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<u>(\$ in Millions)</u>									
FY 2002	Price	Program	FY 2003	Price	Program	FY 2004	Price	Program	FY 2005
<u>Actual</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>
28,284.6*	+581.5	+238.5	29,104.6	+446.9	-1,263.8	28,287.7	+747.5	-197.8	28,837.4

* 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 2004 budget is to continue to ensure the readiness of deployed forces.

The FY 2004 estimate of \$28,287.7 million includes a price increase of \$446.9 million. This price increase primarily results from increases in general inflation changes (\$180.9 million), civilian pay raises (\$155.4 million) and fuel costs (\$72.0 million), and foreign currency (\$44.3 million) offset by decreases in Working Capital Fund (WCF) rates costs (\$-5.7 million). This budget reflects overall program decreases of \$-1,263.8 million (-4.3 percent).

Budget Activity 1: Operating Forces

<u>(\$ in Millions)</u>									
FY 2002	Price	Program	FY 2003	Price	Program	FY 2004	Price	Program	FY 2005
<u>Actual</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>
20,499.1	+403.9	-26.3	20,876.8	+295.5	-1,137.6	20,034.7	+570.2	-183.7	20,421.2

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.

The FY 2004 budget estimate of \$20,034.7 million includes a price increase of \$295.5 million and program decreases totaling \$1,137.6 million (5.4 percent). Major program changes include:

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- Air Operations increases by \$321.2 million, including price growth of \$152.2 million. Major program changes include increases in aviation depot level repairables (AVDLR) usage (\$174.9 million), offset by decreases due to net changes in average Primary Authorized Aircraft (\$-114.9 million), reduction in flying hour support (\$-64.5 million), a reduction in the Fleet Air Training load plan (\$-18.9 million); increased airframe maintenance and associated tasks (\$107.6 million), increased aircraft engine overhauls/repairs (\$94.1 million) and an increase in component repair requirements (\$16.5 million), offset by a reduction in airframe Standard Depot Level Maintenance (SDLM) actions (\$-16.6 million).
- Ship Operations decrease of \$543.2 million is comprised of \$10.8 million in price growth offset by \$554.0 million in program decreases. Program changes include: full year lease and operating costs of a high speed vessel (\$11.4 million) offset by one-time FY 2003 outfitting costs (\$-11.2 million), changes in MSC charters (\$38.8 million), increases for post-COLE/9-11 port vulnerability assessments and phased replacement force protection costs (\$10.2 million) and MSC force protection (\$12.1 million), reduced operating and maintenance costs due to a decrease of 8 ship years and 87 operating months (\$-59.7 million), increases to ensure Navy-wide compliance with federal environmental laws and regulations (\$18.3 million), increases to AEGIS training and operational support (\$10.4 million), net decrease in the number, scope and complexity of scheduled ship maintenance requirements (\$-503.8 million) offset by a net increase in other ship maintenance requirements (\$49.6 million) and increases due to mission funding Puget Sound Shipyard (\$209.3 million); decreases in Fleet Modernization Program requirements, including LHA midlife and LPD sustainment (\$-169.4 million), and decreases in berthing and messing (\$-42.6 million) Ship Repair Facility, Yokosuka (\$-14.4 million) and Enterprise Resource Program (ERP) (\$-69.7 million) requirements.
- Combat Operations and Support increases overall by \$52.0 million, including net price increase of \$22.5 million. The increases include funds for: prototype Standing Joint Force Headquarters (\$24.5 million); Joint Urban Operations (\$7.0 million); Combatant Commanders Theater C4 Modernization (\$12.9 million); Training Transformation (Joint National training Capability) (\$70.7 million); full funding for the Training Resource Strategy (\$7.4 million); and the realignment of personnel, support costs and communications services from Servicewide Communications (4A6M) for the Naval Network Warfare Command (\$15.7 million). Decreases in Combat Communications reflect the reduction in the purchase of commercial services for Challenge Athena (\$-16.5 million). Decreases in Space Systems & Surveillance reflect the termination of four MSC leased T-AGOS ships and other reductions to the SURTASS and fixed surveillance systems (\$-42.5 million) and the transfer of the Navy Space Surveillance Fence to the Air Force (\$-21.0 million). The decrease in Operational Meteorology and Oceanography represents the deactivation of one oceanographic survey ship (\$-7.7 million). Other reductions in Combat Operations and Support include the transfer of Joint Task Force – Civil Support to NORTHCOM (\$-10.6 million) and reductions in contractor support (\$-10.6 million).
- Weapons Support increases overall by \$48.1 million including price increase of \$12.3 million. Major changes to the Cruise Missile program include a reduction in the number of certifications required for conventional missiles (\$-10.7 million) and increases for TLAM-N certifications (\$1.8 million) and post-production support of components (\$1.5 million). Also includes reduced Harpoon and

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terminated Penguin system support (\$-1.9 million). Fleet Ballistic Missiles Program includes increases for the TRIDENT II guidance subsystem (\$8.4 million) offset by reduced requirements for logistics data system and training software updates (\$-4.3.0 million). An increase of \$3.1 million for nuclear weapons security is also included. In Service Weapons support increases support expeditionary warfare (\$4.1 million) while Weapons Maintenance includes increases for Close In Weapons System (CIWS) maintenance (\$28.1 million), missile and decoy maintenance (\$18.3 million) and increased logistics maintenance support for Air Launched and Ordnance Maintenance programs (\$11.5 million). Decreases in Weapons Maintenance result from the transfer of MK 30 targets to the Fleets (\$-8.6 million); reduced requirement for MK 45, MK75 and MK86 repairs (\$-5.5 million); realignment of funding for Pioneer UAV to RDT&E, N (\$-5.0 million) and in Submarine Acoustics, reduced maintenance resulting from the replacement of AN/BSY-2 combat systems with A-RC SEAWOLF variants (\$-5.5 million).

- Facility Sustainment, Restoration, and Modernization decrease of \$239.3 million is comprised of \$31.1 million in price growth offset by \$270.4 million in program decreases. These decreases result primarily from the completion of one-time FY 2003 force protection site improvement projects (\$-181.0 million) and Training Resource Strategy (\$-50.5 million) projects, reductions in restoration and modernization efforts (\$-154.5 million) and savings resulting from the consolidation of installation claimants from eight to one (\$-22.2 million) offset by increases due to mission funding Puget Sound Naval Shipyard (\$29.2 million) and an increase to fund facility sustainment to 93 percent of requirements (\$108.4 million).
- Base Support decrease of \$153.1 million is comprised of \$68.3 million in price growth offset by \$221.4 million in program decreases. These decreases are due primarily to one-time FY 2003 costs for force protection (\$-188.2 million) and savings resulting from the consolidation of installation claimants from eight to one (\$-165.3 million), offset by an increase to support base operations at a minimum quality of service (\$39.5 million).

Budget Activity 2: Mobilization

(\$ in Millions)

FY 2002	Price	Program	FY 2003	Price	Program	FY 2004	Price	Program	FY 2005
<u>Actual</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>
800.9	+15.3	-56.2	760.0	-19.6	-13.2	727.2	+20.7	-18.1	729.8

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.

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The FY 2004 budget estimate of \$727.2 million includes a price decrease of \$19.6 million and program decreases of \$13.1 million (-1.8 percent). Major program changes include: in Aircraft Activation/Inactivation, an increase of \$4.1 million for additional aircraft re-preservation and additional aircraft scheduled for input into storage; and in Ship Activation/Inactivation, a net increase for submarine inactivation and reactor department disposal (\$39.5 million) offset by decreases in Surface Ship deactivations and less advance planning (\$-28.5 million) and the effect of one-time Congressional adds for ship disposal in FY 2003 (\$-25.7 million). In the Fleet Hospital Program, there is a reduction of \$2.3 million related to operations in Guantanamo Bay.

Budget Activity 3: Training and Recruiting

(\$ in Millions)

FY 2002	Price	Program	FY 2003	Price	Program	FY 2004	Price	Program	FY 2005
<u>Actual</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>
2,172.9	+56.2	+182.6	2,411.6	+54.5	+6.1	2,472.2	+56.3	-55.0	2,473.5

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 2004 budget estimate of \$2,472.2 million includes a price increase of \$54.5 million and program increases of \$6.1 million (0.3 percent). Major program changes include:

- Accession Training increases include additional Recruit Training in force protection, basic computer skills and firefighting and damage control (\$2.2 million) and additional NROTC scholarships (\$1.7 million) while a decrease of \$2.2 million results from completion of the initial phase of replacement and modernization of classroom and laboratory equipment at the Naval Academy.
- Basic Skills and Advanced Training increases total \$109.5 million. Increases in Specialized Skill Training include \$9.9 million for expansion of Homeport Training at Fleet concentration areas for increased learning capability and increased readiness in areas of C4I training, firefighting and damage control and radar navigation. As part of the Revolution in Training, there is an increase of

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\$7.6 million for Industry Standard training and certification throughout the Navy to ensure sailors compete with their industry counterparts; \$11.0 million for the development of PC-based simulation of real world operating systems; \$5.2M for restructuring of the Surface Warfare Officer School's curriculum and \$4.6M for increased force protection training. Reductions reflected include contract efficiencies (\$-10.3 million) and civilian personnel savings (\$-8.4 million). In Flight Training, there is an increase of \$10.7 million for T45 and T6A aircraft maintenance requirements while Professional Development Education reflects reductions from the completion of one-time security improvements and war game testing efforts, both at the Naval War College (\$-5.9 million). Training Support includes increases of \$47.8 million for the restructuring of Navy curricula, conversion of courses to Web-based format and replacement of obsolete equipment; \$15.4 million for Human Performance specialists to translate Fleet job tasks into competency and proficiency level requirements and for the integration of manpower, personnel and training applications. Also included is \$21.7 million for NMCI services.

- Recruiting and Other Training and Education programs decrease by \$3.6 million resulting from savings from civilian personnel reductions (\$-4.9 million), and reduced requirement for recruiter support (\$-0.7 million) and the Sea Cadet program (\$-1.0 million), offset by an increase to support the establishment of an additional 39 Junior ROTC units (\$3.0).
- Facility Sustainment, Restoration and Modernization includes Facility Sustainment, Restoration and Modernization decrease of \$79.8 million is comprised of \$3.3 million in price growth offset by \$83.2 million in program decreases resulting primarily from the completion of one-time FY 2003 force protection site improvement projects (\$-48.0 million) reductions in facility sustainment requirements (\$-22.6 million) and savings resulting from the consolidation of installation claimants from eight to one (\$-3.9 million).
- Base Support decrease of \$11.3 million is comprised of \$7.2 million in price growth offset by \$18.4 million in program decreases. These decreases are due largely to one-time FY 2003 costs for force protection (\$-6.9 million) and savings resulting from the consolidation of installation claimants from eight to one (\$-31.2 million), offset by an increase to contract out galley functions no longer performed by recruits (\$26.1 million).

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Budget Activity 4: Administrative and Servicewide Activities

<u>(\$ in Millions)</u>									
FY 2002	Price	Program	FY 2003	Price	Program	FY 2004	Price	Program	FY 2005
<u>Actual</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>
4,811.7	+106.1	+138.4	5,056.2	+116.5	-119.1	5,053.6	+100.3	+59.0	5,212.9

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 2004 budget estimate of \$5,053.6 million includes a price increase of \$116.5 million and program decreases of \$119.1 million (-2.3 percent). Major programmatic changes include:

- Servicewide Support reflects a net program decrease of \$66.8 million. Major program changes in Administration include an increase of \$14.6 million for the FECA surcharge imposed by the Department of Labor; an increase of \$9.8 million for additional competitive sourcing studies and additional funding to complete improvements to the alternate Navy Command Center (Site R) (\$2.4 million). Program reductions include a projected decrease in payments to the Defense Finance and Accounting Service (\$-21.6 million); savings in civilian compensation from the restructuring of the Secretariat and Chief of Naval Operations staffs (\$-10.8 million); and the partial completion of certification efforts of financial systems (\$-5.0 million). Civilian Manpower and Personnel Management reflects a program decrease of \$10.7 million for reductions in the civilian workforce and completion of Human Resources IT reengineering while Military Manpower and Personnel Management contains program increases for several military management system transformational initiatives support including the Defense Integrated Military Human Resource Management System (DIMHRS) and the Navy Standard Integrated Personnel System (NSIPS) as well as NMCI support of the Naval Personnel Command (\$31.7 million), partially offset by civilian personnel reductions (\$-5.1 million). Other Personnel Support program decreases total \$13.0 million reflecting reductions in requirements for A-12 Trial team support, centrally managed MWR projects and NMCI services. Servicewide Communications reflects increases for NMCI incentives (\$37.2 million); support for three Teleport global information grids (\$17.0 million) and increased operation of the Defense Messaging System (\$7.0 million). Program decreases include the realignment of funding for Tier One services from the customers to the Defense Information Systems Agency (DISA) (\$-55.8 million); the completion of Enterprise Solution studies and decreased deployment of NMCI transition support teams (\$-48.6 million) and the realignment of personnel and

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support costs for the Naval Network Warfare Command to Combat Support Forces (1C6C) for consistency with other COMLANTFLT Type Commander staffs (\$-15.7 million).

- Logistics Operations and Technical Support increase totals \$35.1 million. Major program changes in Servicewide Transportation are an increase of \$8.8 million for reimbursement to the Defense Supply Centers for overseas transportation of subsistence items and a decrease in transportation of munitions, primarily related to the Tomahawk remanufacture schedule (\$-6.3 million). Planning, Engineering and Design programs decrease by \$8.7 million; the major program change results from the restructuring of the civilian workforce at the System Commands. Acquisition and Program Management reflects program increases of \$54.7 million, primarily for increases in classified program at the Navy System Management Activity (NSMA) (\$61.7 million). The other major program changes include an increase of \$11.8 million for NMCI services and a program decrease of \$16.1 million in savings from the restructuring of the civilian workforce at the System Commands. The net decrease of \$29.8 million in Air Systems Support reflects reduced requirements associated with technical publication updates and manuals for both platform specific and non-platform specific aircraft systems. Program increases in Hull, Mechanical and Electrical Support reflect funding for Chemical, Biological and Radiological Defense (CBRD) Anti-Terrorism/Force Protection and Amphibious Emergency Repair maintenance (\$13.8 million) and program decreases reflect the effect of congressional adds in FY 2003 only and civilian workforce restructuring (\$-4.9 million) while program increases in Space and Electronic Warfare Systems fund Joint Service Interoperability Training, integrated logistics support for digital wideband and portable radios; in-service engineering support for submarine systems and software maintenance and Spectrum fees (\$6.9 million).
- Security Programs decrease by \$53.9 million primarily as a result of one-time congressional adds to classified programs and realignments from the DERF in FY 2003.
- Facility Sustainment, Restoration and Modernization decrease of \$36.4 million is comprised of \$-0.2 million in price changes and \$36.2 million in program decreases resulting primarily from the completion of one-time FY 2003 force protection site improvement projects (\$-43.8 million), reductions in restoration and modernization efforts (\$-14.3 million) and savings resulting from the consolidation of installation claimants from eight to one (\$-1.4 million) offset by increases an increase to fund facility sustainment to 93 percent of requirements (\$22.0 million).
- Base Support increases by \$5.8 million including \$3.3M in price growth. Program changes include increases to support base operations at a minimum quality of service (\$11.1 million) and increases in Pentagon rent payments (\$38.7 million) offset by one-time purchase of collateral equipment for military construction projects (\$-14.4 million) and savings resulting from the consolidation of installation claimants from eight to one (\$-9.3 million).