
SECTION I - INTRODUCTION

OVERVIEW

This document provides a summary of the Department of the Navy (DoN) FY 2003 budget to assist members of Congress and their staff in their review of the Department's request. The FY 2003 budget, guided by the new defense strategy outlined in the Quadrennial Defense Review (QDR) and emergent challenges of the past year, continues to build a force relevant to the threats and opportunities of the 21st Century. The QDR recognizes the key role of naval forces in continuing to provide "forward deployed forces to deter and/or prevent attacks." Extending America's influence and preserving America's security requires the employment of a transformed naval force with diverse, new capabilities that can:

- Assure allies and friends of the United States' steadiness of purpose and its capability to fulfill its security commitments.
- Dissuade adversaries from undertaking programs and operations that could threaten U.S. interests or those of our allies and friends.
- Deter aggression and coercion by deploying forward the capacity to swiftly defeat attacks and impose severe penalties for aggression on an adversary's military capability and supporting infrastructure; and
- Decisively defeat any adversary if deterrence fails.

Naval forces must be able to operate effectively in a world of *uncertainty* and *contend with surprise*. Our immediate availability and persistent naval response in the Northern Arabian Sea and in Afghanistan following the attacks of September 11 has confirmed that we have the best prepared and most technologically advanced Navy and Marine Corps in the world.

<p><i>We must adapt to surprise, quickly and decisively</i></p>

The Secretary of the Navy has emphasized four inter-related strategic thrusts since assuming office: *combat capability*, *people*, advanced *technology* and *business practices*. These themes reaffirm a commitment to remain forward-engaged today while developing future capabilities to address a wide range of asymmetric threats when the Nation calls, and a continuing commitment to the Department's most important asset – outstanding people – and their families, their welfare, and their future.



Regarding combat capability, the primary purpose of the Navy and Marine Corps is to train for, deter, and when necessary, fight and win our Nation's battles. Our naval forces project sovereign power in support of national interests while forward-deployed to the far corners of the earth. The expectation that the Navy-Marine Corps team can command the

seas; provide on-scene, sustainable, combat-credible power to promote stability; dissuade potential adversaries; enhance deterrence; and, when needed, prevail decisively in combat, will continue to be essential to the layered defense of the U.S Homeland. However, a new host of challenges, e.g., anti-access threats, immediate reorientation of forces for

We will transform forces to be able to address a wider spectrum of missions

deterrence based on global reconnaissance, or having the capability to defeat an adversary

Defeat adversaries who will rely on surprise, deception, and asymmetric warfare

with only modest reinforcement, must be addressed. Some of the immediate capability enhancements

supported in this budget include increased carrier battlegroup presence in the Western Pacific and options to forward-base additional surface combatants and cruise missile submarines. Additionally, increased force mobility and force protection while in transit have assumed greater priority in today's world. While transformation will not be completed tomorrow, it must be accelerated today. Along with our sister Services and allies, we will organize, equip and train to fight jointly, and win!

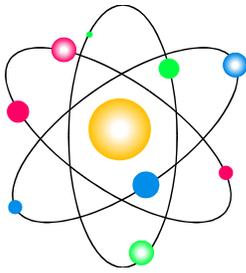
The men and women of the Navy and Marine Corps team are our most valued resource. A ship pier side has absolutely no value to this Nation without a well-trained and highly motivated crew. To tackle this, we emphasize "Quality of Service" – achieving a higher quality workplace as well as a higher quality of life for our Sailors, Marines, active duty and reserve, civilians and all of their families. The Department's goal is to create an environment where our men and women can excel at their chosen profession. This includes competitive compensation and quality housing, a quality workplace, health care, and training, with an operational tempo that considers the individual, as well as family and community. At the end of the day, our Sailors, Marines and civilians will know that their contribution is important and feel that their work is both stimulating and rewarding.



The application of advanced technology is central to our Nation's military strength. As demonstrated in the War on Terrorism, we have been able to project overwhelming combat power because our naval forces are technologically

superior. While we have the most technologically advanced naval force in the world, we must sustain a robust science and technology effort to ensure that the widespread proliferation of technology does not diminish our capability advantage in the future. In creating a 21st Century naval force, we know we will have to better protect our bases of operation in the U.S. and abroad with a specific focus on systems that can defeat weapons of mass destruction. We must also develop assured information systems that

A stable investment in Science and Technology will identify new defense technologies



can resist outside attack while allowing us to conduct effective information operations. We will refine the capability to deliver high-volume precision strike in all weather and terrains, and we will also develop interoperable C4ISR systems that foster more seamless joint operations. Our investment in science and technology is the seed corn for future discovery, invention and innovation which will be the catalyst for emerging technologies and new weapon systems development. Future budgets must become even more agile in applying and leveraging the capability of technology.

The Department is working to revitalize DOD and DoN business practices. Technology and emulation of proven best practices are essential ingredients to

Maximize the efficient use of funds to sustain long term public support for the Nation's defense needs.

our continual success. Technology will not only have a profound affect on business practices by improving business opportunities, it should also enable us to shift resources into combat capability and expand our buying power. To that end, we will achieve business practice transformation by retaining our best and brightest talent, modernizing our processes and organizational structure, improving organic resources that contribute to warfighting capability, and consolidating and modernizing DoN infrastructure.

FIGHTING THE WAR ON TERRORISM

The war effort being conducted at home and abroad in Afghanistan and in the Far East has highlighted the challenges of projecting power with deployed forces

"Presence...power...precision... underlines the mobility, lethality, and reach of naval forces."

against a varied technology threat, while at the same time, providing forces to ensure homeland security (HLS). Essential to the effort in launching this war on terrorism is the Department's ability to provide assured, sea-based access to the battlefield from sovereign assets operating in the international domain and projecting power from the sea to influence events ashore – tailored, flexible, relevant power that is critical to the Joint Force Commander's ability to fight and win. The Navy's oldest ship,

the USS Kitty Hawk excelled at her new mission as an afloat forward staging base for special operations forces.

The War on Terrorism has several imperatives least of which is that there is no tolerance for risk . . . whether it be risk to our forces or operational risk. This budget, through its robust funding for readiness and personnel, has mitigated the short term risk that we would otherwise expect to encounter. However, we cannot be so focused on the present that we lose sight of potential future challenges. This budget also achieves an excellent balance of the near term and long term (technology, recapitalization and business innovation) focus in order to provide a capable, effective force now and in the future. The successes that we are realizing today in Operation Enduring Freedom are a testimonial that we cannot address one set of challenges at the expense of the other.

In today's uncertain world with widespread technology proliferation, we have properly equipped and trained our forward deployed forces such that they are able to deal with probable threats. However, the attacks of 9/11 have identified a previously unrecognized vulnerability in our homeland security. Our open society and freedom to easily travel into, out of and across country resulted in terrorists being able to conduct a planned attack on U.S. soil. As the Homeland Defense initiative is brought to forefront, the Department will play a crucial role in providing HLS. The FY 2003 budget has provided dedicated assets to the HLS mission including three reserve frigates, thirteen patrol coastals, various enhancements to Coast Guard Defense mission equipment and additional Navy and Marine Corps personnel for anti-terrorism and force protection. The capabilities of these assets coupled with those of our deployed forces will enhance the ability to provide security for the homeland and U.S. interests abroad. The most striking change is that naval forces from the sea are operating in the Eurasian heartland – not just the littorals – striking an enemy in what might before have been his sanctuary. Potential threats to the homeland include those of ballistic missiles, cruise missiles, aircraft, infrastructure attacks, and various asymmetric attacks including chemical, biological or radiological attacks.



The ballistic missile threat to the U.S. today is fairly low with only a few countries possessing intercontinental ballistic missiles; however, proliferation of technology will ultimately enable any country to collect the technology to produce such weapons. It is projected that such technology may threaten the U.S. and the world in the next 15 years. Our early efforts with Cooperative Engagement Capability (CEC) and the Navy Theater Wide programs have become the baseline for a family of technologies that will enable the Navy to play a significant role in ballistic missile defense in the future. Although the Navy

Area Missile Defense program was recently cancelled, the Department remains committed to several ongoing initiatives that will enable the Navy to participate in the theater ballistic missile defense mission as these technologies mature and are deployed.

There is no current cruise missile threat to the U.S. homeland, however, the geometric spread of technology has enabled several third world countries to develop indigenous versions of export cruise missiles from France, Russia and China. As these weapons are improved for sea-based or aircraft delivery, this could result in a potential future threat to the U.S. Our radar modernization programs coupled with the high speed data sharing of CEC is already addressing this threat today. There are many other development programs that will result in further improvement in our ability to engage cruise missiles in the future. The Navy has the lead in fielding a comprehensive anti-cruise missile capability.

The threat to U.S. infrastructure includes both “cyber” and physical attack. The advent of destructive viruses that have been introduced through the internet have previously highlighted vulnerabilities of our IT infrastructure and the critical need for information assurance measures. The Department’s current effort with Navy Marine Corps Intranet (NMCI) includes robust information assurance measures as well as improved security standards for the legacy mainframe systems that are interfaced with NMCI.

Our comprehensive investment in people and readiness adequately address near term risk, while our transformation and recapitalization efforts in the budget address emerging threats of the future. Our preparation for the future will enable naval forces to concurrently project power abroad while at the same time providing security to the homeland. We will win this war on terrorism through initiative, innovation and careful investment of our resources.

“Our Sailors were ready on 11 September; they had the tools they needed.”

SUPPLEMENTAL APPROPRIATION/ COST OF WAR

Table 1a highlights appropriated supplemental funding that has been received by the Department or is expected to be received. Under P.L. 107-38, the Emergency Response appropriation provided \$40 billion for DOD and other agencies in the aftermath of the September 11, 2001 attack for national security measures, disaster recovery, and initial crisis response. The Department expects to receive approximately \$3.8 billion of DERF under P.L. 107-38 for the war on terrorism, Operation Enduring Freedom and Operation Noble Eagle. The Department is currently working with the DOD staff on formulating another supplemental request to address specific costs of the war in FY 2002.

Defense Emergency Response Funds are provided only in this table and are not reflected anywhere else in this publication.

Table 1a
Department of the Navy
DERF Funding
(Dollars in Millions)

Categories	Total Funding
Increased Situational Awareness	658
Enhanced Force Protection	630
Improved Command & Control	174
Increased Worldwide Posture	1,342
Offensive Counterterrorism :	844
Procurement	0
Initial Crisis Response	92
Pentagon Repair / Upgrade	0
Grand Total Navy and Marine Corps	3,740

The President's Budget also addresses FY 2003 Cost of War estimates. A topline increase has been included in the DOD budget. This increase will address enhancements of a continuing nature associated with the Cost of War in FY 2003. This request, totaling \$10 billion for DOD, is being justified in a central account for flexibility and not distributed to the Navy or Marine Corps for budget display. Current information indicates the DoN portion is ~\$3.3 billion as shown in Table 1b. The President has also included in the Defense budget an allowance of \$10 billion to support variable operational costs of the War on Terrorism to ensure our ability to sustain action. Distribution of that amount will be based on actual requirements at the time of execution.

Table 1b
Department of the Navy
FY 2003 President's Budget Cost of War
(Dollars in Millions)

Fixed Costs	FY 2003
Preferred Munitions	681
Continuity of Ops	45
Guantanamo Bay Operations	45
Special Access Programs	87
Counterterrorism /Force Protection	1,925
KC -130	334
Training Munitions	66
Nuclear Posture	60
Variable Costs	
6 months ops	TBD
Total	3,243

RESOURCE TRENDS

The FY 2003 budget appropriately manages known risk while striking a balance between various fiscal pressures. Recent topline increases have helped to reduce fiscal pressure and competition over the Department's resources. The FY 2003 DoN budget provides resources necessary to substantially improve our combat capability, enrich the lives of our people, swiftly incorporate technology, and dramatically improve our business practices. These four thrusts maintain near-term readiness, recognize the critical needs of our Sailors, Marines and their families, invest in smart initiatives for our future, and provide the resources to begin to transform our Navy and Marine Corps for the future. The budget balances short-term needs (manpower and readiness) with long-term requirements (transformation, modernization and infrastructure).

Chart 1 - DoN Topline FY 2001-FY 2003

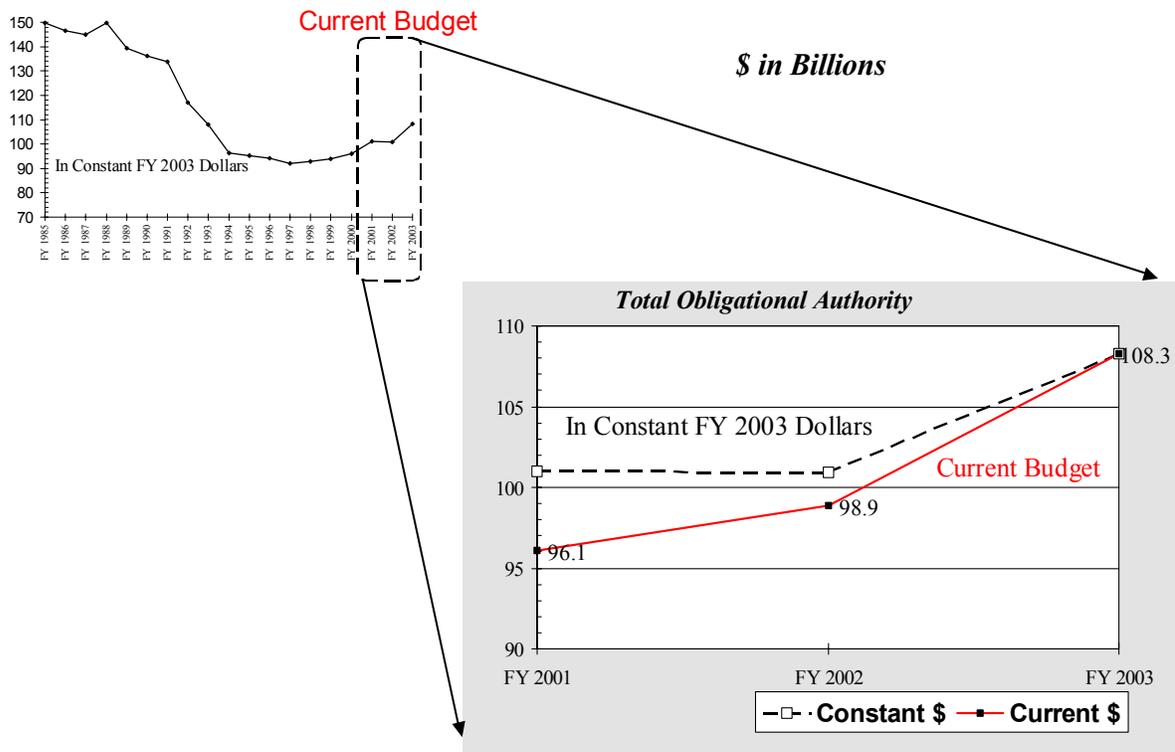


Chart 1 reflects Department of the Navy resources in both current and constant dollars from FY 2001 through FY 2003. The smaller chart provides a historical perspective in constant dollars from FY 1985 through FY 2003.

As indicated in charts 1 and 2, the Administration's interest in defense has resulted in almost an additional \$9.4 billion (9%) increase in FY 2003 (over FY 2002 levels) which has significantly bolstered our manpower and readiness accounts and improved our recapitalization effort with a focus on transforming naval forces to address future threats.

Chart 2 - Trendlines FY 2001-FY 2003

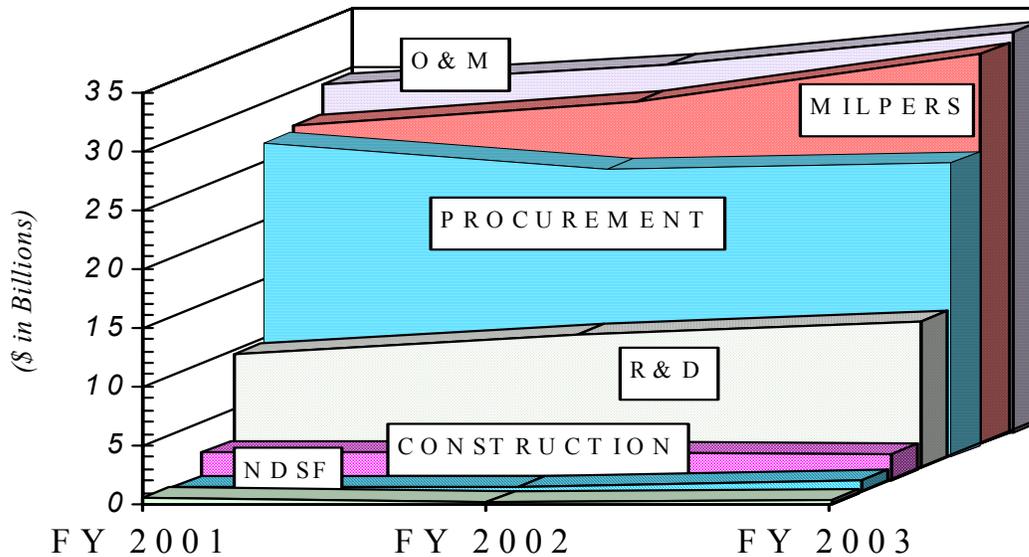


Chart 2 graphically displays Department of the Navy appropriations by title for FY2003.

Table 2 displays Department of the Navy appropriations for Fiscal Years 2001 through 2003.

APPROPRIATION SUMMARY FY 2001 - FY 2003

Table 2
Department of the Navy
FY 2003 Budget Summary by Appropriation
(In Millions of Dollars)

	FY 2001	FY 2002	FY 2003
Military Personnel, Navy	18,042	19,551	22,094
Military Personnel, Marine Corps	6,893	7,335	8,559
Reserve Personnel, Navy	1,580	1,655	1,927
Reserve Personnel, Marine Corps	451	471	558
Operation and Maintenance, Navy	25,439	26,714	29,029
Operation and Maintenance, Marine Corps	2,922	2,904	3,358
Operation and Maintenance, Navy Reserve	1,015	997	1,166
Operation and Maintenance, Marine Corps Reserve	147	143	186
Quality of Life Enhancements *	(30)	-	-
Environmental Restoration, Navy	0	255	257
Kaho'olawe Island	74	67	25
Aircraft Procurement, Navy	8,037	7,881	8,204
Weapons Procurement, Navy	1,422	1,418	1,833
Shipbuilding and Conversion, Navy	11,965	9,500	8,191
Other Procurement, Navy	3,450	4,149	4,347
Procurement, Marine Corps	1,190	985	1,288
Procurement of Ammunition, Navy and Marine Corps	543	457	1,015
National Guard and Reserve Equipment *	(10)	(15)	-
Research, Development, Test & Evaluation, Navy	9,596	11,389	12,502
Military Construction, Navy	910	1,133	895
Military Construction, Naval Reserve	63	53	52
Family Housing, Navy and Marine Corps	1,309	1,228	1,244
Base Realignment and Closure	427	212	261
National Defense Sealift Fund	497	429	934
Navy Working Capital Fund	146	-	424
TOTAL	\$96,117	\$98,928	\$108,349

* Reflects the DoN portion of Defense-wide appropriations not included in the DoN totals.
 Note: totals in tables may not add due to rounding

Table 3 displays a track of changes to the Department of the Navy appropriations for FY 2002, beginning with the FY 2002 President's Budget request. Active operation and maintenance estimates include \$56 million in prior year budget authority available for obligation in FY 2002, primarily for the repair of the USS COLE. Transfers are predominantly those associated with reprogrammings to reflect business decisions in the year of execution due to fact of life changes (e.g. realignments to proper appropriation) and a transfer out of A-76 studies and Tier I rates.

DERIVATION OF FY 2002 ESTIMATES

Table 3

Department of the Navy

FY 2002 Budget Summary by Appropriation

(In Millions of Dollars)

	FY 2002 President's Budget	Congressional Action	PL 107-20 FY 2001 Supplemental	Transfers	FY 2002 Current Estimate
Military Personnel, Navy	\$19,607	-56	-	-	\$19,551
Military Personnel, Marine Corps	7,365	-30	-	-	7,335
Reserve Personnel, Navy	1,643	12	-	-	1,655
Reserve Personnel, Marine Corps	463	8	-	-	471
Operation and Maintenance, Navy	26,961	-289	53	-11	26,714
Operation and Maintenance, Marine Corps	2,892	9	3	-	2,904
Operation and Maintenance, Navy Reserve	1,004	-7	-	-	997
Operation and Maintenance, MC Reserve	144	-1	-	-	143
Environmental Restoration, Navy	258	-3	-	-	255
Kaho'olawe Island	25	42	-	-	67
Aircraft Procurement, Navy	8,253	-379	-	8	7,881
Weapons Procurement, Navy	1,434	-16	-	-	1,418
Shipbuilding and Conversion, Navy	9,344	80	-	76	9,500
Other Procurement, Navy	4,097	136	-	-84	4,149
Procurement, Marine Corps	982	5	-	-2	985
Procurement of Ammunition, Navy and MC	457	-	-	-	457
Research Development, Test & Eval, Navy	11,123	256	-	11	11,389
National Defense Sealift Fund	506	-77	-	-	429
Military Construction, Navy	1,071	62	-	-	1,133
Military Construction, Naval Reserve	34	19	-	-	53
Family Housing, Navy and Marine Corps	1,223	5	-	-	1,228
Base Realignment and Closure (III, IV)	132	80	-	-	212
TOTAL	\$99,018	\$-144	\$56	\$-2	\$98,928

Note: Totals may not add due to rounding.