased support for Defense Integrated Military Human Resources System (DIMHRS) (\$5.3 million).
- Logistics Operations and Technical Support increases overall by \$167.2 million. Program increases are predominantly for Program Related Logistics (PRL) and Program Related Engineering (PRE) in Air Systems Support (\$35.0 million); the Joint Warfare Analysis Center (\$12.3 million) and an increase to classified programs (\$64.1 million); Planning, Engineering and Design primarily for Cost Reductions and Effectiveness Improvement (CREI) initiatives (\$24.6 million); increased transportation requirements, primarily security for ordnance movement (\$6.2 million); software upgrades to combat weapons systems (\$4.8 million) and implementation of NMCI at the systems commands (\$20.2 million).
- Security Programs increases overall by \$31.9 million, primarily for force protection and information security.
- Base Support decreases by \$12.1 million, reflecting a decrease to fund to 85 percent of the full mission requirement per the Installation Core Business Model.