



U.S. DEPARTMENT OF THE NAVY
NAVY BUDGET

Highlights of the Department of the Navy

© 2003 Budget

*Highlights of the
Department of the Navy
FY 2003 Budget
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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!

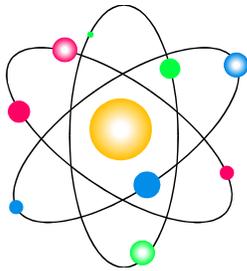
The men and women of the Navy and Marine Corps team are our most valued resource. A ship pier side has absolutely no value to this Nation without a well-trained and highly motivated crew. To tackle this, we emphasize "Quality of Service" – achieving a higher quality workplace as well as a higher quality 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.”

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.

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

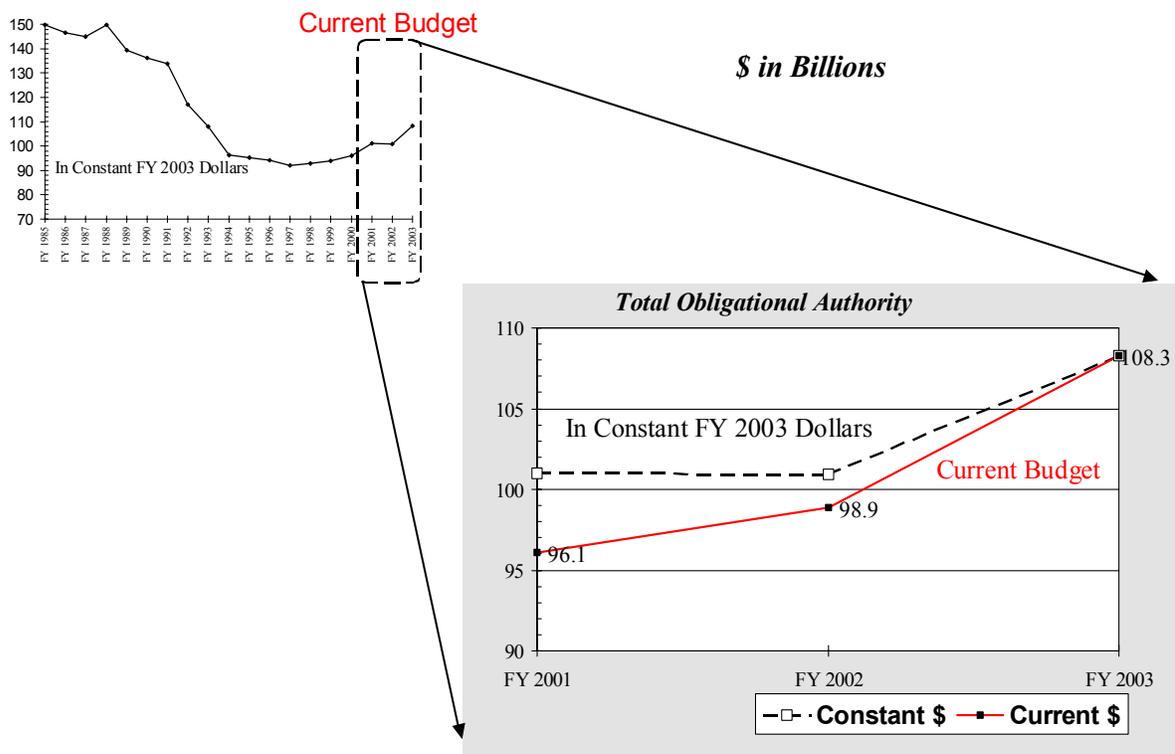


Chart 1 reflects Department of the Navy resources in both current and constant dollars from FY 2001 through FY 2003. The smaller chart provides a historical perspective in constant dollars from FY 1985 through FY 2003.

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

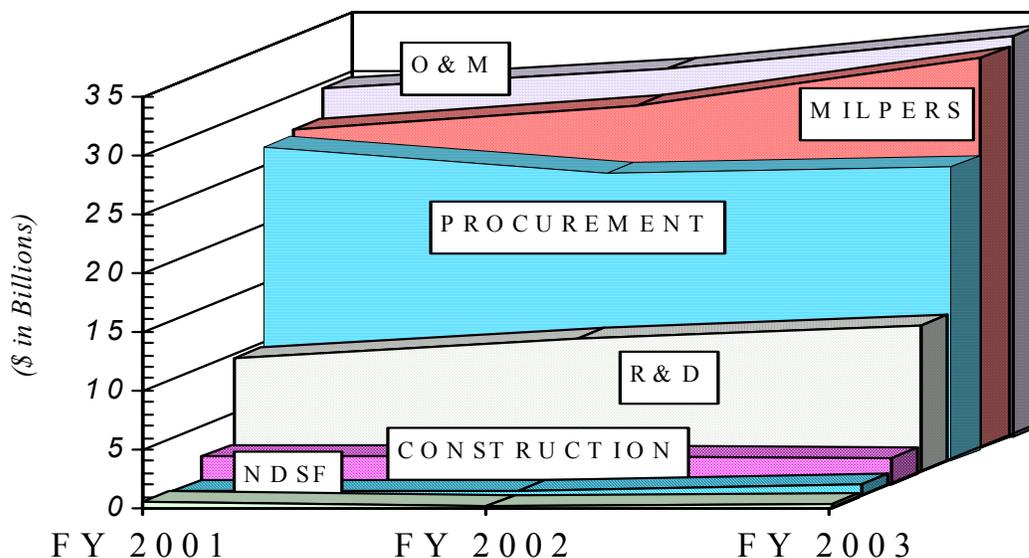


Chart 2 graphically displays Department of the Navy appropriations by title for FY2003.

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.

SECTION II - READINESS

Our battle force ships, aviation units and Marine forces provide the foundation for the National Military Strategy of shaping the international environment and responding to the full spectrum of crises. Our budget provides for operational levels which will maintain the high personnel and unit readiness necessary to conduct the full spectrum of joint military activities. The success of our Fleet in the war against terrorism attests to progress made in current readiness.

***One Team,
One Fight***



The role of the Navy and Marine Corps on the world stage is evident throughout the budget. From contributions to multilateral operations under United Nations/NATO auspices to cooperative agreements with allied Navies, international engagement efforts cross the entire spectrum of the Department's missions and activities. Naval requirements are often met through participation with allies and other foreign countries, in joint exercises, port visits, and exchange programs. Joint/international exercises planned for FY 2003 include: Tandem Thrust, Freedom Banner and RIMPAC.

***Shape the
international
environment ...***

Operational activities include drug interdiction, joint maneuvers, multinational training exercises, humanitarian assistance (including natural disaster, medical, salvage, and search and rescue) and when called upon, contingency operations such as in the Arabian Gulf, the Balkans and now underway in Afghanistan/the Northern Arabian Sea as part of Operation Enduring Freedom. On any given day, nearly 44,000 Sailors and Marines on nearly 90 ships are deployed to locations around the world.

Chart 3a - Navy Forces Today

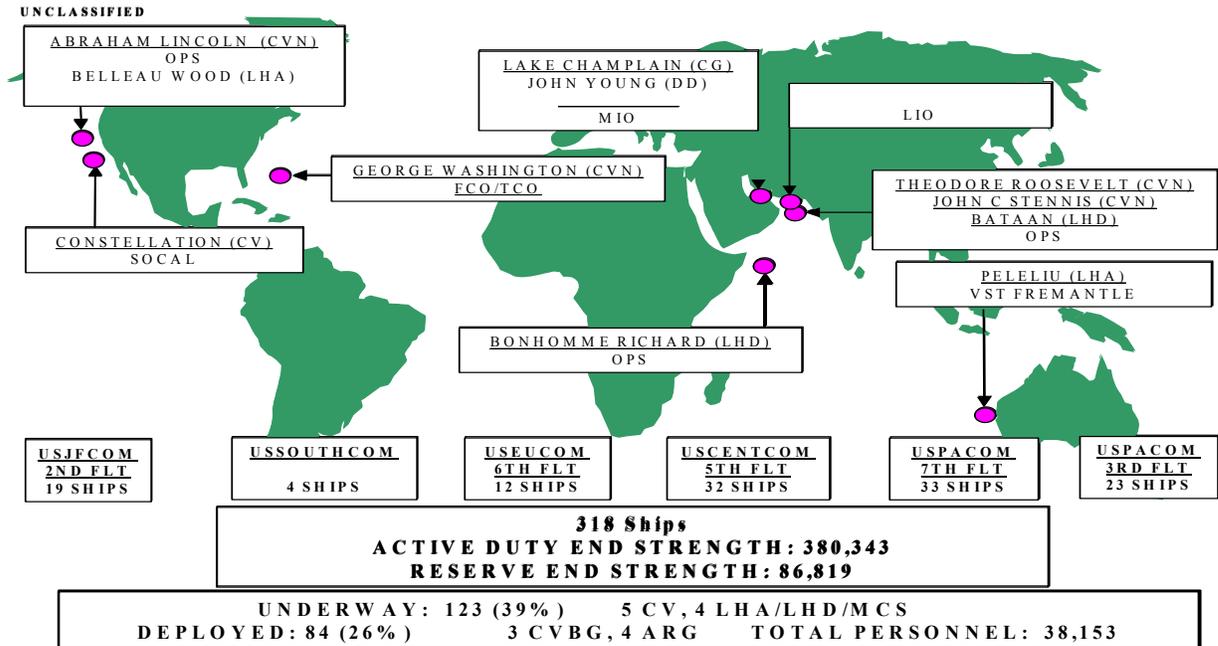


Chart 3a – Reflects Navy’s forward presence as of 31 January 2002.

Chart 3b – Marine Corps Forces Today

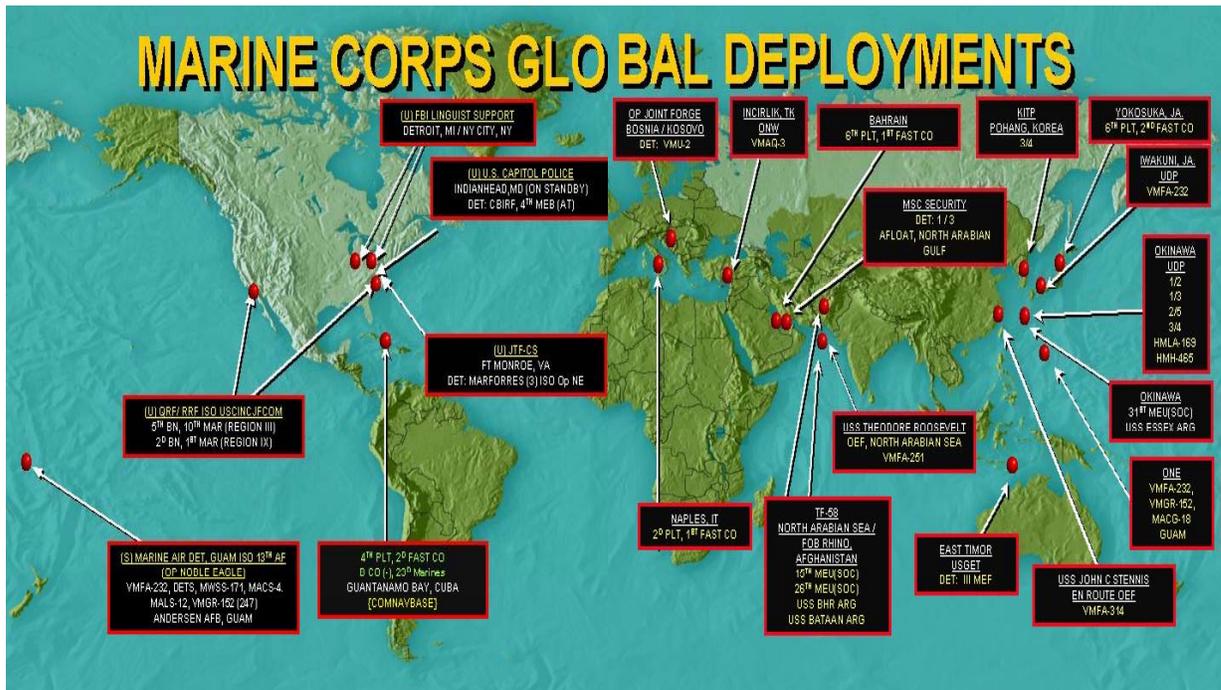


Chart 3b – Reflects Marine Corps’ forward presence as of January 2002.

SHIP OPERATIONS

Battle Force Ships

... Appropriately sized forces

The budget provides for a deployable Battle Force of 308 ships for FY 2003. This level will support 12 aircraft carrier battle groups and 12 amphibious ready groups.



In FY 2003, three Arleigh Burke class guided missile destroyers and one Nimitz class aircraft carrier will be commissioned and 11 ships will be inactivated. This reflects the accelerated decommissioning of six destroyers and the inactivation of one conventional aircraft carrier, one landing ship dock, one Reserve amphibious tank landing ship, one Reserve Mine

Countermeasures ship and one Military Sealift Command ammunition ship. Three frigates will be transferred to the Naval Reserve Forces for Homeland Defense within the overall ship count. To sustain the current level of operational commitments with a declining force, the Department is using that force at a much higher tempo than that for which it was designed. The strain this places on the battle force is reflected in higher ship maintenance costs, while the strain on personnel is manifested in a more difficult retention climate.

Table 4 summarizes Active and Reserve Battle Force ship levels.

Table 4

***Department of the Navy
Battle Force Ships***

	FY 2001	FY 2002	FY 2003
Aircraft Carriers	12	12	12
Fleet Ballistic Missile Submarines	18	18	18
Surface Combatants	116	116	113
Nuclear Attack Submarines	55	54	54
Amphibious Warfare Ships	39	39	37
Combat Logistics Ships	34	34	33
Mine Warfare Ships	17	17	16
Support Ships	25	25	25
Battle Force Ships	316	315	308

OPTEMPO

Active Forces

For FY 2003, deployed ship operations are budgeted to maintain highly ready forces, prepared to operate jointly to perform the full-spectrum of military activities, and to meet forward deployed operational requirements and overseas presence commitments in support of the National Military Strategy. The budget provides funds necessary to achieve the Department's operational tempo (OPTEMPO) goal of 54.0 underway days per quarter for deployed forces which includes 3.5 underway days per quarter to support Southwest Asia, Bosnia, and Kosovo operations and 28 underway days per quarter for non-deployed forces. The funding level supports the Global Naval Forces Presence Plan (GNFPP) in terms of carrier battle group (CVBG) and amphibious ready group (ARG) requirements, as required by national security policy. Costs for continued operations in the North Arabian Sea currently being funded through the Defense Emergency Response Fund, are not included in the DoN budget for FY 2003.



Non-deployed OPTEMPO provides primarily for the training of Fleet units when not deployed, including participation in individual unit training exercises, multi-unit exercises, joint exercises, refresher training, and various other training exercises. Non-deployed Fleet OPTEMPO levels are considered the minimum required for maintaining a combat ready and rapidly deployable force.

Chart 4 - Active Force OPTEMPO

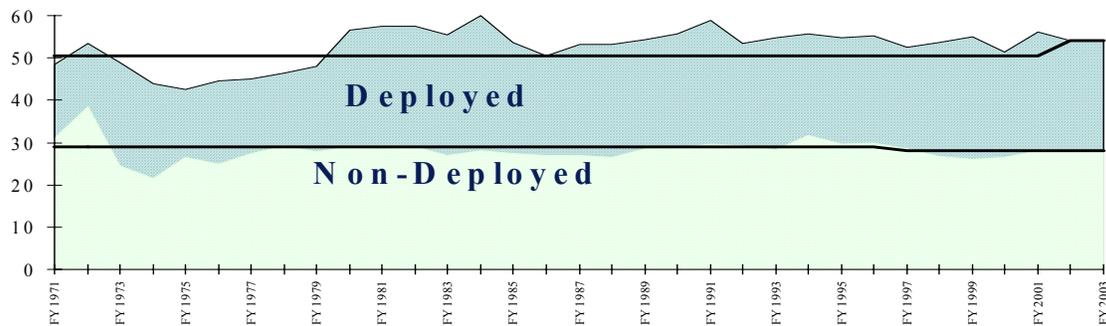


Chart 4 illustrates historical and budgeted OPTEMPO. The horizontal lines are the deployed and non-deployed budgeted goals. Fluctuations from the goals reflect real world operations including contingency operations funded through the DOD Overseas Contingency Operations Transfer Fund (OCOTF), which beginning in FY 2002 is included to the Department's Budget.

Reserve Forces



The Naval Reserve Force continues to actively augment and support the active force while achieving personnel tempo goals. In FY 2003, the Naval Reserve will consist of 16 Battle Force ships with 11 FFGs, and 5 MCMs. During FY 2003, 3 FFGs coming from the active fleet will augment the reserve forces providing additional assets for Home Land Defense.

Table 5 reflects Reserve battle force ships and, where appropriate, both non-deployed and deployed steaming days due to operational requirements. The increase in the OPTEMPO goal for non-deployed forces is a result of increasing operational readiness for reserve forces.

Table 5
Department of the Navy
Significant Naval Reserve Force Factors

	FY 2001	FY 2002	FY 2003
Surface Combatants	8	8	11
Amphibious Ships	1	1	0
Support/Mine Warfare	6	6	5
Reserve Battle Force Ships*	15	15	16
Steaming Days Per Quarter			
Mine Warfare			
Deployed			
Non-deployed	50.5	50.5	50.5
FFGs/LST	24	24	28
	18	18	18

* Also included in Table 3

Mobilization

Mobilization forces provide rapid response to unforeseen contingencies throughout the world. Sealift assets include prepositioning and surge ships. Operating costs of



prepositioning ships and exercise costs for surge ships are reimbursed to the National Defense Sealift Fund (NDSF) by the operations account of the requiring Defense component, as parenthetically noted in Table 5. DoN O&M appropriations reimburse the biennial exercise costs of the Hospital Ships (T-AH) and the Aviation Maintenance Ships (T-AVB), and will continue to fund the daily operating costs of the Maritime Prepositioning Ships (MPS). Each of the three MPS squadrons supports a Marine Expeditionary Brigade for 30 days. FY 2003 levels include an increase of one additional Large Medium-Speed Roll On-Roll-Off (LMS RORO) ship .

Table 6 displays the composition of Navy mobilization forces.

Table 6

Department of the Navy

Mobilization

Strategic Sealift (# of ships)

	FY 2001	FY 2002	FY 2003
<u>Prepositioning Ships:</u>			
Maritime Prepo Ships (Navy O&M)	13	13	13
Maritime Prepo (Enhanced) (Navy O&M)	2	3	3
CENTCOM Ammo Prepo (Navy O&M)	1	1	1
Army Prepo Ships (Army O&M)	15	15	15
Air Force Prepo Ships (Air Force O&M)	3	3	3
DLA Prepo Ships (DWCF)	3	3	3
<u>Surge Ships:</u>			
Aviation Logistics Support (NDSF)	2	2	2
Hospital Ships (NDSF)	2	2	2
Fast Sealift Ships (NDSF)	8	8	8
Ready Reserve Force Ships (NDSF)	76	76	76
Large Medium-Speed RORO Ships (NDSF)	12	14	15
Prepositioning Capacity (millions of square feet)	3.9	4.4	4.4
Surge Capacity (millions of square feet)	8.9	9.6	9.6
Total Sealift Capacity (millions of square feet)	12.8	14.0	14.0

Ship Depot Maintenance

The Department's active ship depot maintenance budget supports 95.5% of the notional O&M requirement and 100% of the SCN refueling overhaul requirement in FY 2003. With the decline in battle force ships, the stress of maintaining current OPTEMPO on an aging force averaging 17 years in FY 2003 is evident in increasing

FY 2003 Budget Summary		
	Goal	Budget
Submarines	98.5%	98.5%
Carrier	98.5%	98.5%
Surface	95.0%	91.6%

depot maintenance requirements. For example, as reflected in chart 6, in 1993 we had 108 ships forward deployed, or 24% of our 458 ship battle force. In FY 2003, we will have 87 ships forward deployed, or 28% of our 308 ship battle force. This high utilization, along with aging assets, results in depot maintenance availabilities that are increasingly exceeding notional costs.

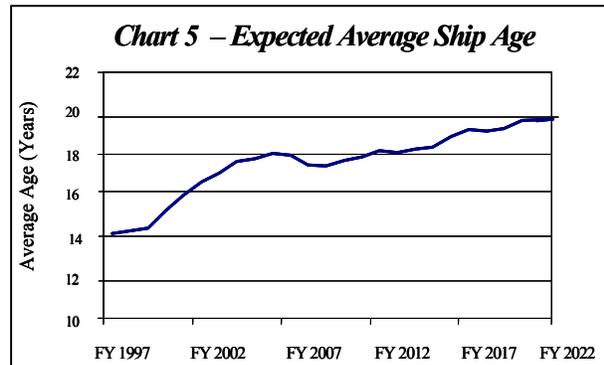


Chart 6 - Deployment Trends

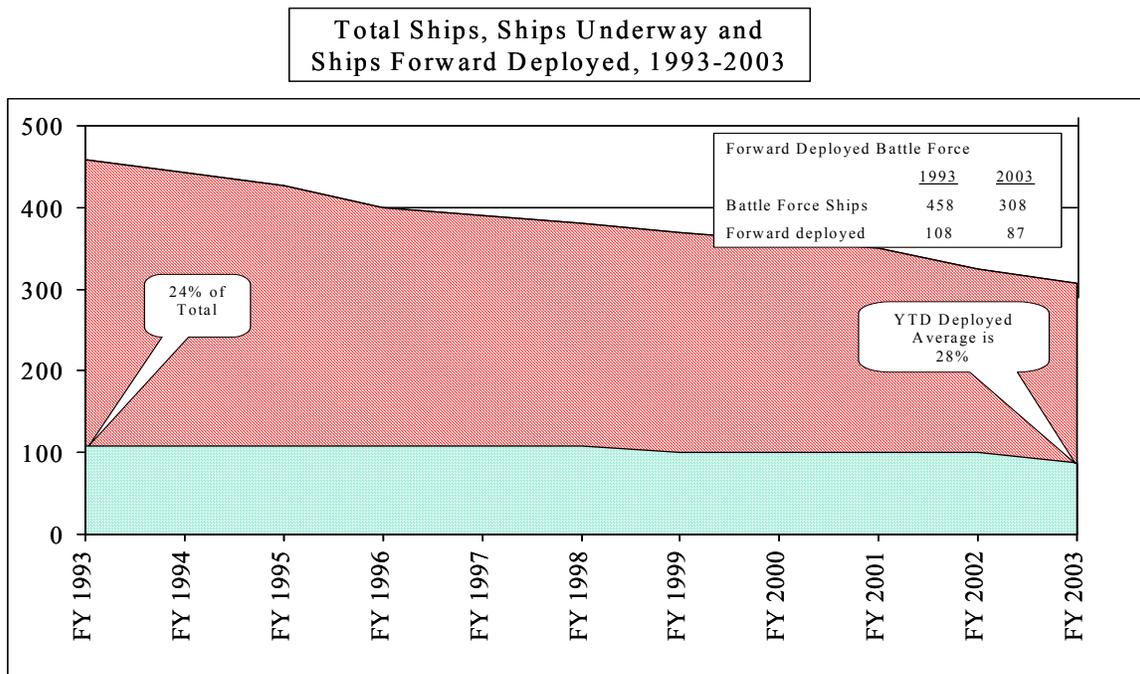


Chart 6 - summarizes deployment trends since FY 1993.

In FY 2003, the Department continues to implement initiatives designed to reduce outyear maintenance costs and reduce maintenance burdens on Fleet personnel (e.g., wear resistant paint, water tight doors, well deck preservation).

The entire FY 2002 and FY 2003 ship maintenance amounts are executable. As the execution year progresses, the workload can fluctuate, impacted by factors such as growth in scope and new work on maintenance availabilities, changes in private shipyard daily rates, and shipyard capacity.



The Department's reserve ship depot maintenance budget supports 95% of the notional requirement in FY 2003 which meets the Department's goal. As with the active counterparts, the Department is implementing the same initiatives to reduce maintenance burdens and costs on Naval Reserve Force ships. Table 7 displays active and reserve ship depot maintenance.

Table 7
Department of the Navy
Active Forces Ship Depot Maintenance
(Dollars in Millions)

	FY 2001	FY 2002	FY 2003
Ship Depot Maintenance*	\$2,561	\$2,915	\$3,536
Depot Operations Support	1,258	1,314	1,325
Total: Ship Maintenance (O&MN)	\$3,819	\$4,229	\$4,861
Percentage of Requirement Funded	88.6%	89.3%	95.5%
CVN Overhauls (SCN)	\$782	\$1,222	\$297
SSN Refueling Overhauls (SCN)	\$291	\$529	\$360
% of SCN Requirement Funded	100%	100%	100%
Annual Deferred Maintenance	\$356	\$377	\$164
Reserve Ship Depot Maintenance			
<i>(Dollars in Millions)</i>			
	FY 2001	FY 2002	FY 2003
Reserve Ship Depot Maintenance	\$65	\$71	\$80
Depot Operations Support	2	2	4
Total: Ship Maintenance (O&MNR)	\$67	\$73	\$84
Percentage of Requirement Funded	100%	92%	95%

*Includes Pearl Harbor shipyard /IMA reflected in Depot Ops support in previous budget

AIR OPERATIONS

Active Tactical Air Forces

This budget provides for the operation, maintenance and training of ten active Navy carrier air wings and three Marine Corps air wings. Navy



aviation is divided into three primary mission areas: Tactical Air/Anti-Submarine Warfare (TACAIR/ASW), Fleet Air Support (FAS), and Fleet Air Training (FAT). Tactical air squadrons conduct strike operations, provide flexibility in dealing with a wide range of threats identified in the National Military Strategy, and provide long range and local protection against airborne and surface threats. Anti-Submarine Warfare squadrons locate,

destroy and provide force protection against sub-surface threats, and conduct maritime surveillance operations. Fleet Air Support squadrons provide vital fleet logistics and intelligence support. In Fleet Air Training, the Fleet Readiness Squadrons (FRS) provide the necessary training to allow pilots to become proficient with their specific type of aircraft and transition to fleet operations.



The total number of aircraft decreases in FY 2003. This reflects the accelerated decommissioning of F-14s and the reduction of S-3 Primary Authorized Aircraft (PAA) from eight to six per squadron.

Reserve Air Forces

Reserve aviation continues to provide vital support to the Nation and to the active force in FY 2003. The Reserves support all of the Department's adversary and overseas logistics requirements and a portion of the electronic training and counter-narcotics missions. The Navy Reserve also provides support to the active force through participation in various exercises and mine warfare missions. These varied missions demonstrate the Department's commitment to fully employ the Total Force Concept. An increase in the FY 2003 budget results from the full integration of an enhanced air undersea warfare capability with additional SH-60B aircraft, and also reflects an increase in logistics mission flight hours for the new C-40A "Clipper" aircraft.

Table 8 reflects active and reserve aircraft force structure.

Table 8

Department of the Navy

Aircraft Force Structure

	FY 2001	FY 2002	FY 2003
<u>Active Forces</u>	18	18	18
Navy Carrier Air Wings	10	10	10
Marine Air Wings	3	3	3
Patrol Wings	3	3	3
Helicopter Anti-Submarine Light Wings	2	2	2
<u>Reserve Forces</u>	5	5	5
Tactical Air Wings (Navy)	1	1	1
Patrol/ASW Air Wings	1	1	1
Helicopter Air Wing	1	1	1
Logistics Air Wing	1	1	1
Marine Air Wing	1	1	1
<u>Primary Authorized Aircraft - Active 1/</u>	2,492	2,480	2,438
Navy	1,471	1,460	1,424
Marine Corps	1,021	1,020	1,014
1/ Does not include trainer or TACAMO aircraft.			
<u>Primary Authorized Aircraft - Reserve</u>	407	407	408
Navy	222	221	222
Marine Corps	185	186	186

Aircraft OPTEMPO



In FY 2003, the Department will begin measuring aviation readiness in terms of Status of Resources and Training System (SORTS) ratings vice Primary Mission Readiness (PMR). To provide adequately trained aircrews, Carrier Airwings (CVWs) need to attain an average T-rating (the training component of SORTS) of T-1.75 throughout the Inter-Deployment Training Cycle (IDTC). This level of training will allow CVWs to reach a training level of T-1.0 just prior to deployment, and maintain that readiness level while deployed. TACAIR/ASW funded hours will now be defined as a percentage of the specified hours required to support goals. This requirement encompasses not only training, but operational, maintenance and support hours as well. Costs for continued operations in the North Arabian Sea are not included in the DoN budget for FY 2003.



The Flying Hour Program has been priced using the FY 2000 and FY 2001 cost per hour experience, including a higher cost for repair part pricing and usage. This repricing, which adds significantly to the cost per flying hour, is a manifestation of the Department's aging aircraft inventory, which requires more maintenance per hour and is experiencing increasing failure rates on major components. The FY 2003 budget represents a new method to forecast Aviation Depot Level Repairable (AVDLR) cost per hour based on analysis done by the Center for Naval Analysis (CNA). CNA studied AVDLR demand data from FY 1992 to FY 1999, and through analyses of hours flown and aircraft age, determined that AVDLR growth could be reforecasted based on specific demand rates ranging from 3% to 34% per year. The resulting increase in cost per hour in FY 2003 is significant.

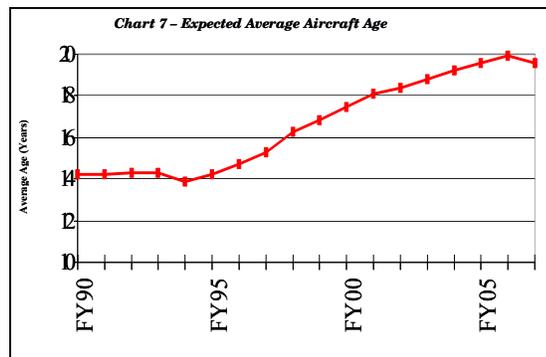
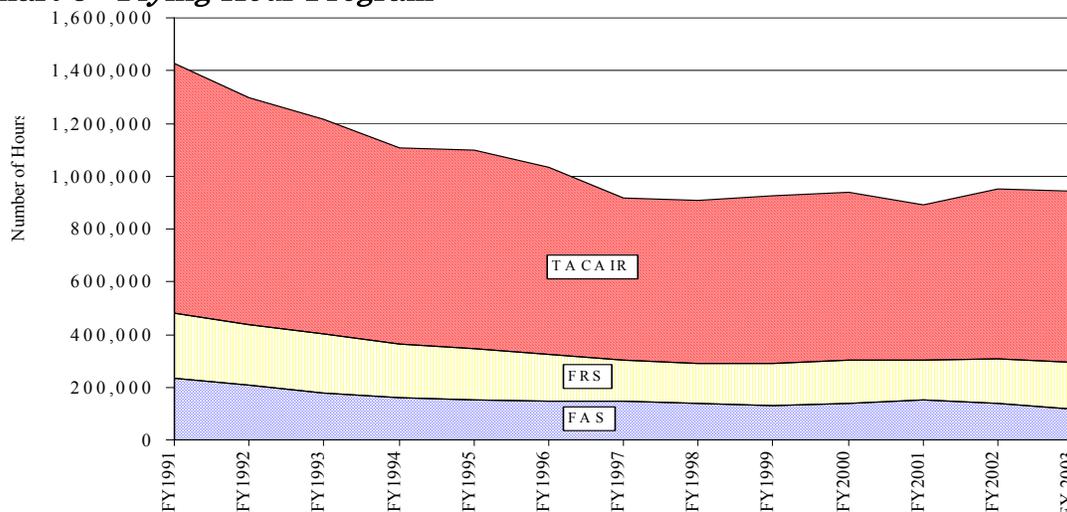


Chart 8 - Flying Hour Program



Consistent with recent execution experience, Fleet Readiness Squadrons operations are budgeted at 92% of the requirement to enable pilots to complete the training syllabus. Student levels are established by authorized TACAIR/ASW force level requirements, aircrew personnel rotation rates and student output from the Undergraduate Pilot/Naval Flight Officer training program. Fleet Air Support requirements correlate with TACAIR operational requirements. Similar to the Active Forces, Naval Reserve is budgeted at 87% PMR in FY 2002, and 97% of the specified hours to support adequately trained aircrews in FY 2003. Chart 8 displays historical flying hours.

Table 9 displays active and reserve flying hour readiness indicators.

Table 9
Department of the Navy
Flying Hour Program

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Active			
TACAIR (%) 1/ 2/	80%	83%	89%
Goal 1/ 2/	83%	83%	89%
Fleet Readiness Squadrons (%)	86%	92%	92%
Goal	92%	92%	92%
Fleet Air Support (%)	81%	83%	86%
Goal	83%	83%	86%
Monthly Flying Hours per Crew (USN & USMC)	21.4	22.8	21.5
1/ PMR in FY 2001 and 2002, % requirement in FY 2003;			
2/ Includes 2% simulator contribution in FY 2001 and FY 2002			
Reserve			
Reserves (%) 1/ 2/	87%	87%	97%
Goal 1/ 2/	87%	87%	97%
Monthly Flying Hours per Crew (USNR & USMCR)	11	11	11

1/ PMR in FY 2001 and 2002, % requirement in FY 2003

2/ Includes .25% simulator contribution in FY 2001 and FY 2002 for reserves

Aircraft Depot Maintenance

The Active and Reserve aircraft depot maintenance programs fund major repair and overhauls, within available capacity, to ensure that a sufficient quantity of aircraft are available to operational units. The readiness-based model used to determine airframe and engine maintenance requirements is



based on squadron inventory authorization necessary to execute assigned Active and Reserve missions. The goal of the airframe rework program is to provide enough airframes to meet 100% Primary Authorized Aircraft (PAA) for deployed squadrons and 90% PAA for non-deployed squadrons. The engine rework program objective is to return depot-repairable engines/modules to Ready-for-Issue (RFI) status to obtain both zero net bare firewalls and fill 90% of the Type Model Series (TMS) RFI engine spares pools. Other Depot Maintenance refers to the depot level repair of aeronautical components for the aircraft systems and

equipment under direct Contractor Logistics Support (CLS).

The Department's budget for Fiscal Year 2003 is sufficient to achieve the Active and Reserve Engine and Airframe readiness goals for deployed and non-deployed squadrons. This will result in deployed squadrons having sufficient aircraft to meet inter-deployment training cycle requirements and mission capable status prior to and during deployment. Non-deployed squadrons will also have sufficient aircraft to satisfy post deployment readiness requirements. Post deployment readiness requirements are necessary to ensure an adequate supply of airframes and engines are available to support squadron and air wing training exercises. These exercises include both inter-service air-to-air and air-to-ground tactical and missile firing training events.

To support a wide range of Fleet operations and training, the Navy has targeted a 73% aircraft Mission Capable (MC) rate and a 56% Full Mission Capable (FMC) rate. This reflects both deployed and non-deployed operational aircraft trends.

Percent Navy Aircraft Mission Capable/Fully Mission Capable (MC/FMC)				
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>Goal</u>
MC Aircraft	66	73	73	73
FMC Aircraft	53	56	56	56

Tables 10a and 10b summarize Active and Reserve Aircraft Depot Maintenance.

Table 10a

Department of the Navy

Active Forces Aircraft Depot Maintenance

(Dollars in Millions)

	<u>FY 2001</u>	<u>% at Goal*</u>	<u>FY 2002</u>	<u>% at Goal*</u>	<u>FY 2003</u>	<u>% at Goal*</u>
Airframes	\$462		\$494		\$464	
Engines	247		302		278	
Components	49		42		43	
Total: Active Aircraft Depot Maintenance	\$758		\$838		\$785	

Airframes

Deployed Squadrons meeting goal of 100% PAA	161	100%	158	100%	155	100%
Non-Deployed Squadrons meeting goal of 90% PAA	181	100%	179	100%	193	100%

Engines

Engine TMS meeting Zero Bare Firewall goal of 90% PAA	67	100%	67	100%	71	100%
Engines TMS meeting RFI Spares goal of 90% PAA	67	100%	67	100%	71	100%

Components: Other - Depot Maintenance

Funded Requirements	49		42		43	
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Table 10b

Reserve Forces Aircraft Depot Maintenance

(Dollars in Millions)

	<u>FY 2001</u>	<u>% at Goal*</u>	<u>FY 2002</u>	<u>% at Goal*</u>	<u>FY 2003</u>	<u>% at Goal*</u>
Airframes	\$68		\$82		\$93	
Engines	34		33		37	
Components	0		0		0	
Total : Reserve Aircraft Depot Maintenance	\$102		\$115		\$130	

Airframes

Non-Deployed Squadrons meeting goal of 90% PAA	69	100%	67	100%	72	100%
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Engines

Engine TMS meeting Zero Bare Firewall goal of 90% PAA	37	100%	37	100%	40	100%
Engine TMS meeting RFI spares goal of 90% PAA	37	100%	37	100%	40	100%

Components: Other-Depot Maintenance

Funded Requirements	N/A		N/A		N/A	
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* All deployed and non-deployed squadrons meet goal.

Also refer to Appendix A for more information:

Operation and Maintenance, Navy
 Operation and Maintenance, Navy Reserve

Table

A-5
 A-7

MARINE CORPS OPERATIONS

Marine Corps Active Operations

This budget supports the Marine Corps Operating Forces comprised of three active Marine Expeditionary Forces (MEF). Each MEF consists of a headquarters command element, one ground division, one airwing, and one force service support group.



MEFs provide highly trained forces that are fully prepared to execute their charter as a versatile expeditionary force in readiness, capable of rapid response to global contingencies. The inherent flexibility of the MEF organization, combined with our Maritime Prepositioned Force (MPF) assets, allows for the rapid deployment of appropriately sized and equipped forces.

These forces possess the requisite firepower and mobility needed to achieve success across the full operational spectrum in either joint or independent operations.

Marines established the first conventional ground forces presence in Afghanistan. Elements of two Marine Expeditionary Units (MEUs) moved from their ships – using organic Marine and Navy lift – to create a tailored Marine Expeditionary Brigade (MEB) ashore. Light, agile and self-sustained, Marines established security in a hostile environment and assured access for follow-on forces.

This budget includes funding for the addition of the 4th Marine Expeditionary Brigade (MEB) to deter, detect, defend, and conduct initial incident response to combat the threat of worldwide terrorism. The budget also includes funding for an increased readiness posture for Marine Operating Forces. It continues the fielding of improved combat equipment and clothing for the individual Marine. This budget supports requirements for recruit training, initial skill training, and follow-on training courses, provides for a martial arts program that provides combat skills for all members, and supports continued success in meeting recruit accession goals. This budget also continues Distance Learning program efforts to reduce the training pipeline, thereby increasing manning levels in the Operating Forces.

Table 11 displays Marine Corps land forces.

Table 11
Department of the Navy
Marine Corps Land Forces

	FY 2001	FY 2002	FY 2003
Number of Marine Expeditionary Forces	3	3	3
Number of Marine Expeditionary Brigades	3	4	4
Number of Battalions	70	70	71

Marine Corps Reserve Operations

This budget supports a Marine Reserve Force that includes the Fourth Marine Division, the Fourth Marine Aircraft Wing, the Fourth Force Service Support Group, and the Marine Corps Reserve Support Command. The Department’s FY 2003 budget ensures that the readiness of the Reserve Force will be maintained by providing increased funding for the



maintenance of aging equipment and also for the purchase of critical field medical supplies through the Initial Issue program. The budget also includes additional funding for a martial arts program that provides combat skills training for all members, and increased funding for depot maintenance.

<u>Also refer to Appendix A for more information:</u>	<u>Table</u>
Operation and Maintenance, Marine Corps	A-6
Operation and Maintenance, Marine Corps Reserve	A-8

PEOPLE

Trained and adequately compensated manpower is the most important resource in our readiness equation. America’s naval forces are combat-ready largely due to the dedication and motivation of individual Sailors, Marines, and civilians. The development and retention of quality people are vital to our continued success and are among our biggest challenges as the Department continues to face fierce competition from the private sector for the best and the brightest young Americans.



... maintain highly skilled and motivated people

Meeting these challenges is essential to long-term effectiveness, and the

Department is focusing on three fronts: recruiting the right people, retaining the right people, and reducing attrition. We continue to dedicate resources to those programs best suited to ensuring the proper combination of grade, skill and experience in the force. The price of a highly-skilled, all-volunteer force in today's environment is increasing.

Military Personnel budget estimates include a 4.1% pay raise for all pay grades in FY 2003. In addition, estimates include a targeted pay raise effective 1 January 2003 for mid-grade non-commissioned officers (NCOs) and some officers ranging from an additional 0.9% to 2.7% to improve the competitiveness of military pay with private sector pay. Recognizing that fixing pay alone is not sufficient, we continue to explore other avenues to get more Sailors and Marines to the reenlistment decision point, motivating them to remain for a career. For example, basic allowance for housing (BAH) programs have been funded to effect the transition to market-based rates, to fund anticipated future housing rate increases and to reduce out-of-pocket expenses to 7.5% in FY 2003 and to eliminate them by FY 2005. Improvements to recruiting and retention incentive programs, as well as positive changes to permanent change of station and other manpower policies, have been funded in an attempt to remove job dissatisfiers and demonstrate the Department's ongoing commitment to Sailors, Marines and their families.

Finally, beginning in FY 2003, the Military Personnel budget estimates include funding for accrual payments into the Department of Defense Medicare-Eligible Retiree Health Care Fund established by the FY 2001 National Defense Authorization Act. Payments to the fund from the Military Departments are based on DOD Board of Actuaries amortized estimates of the present value of future benefits payable to retired personnel and dependents attributed to service performed after September 30, 2002.

Navy

This budget reflects positive steps to address manning challenges through expanded enlistment and reenlistment bonuses, enhanced special and incentive pays and increased advancement opportunity.

People are our most important and valuable resource

Better than anticipated manning in FY 2001, the result of long sought after improvements in recruiting and retention, helped reduce at-sea billet gaps, and allowed the Navy to begin to fulfill increased requirements in

areas such as anti-terrorism/force protection, aviation maintenance due to aging airframes, and environmental billets at

Recruiter Productivity (active and reserve)			
	FY2001	FY2002	FY 2003
# of Recruiters	5,000	5,000	5,000
# of Recruits	53,690	53,000	50,101
# of Recruits per Recruiter	11	11	10

sea to properly handle plastic and hazardous waste products. However,

increased manning requirements make the challenge even more difficult, and the proper funding of targeted incentives to ensure success in that war even more critical. To sustain our success in accessing quality people, our budget sustains a recruiter force of 5,000, healthy enlistment bonus and college fund programs, and continued support of a number of “Smart Recruiter” initiatives, such as an expanded Blue Jacket Hometown Assistance Recruiting Program (HARP), to ensure success in meeting the accession mission. We also sustain our recruiting investment to enhance our Delayed Entry Program (DEP) levels. A healthy DEP helps us achieve maximum efficiency in the training pipeline through advanced planning and reduces attrition from recruit training by giving the recruits time to learn about the Navy and prepare for boot camp.

The value placed on our Sailors and the significance placed on the need to motivate them to “stay Navy” is the cornerstone to achieving and sustaining optimum personnel readiness. Navy is postured to keep the retention momentum recently experienced going in FY 2003 by funding an enhanced Career Sea Pay (CSP) program and maintaining a robust Selective Reenlistment Bonus (SRB) program. The enhanced CSP program not only increases the current rates by roughly 40% to restore the incentive value lost since the last increase in FY 1988, but also expands eligibility to all Sailors at sea. The Distribution SRB pilot program started in FY 2002 has also been funded, the intent of which is to pay differentially higher SRB payments to members willing to reenlist for orders to particular types of duty. To preserve advancement opportunity as more senior personnel are retained, our budget accommodates a 1.0% increase to Top 6 inventory in FY 2003.

To address intangibles such as job satisfaction, ongoing professional growth, training and education that affect retention and attrition levels, the Navy continues to place great emphasis on the Center for Career Development, a division of the Navy’s manpower and personnel directorate specifically chartered to provide information concerning the career decision process to career counselors, Command Retention Teams and Sailors and their families.

This budget also requests funding for approved Unified Legislation and Budgeting (ULB) initiatives such as Distribution Incentive Pay which provides a market based incentive to encourage volunteers for difficult to fill assignments and Multiple Basic Allowance for Subsistence (BAS) rates to establish a higher BAS II rate for members living in single government housing without adequate food cooking and storage facilities and no access to a dining facility.

Chart 9 and Table 12 provide summary personnel end strength data for Active Military Personnel.

Chart 9 – Active Military Personnel End Strength

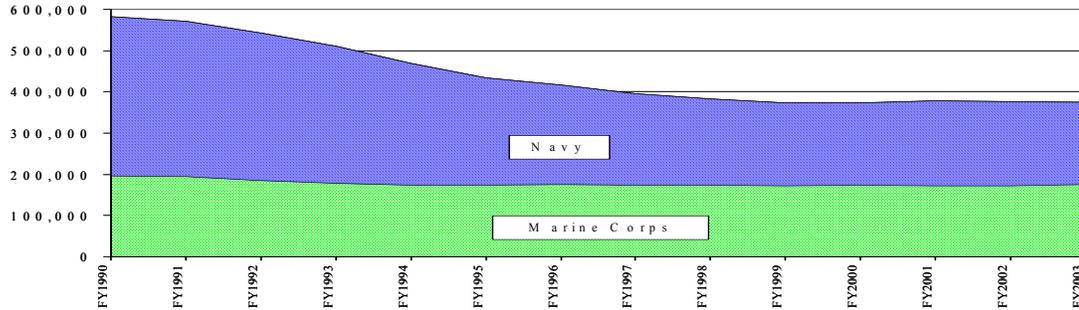


Chart 9 Graphically displays Military Personnel downsizing through FY 2003.

Table 12

**Department of the Navy
Active Navy Personnel**

	FY 2001	FY 2002	FY 2003
Officers	53,908	53,741	53,866
Enlisted	319,601	318,259	317,834
Midshipmen	4,301	4,000	4,000
Total: End Strength	377,810	376,000	375,700
Enlisted Accessions	53,690	53,000	50,101
Percent High School Diploma Graduates	90%	92%	92%
Percent above average AFQT	62%	62%	62%

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>Steady State Goal</u>
Zone A (<6 years)	56.9%	55.5%	53.7%	57.0%
Zone B (6+ to 10 years)	68.2%	67.9%	66.7%	70.0%
Zone C (10+ to 14 years)	84.2%	83.8%	82.3%	90.0%

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Zone A (<6 years)	10.7%	10.3%	10.1%
Zone B (6+ to 10 years)	1.9%	1.8%	1.8%
Zone C (10+ to 14 years)	.9%	.9%	.8%

Navy Reserve

This budget supports Navy Reserve end strength of 87,800 in FY 2003, providing pay and allowances for drilling Navy Reserve and Full Time Support personnel. To sustain an increased security posture, the budget reflects increased manning levels and funding in FY 2003 for anti-terrorism/force protection (AT/FP) and Mobile Inshore Undersea Warfare Units (MIUWU).

The Navy Reserve continues to experience recruiting and retention challenges focused predominately in the enlisted drilling Reserve population. The budget reflects positive steps to address these manning challenges through an increased number of recruiters, reenlistment bonuses and enhanced special and incentive pays. Additionally, the Reserve Selected Conversion of Rating (RESCORE) and non-prior service programs continue to be priorities for force shaping and enlistment.

This budget maintains the enlisted Annual Training (AT) participation rate at 90% and reflects the funding necessary to accommodate an average AT tour length of 15 days, for both officers and enlisted. Similar to active personnel, funding is also included for approved Unified Legislation and Budgeting initiatives such as Distribution Incentive Pay and Multiple Basic Allowance for Subsistence (BAS) rates. Furthermore, the Navy Reserve is funded for an enhanced Career Sea Pay (CSP) program that not only increases the current rates approximately 40%, but also expands eligibility to all Sailors at sea.

Chart 10 and Table 13 provide end strength data for Reserve Personnel.

Chart 10 - Reserve Military Personnel End Strength

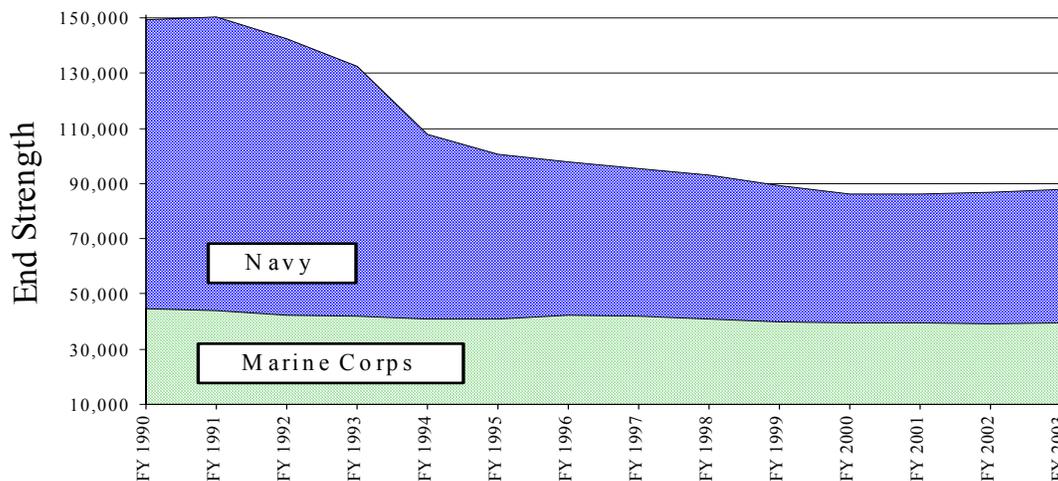


Chart 10 graphically reflects Navy and Marine Corps personnel strength from FY 1990 through FY 2003.

Table 13

**Department of the Navy
Reserve Navy Personnel**

	FY 2001	FY 2002	FY 2003
Drilling Reserve	73,341	71,489	73,228
Full Time Support	14,572	14,811	14,572
Total: End Strength	87,913	86,300	87,800

Also refer to Appendix A for more information:

Military Personnel, Navy	<u>Table</u> A-1
Reserve Personnel, Navy	A-3

Marine Corps



This budget supports an end strength of 175,000 in FY 2003. This force structure permits the Marine Corps to establish a 4th Marine Expeditionary Brigade (MEB) to combat terrorism and fulfill their charter as a versatile expeditionary force-in-readiness, capable of rapidly responding to global contingencies.

Continued success in meeting goals for recruiting and retaining personnel to maintain the planned force level is anticipated, and enlistment and reenlistment bonus programs have been funded to help ensure success in meeting budgeted end strength levels. This budget also requests funding for approved initiatives such as Multiple Basic Allowance for Subsistence (BAS) rates.

	Recruiter Productivity (active and reserve)		
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
# of Recruiters	2,650	2,650	2,650
# of Recruits	36,777	39,134	41,138
# of Recruits per Recruiter	14	15	16
Size of DEP (Beginning of FY)	20,350	21,803	22,626

Chart 9 and Table 14 provides summary personnel end strength data for Military Personnel, Marine Corps.

Table 14
Department of the Navy
Active Marine Corps Personnel

	FY 2001	FY 2002	FY 2003
Officers	18,062	17,888	18,088
Enlisted	154,872	154,712	156,912
Total: End Strength	172,934	172,600	175,000
Enlisted Accessions	30,898	33,140	35,038
Percent High School Diploma Graduates	95%	95%	95%
Percent above average Armed Forces Qualification Test	63%	63%	63%
Reenlistments	13,830	13,646	13,646

	Enlisted Retention Rates			Steady State Goal
	FY 2001	FY 2002	FY 2003	
First Term	26.3%	26.5%	26.0%	25.0%
Second Term	59.5%	59.5%	61.0%	61.0%
Third Term	95.8%	95.6%	95.6%	95.6%

Marine Corps Reserve

This budget supports Marine Corps Reserve end strength of 39,558 in FY 2003. This end strength ensures availability of trained units to augment and reinforce the active forces, as well as providing manpower for a Marine Air-Ground Task Force Headquarters and Marine Forces Reserve (MARFORRES). The budget provides for pay and allowances for drilling Reservists attached to specific units, Individual Mobilization Augmentees (IMA's), personnel in the training pipeline, and full-time Active Reserve personnel. Consistent with the Marine Corps Active Component, bonus programs continue to be funded at levels required to meet recruiting and retention goals.

The Marine Corps Reserve requirements are reviewed continually to fully support the National Military Strategy. The Department remains committed to Reserve contributory support to enhance and complement the active force while maintaining unit readiness to meet crisis and security requirements.

Funding is also requested for approved Unified Legislation and Budgeting initiatives such as Multiple Basic Allowance for Subsistence (BAS) rates.

Chart 10 and Table 15 provides end strength data for the Reserve Personnel, Marine Corps account.

Table 15
Department of the Navy
Reserve Marine Corps Personnel

	FY 2001	FY 2002	FY 2003
Selected Marine Corps Reserves	37,542	37,297	37,297
Full Time Support	2,268	2,261	2,261
Total: End Strength	39,810	39,558	39,558

Also refer to Appendix A for more information:

Military Personnel, Marine Corps
 Reserve Personnel, Marine Corps

Table

A-2
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SECTION III - RECAPITALIZATION

The Department's work in initiating modest transformational efforts is already paying solid dividends today as seen in our successes in Afghanistan. Naval capabilities such as precision, stealth, and persistent firepower enable the Navy and Marine Corps to defend the U.S. homeland and U.S. interests abroad today. However, in this uncertain world of widespread proliferation of technology, today's capabilities may not be able to address future threats. Our forces must not only be capable of fighting and winning, regardless of the mission, but they must also be able to project power in an anti-access and anti-denial environment. Naval forces must be able to conduct effective information operations, and at the same time, enjoy information assurance with available tactical data. The challenge of fielding a capabilities-based Naval force places a premium on risk management. This risk is both internal and external. We must not only strike a reasonable balance within our resources (people and readiness versus recapitalization and technology), but we must also deploy Naval forces that have the ability to address all potential threats while operating forward deployed with only modest reinforcement. The FY 2003 budget appropriately minimizes near-term risk, as shown in Section II, while putting forward a balanced investment in the technologies of tomorrow.

The Department's approach to transformation relies on two methods of application. One method is the near term innovation and modernization of our existing aircraft, ships, submarines and IT systems. The other methodology is the longer term development of seed technologies that will lead to invention and the discovery of new technologies that will ultimately lead to the development of next generation platforms and systems essential to transform the Navy and Marine Corps of the 21st Century.

The DoN is postured to modernize its equipment with advanced technology to meet future threats. The introduction of some new platforms will use Commercial Off the Shelf (COTS) technology, open architecture construction, and continue to leverage advances in information technology. This ensures the United States Navy's continued dominance of the open seas and littoral environments and allows for lower manning requirements, faster processing capabilities, and increased accuracy of our weapons systems. The Department needs to invest now with a focused program to secure Naval superiority well through the first half of the 21st Century.

The Department remains committed to continuing full support of major transformational programs like the Joint Strike Fighter, the CVN(X) next generation aircraft carrier, SSGN conversions and the DD(X) Destroyer, while continuing efforts to advance new technologies for weapons systems that create the "Navy after next" for this new millennium.

Transform forces, capabilities, and institutions to extend asymmetric advantages.

The total request for procurement funding has increased from \$24.8 billion in FY 2002 to \$25.8 billion in FY 2003.

SHIP PROGRAMS

Surface Programs

The Department's FY 2003 budget continues to address the requirement for the acquisition, modernization, and recapitalization of the world's preeminent surface fleet. Continuing to integrate emerging technologies, the Navy will ensure that tomorrow's fleet will remain on the cutting edge. This is manifested by development efforts for both the CVN(X) and DD(X) ship platforms and new weapon systems.

... forces that can contend with uncertainty and embrace surprise...

CVN-77, which was placed under contract in January 2001, is the foundation of the evolutionary approach towards the next generation aircraft carrier (CVNX) and will incorporate transformational technologies consisting of an integrated island design, propulsion plant improvements, improved design tools, and manpower/material support initiatives. Continuing the evolutionary approach, R&D efforts for CVN(X) continue in FY 2003. This approach will provide the means to develop, design and deliver the centerpiece of the Navy's Battle Groups for the 21st century ensuring American influence throughout the world. Construction of CVN(X) is scheduled to begin in FY 2007.



Two Arleigh Burke Class guided missile destroyer DDGs per year will be procured throughout the FYDP. In addition, the FY 2003 budget provides the necessary level of R&D funding to support the Navy's transition to the future sea dominant platform, DD(X). The DD21 program was terminated with the R&D funding shifted to advanced ship concept design for DD(X). DD(X) continues technology

development, proceeding to a planned FY 2002 contract award for a design agent to continue design through critical design review.

Funding to procure a fifth LPD-17 class ship is included in the FY 2003 budget. This budget also addresses the substantial incremental funding requirements needed across the FYDP to complete LHD-8, and continues the Landing Craft Air Cushioned (LCAC) modernization program with a service life extension for three craft in FY 2003.

The FY 2003 budget also provides for procurement of an Auxiliary Cargo and Ammunition Ship (T-AKE) in the National Defense Sealift Fund.

Investment in S&T will enable new technologies to meet future threats

Modernization efforts continue to advance new technologies for weapons systems that create the “Navy after next” for the new millennium. Interoperability testing capabilities have expanded significantly over the past year with implementation of a shore-based

Distributed Engineering Plant that links existing system development sites together to form a “virtual battleground.” This infrastructure is used to test and resolve interoperability issues ashore in advance of battle group work-up training.

Major Surface Weapons Quantities							
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Standard Missile	86	96	93	139	139	209	236
RAM	0	90	90	240	180	670	610
ESSM	29	26	146	182	384	441	298
Tactical Tomahawk	0	32	106	314	351	483	469

The Standard Missile program replaces ineffective, obsolete inventories with the procurement of more capable Block IIIB missiles. The Rolling Airframe Missile (RAM) program continues to mature through the multi-year procurement of the improved Guided Missile Launching System (GMLS) and procurement of the upgraded Block I missile, providing an enhanced guidance capability along with a helicopter, air and surface (HAS) mode. In addition to Standard Missile and RAM, the FY 2003 budget provides funding for the a full rate production of the Evolved Sea Sparrow Missile (ESSM).

Several land attack R&D efforts critical to future littoral warfare, continue in FY 2003, including the Extended Range Guided Munition (ERGM), the 5”/62 gun, the Advanced Gun System (AGS) and the Naval Fires Control System (NFCS). ERGM contains an internal global positioning system and inertial navigation system that provide state-of-the-art guidance to surface-fired munitions. The AGS will provide the next generation of surface combatants with a modular large caliber gun system including an automated magazine handling system. The NFCS will use existing fire control infrastructure to serve as the nerve center for surface land attack by automating shipboard land attack battle management duties, incorporating improved land attack weapons systems, and utilizing battlefield digitization. In addition, low rate initial production of Tactical



... defeat the effort of adversaries to impose their will on the United States, its allies, or friends

Tomahawk, which begins in FY 2002, continues in FY 2003 with a significant ramp up in quantities. Full rate production is planned for FY 2004 which will introduce flexibly retargeted precision munitions into the Fleet.

Chart 11 displays shipbuilding quantities and prior year completion funding for FY 2002 and FY 2007.

Chart 11 - Shipbuilding Programs

	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07
CVN	0	0	0	0	0	1
SSN 774	1	1	1	1	1	1
DDG 51	3	2	2	2	2	2
DDX (R & D)	0	0	0	1	0	0
LPD 17	0	1	1	1	1	1
LHD	1	0	0	0	0	0
JCC	0	0	0	0	1	2
MPF(F) (NDSF)	0	0	0	0	0	1
T-AKE (NDSF)	1	1	1	2	2	3
Total New Construction	6	5	5	7	7	11
SSGN	0	2	2	0	0	0
Cruiser Conversion	0	0	1	2	4	4
T-AGS	0	0	0	0	1	0
Total Conversions	0	2	3	2	5	4
CVN RCOH	1	0	0	1	0	0
SSN/SSBN re fueling	2	1	2	1	3	4
LCU	0	0	0	5	5	5
LCAC SLEP	2	3	4	4	6	6
PY Completion \$M	729	644	645	744	185	0

Goal is 8 to 10 Ships per Year

Submarine Programs



The Navy covertly projects power with its fleet of modern SSN 688, Seawolf and Trident submarines. Their firepower, stealth, sensors and communications equipment will enable submarines to act as force multipliers in every conceivable scenario. This budget highlights the Navy’s ongoing effort to modernize its existing submarine fleet with

the latest technology ensuring the viability of these critical ships while, at the same time, continuing to replace aging fast attack submarines with the new Virginia Class submarine. Construction of the first two Virginia Class submarines began in FY 1998 and FY 1999 under the teaming arrangement with General Dynamics and Newport News Shipbuilding Company.

Construction for the third hull began in FY 2001, and the fourth hull of the class will commence construction in FY 2002. Funding to procure the fifth ship of the Virginia Class is included in FY 2003.

FY 2003 also includes funding to continue design work to convert a total of four Trident SSBNs to SSGNs, providing covert conventional strike platforms capable of carrying 150 Tomahawk missiles. The FY 2003 budget supports the refueling of the first two submarines and advance work for their conversion in FY 2004.

The FY 2003 budget reflects a balanced approach to funding Advanced Submarine Technology programs through the continued development of sonar, ESM and optic sensors, new processing algorithms, electromagnetic silencing, and advanced propulsion systems. These systems, depending on their availability, will be incorporated into the Virginia Class submarines and may also be backfit to 688, Seawolf and Trident submarines to avoid maintenance costs for older legacy systems.

...forward stationed or rotational forces supporting our forward posture...

These development efforts will greatly enhance affordability and maintainability of the submarine force.

A number of submarine modernization efforts continue in FY 2003. The Acoustic Rapid COTS Insertion (ARCI) program will complete installation of the first two phases of ARCI units on all SSNs by FY 2002 and will commence installation of Phase 3 and 4 improvements. These units, which provide significant sonar enhancements for our submarines have been extraordinarily successful and have validated the Navy's decision to use commercially available technology.

The FY 2003 budget also reflects the scheduling of one 688 Class submarine engineered refueling overhaul (ERO), which will also receive modernization to enhance combat capability throughout the submarines' operational life. The FY 2003 budget also funds important submarine communication suite improvements. The procurement and installation of improved antennas and automated data processing equipment will continue to increase the throughput and operational flexibility of submarine radio rooms.

<u>Also refer to Appendix A for more information:</u>	<u>Table</u>
Shipbuilding and Conversion Navy	A-12
Weapon Procurement Navy	A-11

AVIATION PROGRAMS

The Department's FY 2003 budget is structured to maintain the continued qualitative superiority of Navy and Marine Corps Aviation for the next

generation. The budget continues to maximize the return on procurement dollars, primarily through the use of multi-year procurements (MYP) for F/A-18E/F, E-2C and MH-60S. Robust development funding is also provided for JSF, MV-22, UH-1Y/AH-1Z and MH-60R.



The F/A-18E/F is the centerpiece of Navy combat aviation and reached its Initial Operational Capability in September of 2001. The FY 2003 budget continues to support this platform and the capabilities it provides to the warfighter by including additional funding for weapons integration. Further, the budget for the F/A-18E/F also funds required correction of discrepancies to ensure these aircraft do not prematurely reach their life limits. The Department will continue to procure the V-22 Osprey at the minimum sustaining rates through a continued development phase. The goal of the revised MV-22 development program is to ensure the Osprey is a safe, reliable aircraft capable of meeting all Marine Corps requirements. This goal is achieved through a robust flight testing program. Funding in FY 2003 also supports key elements of the helicopter master plan. To ensure the continued success of the H-1 development program, funding is requested in R&D in FY 2003 to support the H-1 remanufacture program. When procured, these aircraft will provide numerous capability improvements for the Marine Corps, including increased payload, range, and time on station, improved sensors, lethality and 85% component commonality. Other major R&D programs include the active electronically scanned array (AESA) radar for the F/A-18E/F and the continuation of a multi-mission aircraft program to replace the P-3 Maritime Patrol and EP-3 Signal Intelligence aircrafts. Joint aircraft programs also continue to be an important component of a naval acquisition strategy, with the Joint Strike Fighter continuing in the Engineering and Manufacturing Development phase in FY 2003.

Further, to continue with the transformation goals, the Department has budgeted R&D funding for the E-2 Radar Modernization Program (RMP). Additionally, the Department has included funding to support procurement of required capabilities in the fleet, such as Advanced Targeting Forward Looking Infra-Red (ATFLIR) and Joint Helmet Mounted Cueing Systems (JHMCS).

Chart 12 displays the Department's new production and remanufactured aircraft programs.

Chart 12 - Aircraft Programs

	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07
FA/18 E/F	48	44	42	43	50	55
E-2C	5	5	2	3	4	4
V-22	9	11	13	15	20	27
MH-60S	13	15	13	22	26	27
T-45TS	6	8	0	0	0	0
JPATS	6	0	0	0	0	24
MH-60R	0	0	6	10	10	10
UH-1Y/AH1Z	0	0	9	11	22	28
UC-35	1	0	0	1	2	2
C-40A	0	0	0	0	3	1
C-37	0	0	0	0	2	0
KC-130J	2	0	0	0	4	5
MMA	0	0	0	0	0	2
JSF	0	0	0	0	4	8
TOTAL	90	83	85	105	147	193

Goal 180 to 210 Aircraft per Year

Within our aircraft modification program, we continue procurement of the AV-8B Open System Core Avionics Requirements (OSCAR) program to update obsolete avionics and also continue F/A-18 Radar Upgrade, structural and safety improvements. Additionally, funding provides for the Anti-Surface Warfare Improvement Program (AIP) efforts; Update III Common Configuration program; and upgrades to tactical aircraft electronic warfare countermeasures capabilities.

Procurement of the EA-6B Improved Capability (ICAP) III starts in FY 2003. This upgrade will provide the Prowler with a new selective re-active receiver with integrated communications, jamming, and connectivity capabilities. This increased capability will be a welcome addition for an aircraft, which experienced extremely high OPTEMPO during the Kosovo conflict.

The Department is ramping up the production of all Precision-Guided munitions (PGMs) in FY 2003. Our PGM employment during Desert Storm, Bosnia, and in the North Arabian Sea during Operation Enduring Freedom, has provided our commanders with all-weather, day and night, precision attack capable of being delivered well inland on demand. Joint Standoff Weapon (JSOW) baseline and submunition variant production restarts in FY 2003 after completion of incorporating corrective ECP's to previously delivered weapons. JSOW unitary variant also starts low rate initial production in FY 2003. SLAM-ER production

is increased from minimum sustaining rate in FY 2002 to an economic production rate of 120 weapons in FY 2003 to provide the Fleet with an effective and affordable Standoff Outside Point Defense capability. The AIM-9X Sidewinder air-to-air missile continues Low Rate Initial Production and will provide a significantly increased capability required to defeat existing threats. Joint Direct Attack Munition (JDAM) full rate production is also ramped up in FY 2003 to maximum production capability. This munition will answer the need identified during Operation Desert Storm and proven out in Operation Enduring Freedom for a more accurate weapon delivery capability in adverse weather conditions and from medium and high altitudes. Finally, the Department continues the procurement in FY 2003 of the Advanced Medium Range Air-to-Air Missile, the next generation of all weather, all environment, radar guided missile for air defense.



Major Aviation Weapons Quantities							
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
JSOW	29	0	363	555	522	502	424
SLAM-ER	30	30	120	84	90	0	0
AIM-9X	0	105	295	142	148	151	153
JDAM	2,072	1,417	9,880	7,626	5,964	7,230	6,456
AMRAAM	63	57	100	55	48	48	48
JASSM	0	0	0	0	0	0	30

<u>Also refer to Appendix A for more information:</u>	<u>Table</u>
Aircraft Procurement Navy	A-10
Weapons Procurement, Navy	A-11

MINE WARFARE

Mine warfare remains a critical element of the Department's modernization program. In keeping with the emphasis on organic mine warfare, the budget includes full funding to meet scheduled battle group deployments while maintaining full funding for a potent and dedicated Mine Countermeasure (MCM) force. The FY 2003 budget includes funding for development and fielding of several next generation organic MCM systems including the Airborne Laser Mine Detection System (ALMDS), the Airborne Mine Neutralization System (AMNS), and the Rapid Airborne Mine Clearance System (RAMICS). Funding is also provided for the development of a single common console for all organic Airborne Mine Counter Measures (AMCM) systems. This action reflects the Department's intent to establish a mid-term organic mine warfare capability that is fully integrated on the MH-60 helicopter.

C4I PROGRAMS

The Navy's Command, Control, Communication, Computers and Intelligence (C4I) programs represent the backbone of the combat capability of the US Naval forces. Leveraging the most advanced technologies available in the world today, the C4I programs make "One Team, One Fight" a reality. The C4I evolutionary plan revolves around four key elements: connectivity; a common tactical picture; a sensor-to-shooter emphasis; and information/command and control warfare.

The central theme shaping the Navy's budget for C4I programs is the concept of

"... leveraging information technology and innovative concepts to develop an interoperable, joint C4ISR architecture and capability that includes a tailorable joint operational picture."

Information Technology for the 21st Century (IT-21). IT-21 provides the common backbone for



command, control, communications, computers and intelligence systems to be linked afloat, ashore, and to the Internet. The Integrated Shipboard Network Systems (ISNS) Local Area Networks (LANs) afloat and local and regional networks ashore serve as the principal element of this effort. These networks integrate afloat tactical and tactical support applications with enhanced satellite systems and ashore networks. FY 2003 funding accelerates ISNS procurement and installation to achieve a Full Operational Capability (FOC) for all platforms by FY 2007.

IT-21 connectivity is critical because it provides the managed bandwidth for timely transmission of information. The Satellite Communications Systems program continues expansion of available bandwidth to the warfighter.

Funding levels beginning in FY 2003 and extending across the FYDP have significantly increased to support the continued development of the Advanced Narrowband System/Mobile User Objective System (ANS/MUOS). This increase in funding accelerates procurement of ANS/MUOS to meet an Initial Operational Capability (IOC) in FY 2007 and FOC in FY 2013. ANS/MUOS will provide the DOD's Ultra High Frequency (UHF) satellite communication requirements of the 21st century.

FY 2003 funding enables the development of Advanced EHF (AEHF) terminals, which supports the synchronization with the Air Force's Advanced Wideband

"...enhancing the capability and survivability of space systems and supporting infrastructure."

System (AWS/AEHF) satellite program to meet a FOC in FY 2010. FY 2003 funding accelerates the effort to transition the Navy's Digital Modular Radio (DMR) to the maritime version of the Joint Tactical Radio System (JTRS) and also supports the

development and procurement of the JTRS – Maritime/Fixed (M/F) Cluster. This joint radio system is a single family of radios that will replace and integrate various incompatible service radios.

Funding in FY 2003 also continues to emphasize the procurement and installation of Global Broadcast System (GBS), Super High Frequency (SHF), and Extra High Frequency (EHF) terminals and provides for upgraded power distribution and enhanced connectivity “drops” accomplished during equipment installations.



The Sensor-to-Shooter concept focuses on the process of putting a weapon on target using all available sensor data. Funding continues in FY 2003 for the Advanced Tactical Data Links (ATDLS) system, ensuring timely transmission of surveillance, targeting, engagement, combat identification, and battle damage assessment information over IT-21 networks.

“...deny enemies sanctuary by providing persistent surveillance, tracking and rapid engagement ...”

Information Warfare/Command and Control Warfare (IW/C2W) is the integrated use of operations security, military deception, psychological operations, electronic warfare and physical destruction to deny information to, influence, degrade or destroy an adversary’s C2 capabilities, while protecting friendly C2 capabilities against such actions.

“...assuring information systems in the face of attack and conduct effective information operations.”

FY 2003 funding provides for the procurement of Common Data Link – Navy (CDL-N) systems and continues funding for the Maritime Cryptologic Systems for the 21st Century (MCS-21). In the Information Systems Security Program (ISSP), FY 2003 funds the procurement of Mission Critical Secure Terminal Equipment (MC/STE). FY 2003 funding continues to provide cryptologic equipment and secure communications equipment for Navy ships, shore sites, aircraft, the Marine Corps, and the U.S. Coast Guard.

Finally, the Department has stepped up the efforts to web enable C4I systems which allows sailors on ship or shore with a web browser to access software applications electronically from a single workstation, such as the Navy Tactical Command Support System.

<u>Also refer to Appendix A for more information:</u>	<u>Table</u>
Other Procurement, Navy	A-13
Procurement, Marine Corps	A-14

MARINE CORPS GROUND EQUIPMENT

This category of our budget supports the development and subsequent fielding of all equipment used by Marine Corps ground forces. Virtually every major end item is approaching, or has exceeded, its programmed service life. While the FY 2003 budget addresses the much needed replacement of our legacy systems, the pace of modernization remains our greatest concern. This budget also reflects the continuing effort to reach the Marine Corps goal of satisfying the combat requirement through the FYDP while meeting annual ammunition training requirements.



Deploy forces to assure friends and deter potential adversaries

Several major replacement, remanufacture and modernization programs are initiated or continued in this budget. They include the Assault Amphibious Vehicle (AAV), Reliability, Availability, and Maintainability/Rebuild to Standard (RAM/RS) program, the Lightweight (LW) 155 mm Howitzer, and the Light Armored Vehicle (LAV) Service Life Extension Program (SLEP). Marine Corps continues procurement of the LAV SLEP, which will ensure that the LAV's combat capabilities are preserved through FY 2015. This budget also continues procurement of the High Mobility Multi-purpose Wheeled Vehicle (HMMWV2) that will update the existing aging inventory. This budget represents the beginning of the procurement of AAV, with a production representative, full-up system, live-fire test



vehicle that will be fielded subsequent to testing. In addition, the FY 2003 budget also includes funding for High Mobility Artillery Rocket System (HIMARS), an artillery system capable of firing rockets for long-range indirect fire support (45km or greater). The FY 2003 budget funds the completion of the Medium Tactical Vehicle Replacement (MTVR), which replaced



Major Marine Corps Ground Equipment Procurement Quantities

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
HMMWV2	2,071	1,625	1,667	1,304	2,813	3,358	3,371
AAAV	0	0	1	0	23	24	54
MTVR	2,001	1,959	1,405	0	0	0	0
LW155	0	0	34	60	110	120	53
IRV	22	8	0	0	0	0	0

the Marine Corps fleet of 5-ton trucks. The Lightweight 155mm Howitzer will provide significant improvements over the current M198 system. Its lighter weight and increased lethality will allow for rapid deployment and improved accuracy while reducing the number of personnel required to operate. The LW-155 is compatible with all US and NATO 155mm rounds and its smaller footprint reduces the strategic sealift required.

Significant resources in the FY 2003 RDTE,N budget are dedicated to the AAV. AAV is currently in the Systems Development Demonstration (SDD) Phase of the program. It will continue to design and development testing of the AAV (P) and AAV (C). The program will begin to initiate development of the AAV training courseware. Smart Work initiatives which are designed to reduce the production and operational support costs of the AAV are also funded in this budget. The AAV program will continue production of nine Engineering and Manufacturing Development (EMD) prototypes in FY 2003.



The FY 2003 RDTE,N budget continues to finance Marine Corps-led experimentation with future tactics, concepts and innovations involving both Marine and Navy forces. The Marine Corps Warfighting Laboratory is the centerpiece for operational reform in the Corps, investigating new and potential technologies and evaluating their impact on how the Marine Corps organizes, equips and trains to fight in the future. Additionally, the budget continues to finance Non-Lethal Weapons (NLW) research and development – a program for which the Marine Corps serves as the Executive Agent. In the FY 2003 budget, we seek to leverage developing and emerging technologies that have applications across the spectrum of warfare. Specific R&D efforts will focus on NLW capabilities that are counter-personnel and counter-material in nature.

<u>Also refer to Appendix A for more information:</u>	<u>Table</u>
Procurement, Marine Corps	A-14
Procurement of Ammunition, Navy and Marine Corps	A-15

RESEARCH AND DEVELOPMENT SUPPORT

Started in FY 2002, the Department will continue to refocus how it transitions Science and Technology (S&T) to the acquisition community and the warfighter.

Develop technologies that will enable asymmetric advantages against future adversaries

That new focus will maintain a broad base of science and technology to feed into the research and development transition process while ensuring adequate coverage for military superiority against technological surprise. The focus is on advanced

Future Naval Capabilities (FNCs) to the warfighter and to support the technological innovation to meet the National Military Strategy. These desired future capabilities are approved by the DoN Science and Technology Corporate Board. Technology products resulting from the investment in Future Naval Capabilities will transition to acquisition programs throughout the FYDP. Such programs include, but are not limited to: next generation warships (especially those with all-electric systems, advanced propulsion, and reduced manning), advanced combat systems for the Marine Corps, and advanced tactical aircraft and weapons.

RDT&E Management Support (6.6) provides funding for installations required for general research and development use. These efforts include the test and evaluation support programs required to operate the Navy's test range sites, R&D aircraft and ship funding, and threat simulator development efforts. This funding level reflects required R&D infrastructure support commensurate with overall Navy force structure and facilities management consolidations. Seventy percent of this funding, or about \$482 million in FY 2003, the same as FY 2002, supports the Major Range and Test Facilities Base (MRTFB), necessary to conduct independent test and evaluation assessments for all Navy ship, submarine, aircraft, weapons, combat systems and other development, acquisition and operational system improvements.

The remaining categories of research are platform-related and have been discussed as applicable in the previous sections. Table 16 provides summary data at the budget activity level for the major DoN Research, Development, Test and Evaluation, Navy efforts.

<u>Also refer to Appendix A for more information:</u> Research, Development, Test and Evaluation, Navy	<u>Table</u> A-16
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Table 16
Department of the Navy
Research, Development, Test and Evaluation
(In Millions of Dollars)

	FY 2001	FY 2002	FY 2003
<u>Significant RDT&EN Areas</u>			
Operational Systems Development	\$2,189	\$2,343	\$2,746
Science and Technology	1,813	2,051	1,582
Basic Research	(385)	(405)	(410)
Applied Research	(636)	(777)	(580)
Advanced Technology Development	(791)	(870)	(592)
Joint Experimentation	(65)	(103)	(98)
R&D Management Support	815	682	688
<u>Major Platform Efforts:</u>			
Joint Strike Fighter	\$341	\$760	\$1,727
V-22	218	543	420
DD(X)	532	530	961
C4I	322	331	440
CVN(X)	120	123	81
Virginia Class SSN	207	205	238
F/A-18	221	252	204
SH-60R	78	148	89
Broad Area Maritime Surveillance UAV	121	73	206

SECTION IV - INFRASTRUCTURE

The Department's focus is modernizing the organic infrastructure necessary to support our future naval force. Transforming the Department's outdated support structure is a key step in achieving a more capable force. Currently, much of our infrastructure has begun to age beyond acceptable levels. At the same time, there is a need to better develop and maintain our civilian personnel resources to efficiently support our forces.

BASE REALIGNMENT AND CLOSURE (BRAC) III&IV

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. In the FY 2003 budget, the Department has sized construction and sustainment resources (Military Construction and Facilities Sustainment, Restoration and Modernization in O&M) to better meet goals such as a 67-year capitalization rate which incorporates an overarching reduction in the size of our infrastructure.

<p><i>The Department is committed to a substantial streamlining and upgrading of its infrastructure</i></p>

The FY 2003 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 68,000 acres of base-closure property. An estimated 98,000 acres remain to be conveyed, of which 76,800 acres are at the former NAS Adak, Alaska. The Navy concluded an agreement for transfer of Adak, leaving 44,000 acres for future disposal. In September 2001, the Navy entered into an Environmental Services Cooperative Agreement with the City of Vallejo, California, to transfer 2,824 acres of 4,187 acres at Mare Island Naval Shipyard by second quarter of FY 2002.

BRAC III - Costs reflect 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, with one realignment scheduled for completion by April 2003.

The FY 2003 budget includes funding for crucial environmental efforts at various locations, including the Naval Air Station, Alameda; Naval Station, Treasure Island, including Hunters Point; Naval Air Station, Moffet Field; and

Naval Shipyard, Mare Island. By FY 2005, we plan to complete ninety-eight percent of environmental restoration at all Navy BRAC installations, and plan to have remedies in place at all Marine Corps BRAC installations by the end of FY 2006.

MILITARY CONSTRUCTION AND FAMILY HOUSING

The FY 2003 budget requests 63 military construction projects for the active Navy and Marine Corps, and 9 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 combat aircraft loading areas at Marine Corps Air Station, Yuma; aircraft direct refueling facility at Naval Air Station, Whidbey Island; pier replacement for Naval Station, Norfolk and Naval Air Station, North Island; aircraft parking aprons at Naval Air Stations Lemoore and Point Mugu; dredging a new shipping channel at Naval Station Pascagoula; 14 new bachelor enlisted quarters at 12 locations in CONUS and overseas including, 2 new enlisted recruit barracks at Naval Training



Restoration of the vitality in the defense establishment...

Center, Great Lakes; quality of life facilities including, dining facilities at NAS Keflavik, Iceland; fitness facilities at Camp Lejuene, and

Naval Support Activity, Diego Garcia; and various world-wide housing new construction and improvement projects.

FY 2003 MILCON Summary			
(\$M)			
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Navy	758	831	743
Marine Corps	<u>215</u>	<u>355</u>	<u>204</u>
Total	973	1,186	947

FAMILY HOUSING

The FY 2003 budget requests funding for 1,147 new and replacement housing units, almost double that of last year. It also sets the Department on a course of eliminating inadequate units in the Navy and Marine Corps by FY 2007 and FY 2005, respectively, by adding nearly \$48 million to the construction account. Improvements are planned for approximately 3,140 units bringing important electrical and mechanical repairs and a much-needed facelift to our aging units worldwide.

Increased reliance on the private sector and in particular, privatization of family housing, continues to be a key focus. By the beginning of FY 2003, the Department plans to have approximately 6,800 units privatized. In FY 2003, the Navy plans to privatize nearly 8,700 units in various locations. The Marine Corps plans include privatization of over 5,000 additional housing units in Beaufort/Parris Island, and a second phase of Camp Pendleton.

Family Housing Units			
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
New Construction projects	11	7	10
Construction units	1,218	576	1,147
Privatization projects	4,398	1,767	14,060

<u>Also refer to Appendix A for more information:</u>	<u>Table</u>
Military Construction, Navy and Naval Reserve	A-18
Family Housing, Navy and Marine Corps	A-19

FACILITY SUSTAINMENT, RESTORATION AND MODERNIZATION (Real Property Maintenance)



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.). A new metric measuring the adequacy of infrastructure investment is "deferred sustainment," which is



Facility sustainment goal of 67 year recapitalization rate for 80% of infrastructure by 2010

the annual difference between the sustainment requirement and actual sustainment funding. The Department's goal is to have no deferred sustainment. Facility improvement (based upon industry facility standards) will be through restoring aged and damaged facilities and modernizing facilities. The "Restoration and Modernization" requirement is based on eliminating, over a six-year period for critical mission areas and a twelve-year period for non-critical mission areas, facility conditions that cause C3 and C4 readiness ratings as 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.

Included within the DoN FY 2003 budget is \$49 million for the demolition of excess facilities.

Table 17 summarizes the Department's Facility Sustainment, Restoration and Modernization.

Table 17
Department of the Navy Facility
Sustainment, Restoration and Modernization
(In Millions of Dollars)

	FY 2001	% of Goal FY 2002	% of Goal FY 2003	% of Goal
O&MN/O&MNR	1,232	1,323	1,545	
O&MMC/OMMCR	503	432	516	
QOLE,D (Navy)	20	-	-	
QOLE,D (Marine Corps)	10	-	-	
Total DoN O&M Facility SRM	1,765	1,755	2,061	
Annual Deferred Sustainment				
O&MN/O&MNR	0	100%	0	100%
O&MMC/O&MMCR	41	92%	88	100%
Total DON Annual Deferred Sustainment	41	88	0	
Restoration and Modernization (R&M) Shortfall				
O&MN/O&MNR	238	81%	144	90%
O&MMC/O&MMCR	422	16%	124	73%
Total DON R&M Shortfall	380	268	297	

NAVY WORKING CAPITAL FUND (NWCF)

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 2003. 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

<p><i>The Department will work to achieve a transformation in business practices.</i></p>

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.

In FY 2001, significant emergent costs were identified involving utilities, principally electricity at PWC San Diego, which took a dramatic upturn (in conjunction with overall volatility in the Southern California electricity market). Fortunately, supplemental (direct) appropriations were received in FY 2001 to fund increased utility costs and this negated the financial impact that the NWCF would have otherwise suffered. Although utility costs in many areas have declined from the peaks experienced in FY 2001, there are instances, especially in Southern California, where electricity will remain significantly more expensive. Thus PWC costs and customer rates for electricity are projected to remain above historical levels throughout the budget period.

FY 2003 cost estimates include \$373 million to reflect the impact of the Administration's proposal to charge agencies the entire Government share of retirement costs of current Civil Service Retirement System (CSRS) employees and the health care costs of all future Federal retirees. However, these costs are not reflected in proposed customer billing rates for FY 2003 but will be recovered through a direct appropriation.

Within the Supply Management area, Navy continues to focus on ensuring sufficient spares are available to support the needs of the Fleet. While aging weapon systems continue to increase the challenges associated with providing the right material at the right place, time, and cost, the introduction of new weapons systems will undoubtedly help stabilize demand and improve the readiness of our force. Within this budget, Navy has included an initiative designed to track the maintenance history of Aviation Depot Level Repairables.

With Serial Number Tracking (SNT), the Department will do away with the paper logbooks that normally accompany such repairables as engines and enable maintainers to quickly download and correlate data to perform root cause analysis. This capability will allow our maintainers to make the proper adjustments, whether they are through engineering change proposals or simply through personnel training, and ultimately improve the reliability and cost effectiveness of material provided by the Navy Supply system. In the area of inventory management, retail obligation authority has been reduced by \$403.4 million in FY 2003 to reflect the transfer of fuel afloat to the Defense Logistics Agency (DLA). Additionally, the Department intends to pursue an initiative designed to sell off inactive inventory. The initiative is expected to achieve \$50 million in proceeds, which will then be applied to the purchase of similar items required to support the Department's readiness objectives.

Lastly, this budget submission reflects a continuing need for inventory augmentation. 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. Last year's budget included \$125 million in obligation authority and an additional \$125 million of obligation authority has been included within this year submission. In addition, \$51 million has also been included as a direct appropriation to pay for the inventory augmentation material that will deliver in FY 2003.

As indicated in Chart 13, NWCF cash balances for FY 2002 and FY 2003 are projected to remain at levels sufficient to ensure viability of the Fund. Also included in the cash projection are anticipated cash increases based on the initiation of recovery audit programs as recently approved by the Business Initiative Council.

Chart 13 – Cash Plan

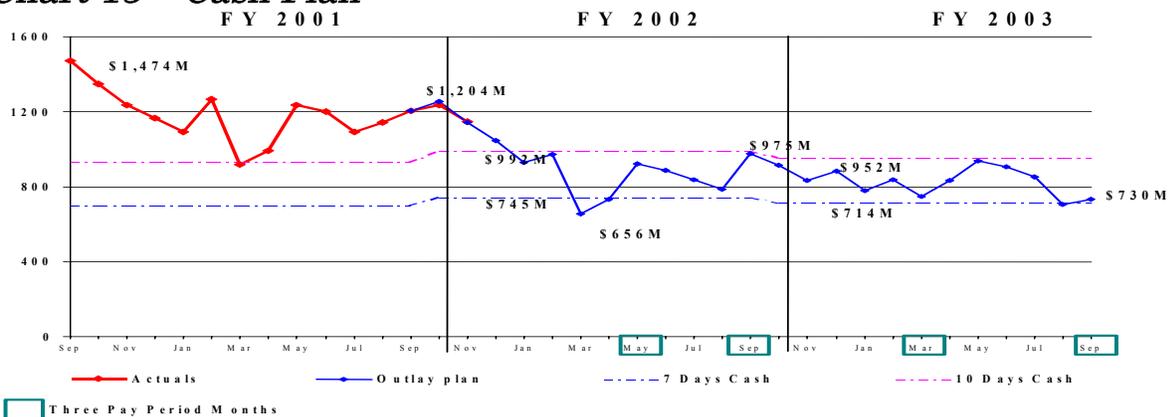


Table 18
Department of the Navy
Summary of NWCF Costs
(In Millions of Dollars)

	FY 2001	FY 2002	FY 2003
<u>COST</u>			
Supply (obligations)	\$5,972	\$7,245	\$6,905
Depot Maintenance - Aircraft	1,825	1,964	2,017
Depot Maintenance - Ships	2,145	2,202	2,298
Depot Maintenance - Marine Corps	190	199	215
Ordnance	2	NA	NA
Transportation	1,380	1,500	1,592
Research and Development	8,157	7,787	7,908
Information Services	88	NA	NA
Base Support	1,790	1,692	1,681
TOTAL	\$21,549	\$22,589	\$22,616
<u>CAPITAL INVESTMENT</u>			
Supply Operations	\$47	\$82	\$52
Depot Maintenance - Aircraft	50	51	47
Depot Maintenance - Ships	59	113	42
Depot Maintenance - Marine Corps	1	5	3
Ordnance	0	NA	NA
Transportation	7	10	14
Research and Development	129	117	116
Information Services	1	NA	NA
Base Support	18	18	19
TOTAL	\$312	\$396	\$293

Note: FY 2001 was the last year that Information Services was maintained as a separate activity group. The Fleet Material Support Office (FMSO), which primarily provides programming support to Navy Supply Management, was merged with the Supply Management activity group in the FY 2002 President's Budget. Additionally, the Naval Reserve Information Systems Office (NAVRISO) became direct mission funded in FY 2002.

CIVILIAN PERSONNEL

The Department of the Navy budget includes the following civilian end strength and workyear estimates:

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
End Strength	193,884	185,167	180,655
FTE Workyears	193,622	185,504	181,314

After more than ten years of steady downsizing, civilians make up about one-third of the Department's population and are valued members of the Total Force team. As the Department strives to build a military more relevant to the threats and opportunities of the 21st Century, there is a focus on improving the efficiency and effectiveness of DoN business practices. These efforts have contributed towards the reshaping of civilian personnel resources as the Department realizes reductions in force structure, management efficiency, the application of advanced technology and alignment with commercial business practices.

... a new strategic human resources plan will size and shape the workforce for the future

Despite declining civilian personnel levels, the Department remains committed to investing in and enriching the lives of its people. Specifically, efforts are underway to achieve a higher quality workplace and a higher quality of life through competitive compensation, workplace resources, health care, training, and an operational tempo that considers the individual, as well as family and community.

Currently, forty-seven percent of the Department's civilians work at Navy Working Capital Fund (NWCF) activities supporting depot level maintenance and repair of ships, aircraft, and associated equipment, development of enhanced war fighting capabilities at the Warfare Centers of Excellence, and direct fleet transportation, supply, and public works support. A significant number of the civilians funded directly by operations appropriations provide direct fleet support at Navy and Marine Corps bases and stations. The balance provides essential support in functions such as training, medical care, and the engineering, development, and acquisition of weapons systems, all of which are necessary for long-range readiness, including achieving recapitalization plans.

Civilian workyears are based on workload in the Department's FY 2001 through FY 2003 program and the appropriate mix of civilian and contractor workload accomplishment. The determination of workforce mix is based on mission, work needs, competency requirements, labor market conditions, public policy and cost.

The desired outcome is a workforce that provides the highest probability of achieving the mission.

Chart 14 - Civilian Personnel

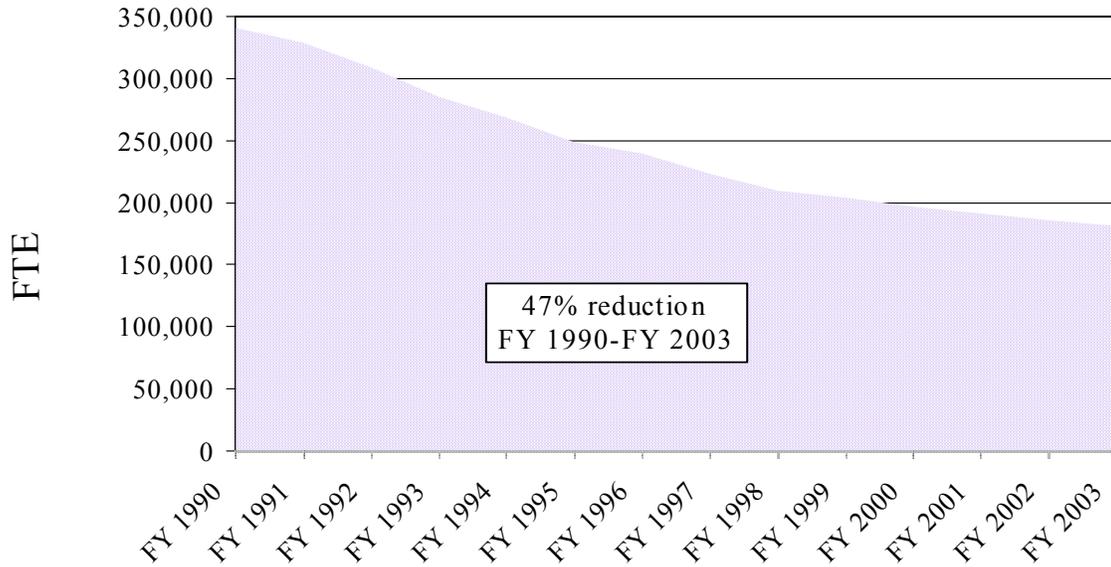


Chart 14 graphically displays Civilian Personnel Full time equivalent reductions from FY 1990 through FY 2003 in consonance with Department downsizing and efficiencies.

A summary display of total civilian personnel resources is provided as Table 19.

Table 19
Department of the Navy
Civilian Manpower
Full-time Equivalent

	FY 2001	FY 2002	FY 2003
Total — Department of the Navy	193,622	185,504	181,314
<u>By Service</u>			
Navy	178,343	171,175	167,528
Marine Corps	15,279	14,329	13,786
<u>By Type Of Hire</u>			
Direct	182,811	174,872	170,652
Indirect Hire, Foreign National	10,811	10,632	10,662
<u>By Appropriation</u>			
Operation and Maintenance, Navy	83,361	78,565	76,074
Operation and Maintenance, Navy Reserve	1,877	1,533	1,455
Operation and Maintenance, Marine Corps	15,129	14,181	13,635
Operation and Maintenance, Marine Corps Reserve	150	148	151
Total — Operation and Maintenance	100,517	94,427	91,315
Total — Working Capital Funds	89,341	87,430	86,234
Military Construction, Navy	2,419	2,240	2,307
Research, Development, Test & Evaluation, Navy	1,301	1,347	1,398
Military Assistance	44	60	60
Total — Other	3,764	3,647	3,765
<u>Special Interest Areas</u>			
Fleet Activities	33,957	33,326	32,724
Shipyards	17,729	18,737	18,917
Aviation Depots	10,391	10,145	9,859
Supply*/Distribution/Logistics Centers	6,479	6,206	5,723
Warfare Centers	35,930	34,839	34,527
Engineering/Acquisition Commands	17,149	16,924	16,211
Medical	10,521	9,911	9,902

*Fleet Material Support Services consolidated into Supply Management beginning in FY 2002.

SECTION V - BUSINESS PRACTICES

The Department of the Navy (DoN) is becoming 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. Towards this end we have established measures and metrics to monitor critical functional areas that are vital to our success. This budget continues with innovative business approaches and exploitation of information technologies as we proceed with our transformation effort into the 21st Century. Initiatives include Navy Marine Corps Intranet (NMCI), modernization of our financial systems, enterprise resource planning, electronic business, strategic sourcing and risk management.

NAVY MARINE CORPS INTRANET



The Navy Marine Corps Intranet (NMCI) is a strategic IT capability the DoN will use to meet the challenges of executing our warfare doctrine. The current IT infrastructure is inefficient and provides poor interoperability and variable support across the enterprise. The DoN determined that a centralized networking system should be implemented to correct these deficiencies. This future “To Be” environment will eliminate redundancies and inefficiencies inherent in the current IT infrastructure by eliminating “stove-piped” IT management, procurement and support systems. A preliminary Business Case Analysis (BCA) demonstrated that the NMCI strategy, characterized by having a single private sector entity provide IT services under a long-term commercial seat management contract is, in fact, a sound business decision compared to the way IT requirements are currently provided. The analysis documented that the Department would realize direct and indirect cost savings and benefits associated with improved service. An updated Business Case Analysis and return on investment is being prepared based on actual results of the first increment sites. Preliminary analysis has shown that for less capability and performance, the DoN would pay more per seat in the current environment than the NMCI environment.

NMCI offers the opportunity for the DoN to leverage new technologies and industry innovation to better achieve our global Naval mission. This investment in the future will build the modern Navy-Marine Corps on the transformational power of networking. 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. NMCI will replace numerous shore-based networks and equip us with the access, interoperability, and security for our information and communications by providing voice, video and data services to all Navy and Marine Corps personnel. The global connectivity we will receive 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. The NMCI approach adapts what is commonly practiced in the commercial sector to acquire IT services for the government. This approach uses a performance-based, enterprise-wide services contract that incorporates future strategic computing and communications capability and is managed much the same as any “utility.” Although this approach has been successfully utilized in industry, this is the

first time it has been adapted by government at an Enterprise level. 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. 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.

NMCI is a good example of the reform in business practices the Department is seeking to achieve. It satisfies the needs for greater security, interoperability, and technological advancement, while taking maximum advantage of demonstrated commercial sector expertise and private sector investment. Because NMCI is a wholly new approach to acquiring needed capability direct economic comparisons are difficult. Several meaningful barometers illustrate the success of the initiative, such as: (1) initial business case analysis projects a reduction of 26% in the cost of operations over the five-year contract period; (2) NMCI has satisfied previously unfunded investment in the areas of Public Key Infrastructure (PKI), pier connectivity, and basic technology upgrades which are now part of the seat costs; (3) current estimates for the average seat cost across the DoN is approximately \$3,851 and the average NMCI seat cost will be approximately \$3,812, a savings of \$39 a seat for approximately 412,000 seats at steady state; vendor experience supporting the as-is infrastructure of approximately 57,859 seats indicates costs of approximately \$3,300 per seat, which does not include the cost of hardware, PKI and basic technology upgrades; and (4) the impact of displaced personnel has been very minimal to the Department – of the 231 affected employees, 157 have been placed in other positions within the Department, 29 have subsequently left the Department and 45 have accepted employment with the vendor. Approximately 200 military personnel will also benefit by receiving information technology training for the Department, a good outsourcing avenue without adverse impact.

Fiscal Year 2002, National Defense Authorizations Act, P.L. 107-107 requires that the DoN appoint a single program manager to oversee implementation of NMCI. The Assistant Secretary of Navy (ASN/RDA) has established an executive committee to review, oversee and manage the implementation of NMCI and is in the process of complying with the program management requirement in the Authorization Act.

The FY 2003 budget for the Navy Marine Corps Intranet supports the implementation of an additional 100,000 seats phased in quarterly as shown in the table below. Steady state seat service is expected to be reached in FY 2004. The Department currently has external approvals that it is obligated to adhere to and as a result the phasing schedule below may be revised to accommodate changes and funding will be realigned to support our current “as-is” legacy systems.

IMPLEMENTATION SCHEDULE (Cumulative Seats)									
NMCI Phasing	FY02 Q1	FY02 Q2	FY02 Q3	FY02 Q4	FY03 Q1	FY03 Q2	FY03 Q3	FY03 Q4	Steady State
TOTAL (DoN)	60,000	60,000	181,148	311,371	394,592	401,629	406,384	411,728	411,728

The budget supports total NMCI-specific costs for FY 2003 of \$1.4 billion. Seating costs are budgeted by account and line item in accordance with organization and program requirements. The funding table depicts the budget estimates by appropriation.

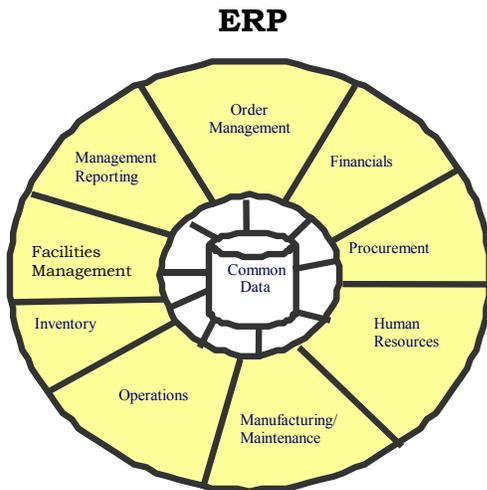
\$ in Millions	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
OMN	54.5	418.4	745.1
OMNR	4.1	25.9	116.0
OMMC	-	59.6	256.0
OMMCR	-	7.3	37.6
RDTEN	-	9.7	10.2
MILCON	-	6.0	9.9
FHOPS	-	0.6	1.3
BRAC	-	0.7	1.5
ERN	-	0.4	0.8
WCF	36.9	162.7	243.6
TOTAL	95.5	691.3	1,422.0

COMPLIANT FINANCIAL SYSTEMS

The Department of the Navy (DoN) continues to strive to make our systems and processes compliant with the Federal Financial Management Requirements. The DoN has created thirteen teams to evaluate, renovate, and deploy compliant non-financial feeder systems and change processes while eliminating redundant systems. The DoN, in coordination with the Defense Financial Management Modernization Program Office (FMMPO), is in the process of developing a strategic financial management plan and strategic system architecture. From these strategic plans and architectures, we will proceed with developing, testing, and deploying compliant, interfacing systems across the DoN.

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 one time 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 four pilots underway to explore ERP business processes: Program Management, Warfare Center Management, Aviation Supply and Maintenance, and Regional 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. We have budgeted the resources to support continuation of the pilots in FY 2003, and are positioned to capitalize on the success we expect them to achieve. 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.

eBUSINESS

eBusiness is the interchange and processing of information via electronic techniques for accomplishing transactions based upon the application of commercial standards and practices. Further, an integral part of implementing eBusiness is the application of business process improvement or reengineering to streamline business processes prior to the incorporation of technologies facilitating the electronic exchange of business information. The budget supports establishment of a concentrated team to coordinate and exploit ebusiness (eB) opportunities. A new eB Operations Office was brought on-line in April 2001 to provide corporate solutions to the DoN's needs, to further its eB efforts and to improve transaction card management. Its charter specifies two main objectives: (1) be the eB innovation center, providing consultative services and increasing the eB idea flow by serving as a catalyst for the creation, realization and integration of eB efforts DoN-wide and, (2) centralize control of existing card-based and electronic transaction systems. The initial eight pilot projects in FY 2001 have had far reaching benefits, such as using satellite communication for supply chain and maintenance areas, including real time updates of key critical theater information. One project, Smart Web Move, can reduce scheduling time for household moves by 50 percent.

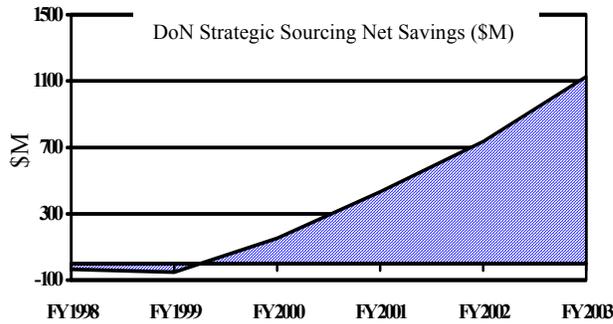
STRATEGIC SOURCING

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. As stated in the Office of Management and Budget Circular A-76 Supplemental Handbook, “the reinvention of government begins by focusing on core mission competencies and service requirements. Thus, the reinvention process must consider a wide range of options, including: the consolidation, restructuring or reengineering of activities... the adoption of better business management practices... and the termination of obsolete services or programs.” The DoN’s Strategic Sourcing Program embodies this approach by reviewing an entire functionality to determine how related functions should best be organized or eliminated to achieve the maximum benefit. While OMB Circular A-76 private/public competitions remain a primary Strategic Sourcing tool for commercial functions, DoN will consider elimination, consolidation, restructuring and re-engineering options before making a sourcing decision.

The DoN has undertaken an aggressive Strategic Sourcing program. The Department has refined its objectives and identified in excess of 100,000 civilian and military positions to be reviewed as part this reinvention process. Consequently, the budget includes significant savings from these planned initiatives, reflecting the commitment to institutionalize the process to realize reductions in infrastructure costs. Budget estimates reflect projected annual steady state net savings of \$1.6 billion beginning in FY 2005.

Chart 15 depicts DoN net savings estimates by fiscal year attributable to Strategic Sourcing initiatives.

Chart 15 - Strategic Sourcing

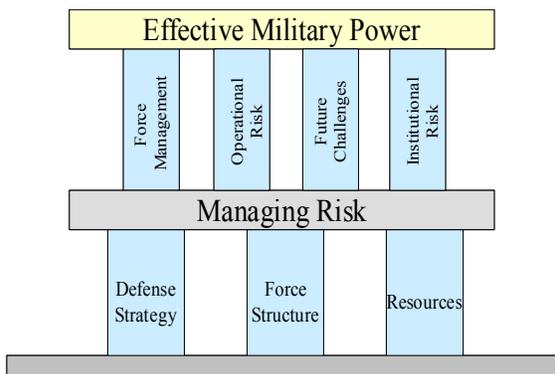


Of the cost comparisons completed to date, 80 percent of the functions have remained in-house. Additionally, the cost comparisons have resulted in a 61 percent reduction to in-house and contractor personnel and a 46 percent reduction in operating costs. There are approximately 58,000 positions currently under review. The Department continues to monitor the execution of these studies and

current projections indicate the Department is on target to realize budgeted savings.

MANAGING RISK - GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA) METRICS

Managing risk, especially in light of the attacks of 11 September 2001, is a central element of our defense strategy. The strategy entails assuring allies and friends, deterring threats of coercion and aggression and, when necessary, defeating adversaries. 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 (e.g. Department of Defense (DOD)) 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.

The information below provides page references to performance information contained in this document and in budget justification materials supporting the FY 2003 budget submission.

Goal 1: Force management – the ability to recruit, retain, train, and equip sufficient numbers of quality personnel and sustain the readiness of the force while accomplishing operational tasks.

- Navy Force Levels 2-3, 2-5, 2-6, 2-10, 2-12, 2-19, 2-21
- Marine Corps Force Levels 2-16, 2-22, 2-23
- Non-Deployed OPTEMPO (Ship) 2-4
- Reserve Navy and Marine Corps End Strength 2-21, 2-23
- Civilian Workforce 4-9, 4-10
- Enlisted Recruiting and Retention 2-18, 2-19, 2-22
- Quality of Recruits 2-17, 2-19, 2-22
- Quality of Life (QOL) Initiatives 2-17, 2-18
- Infrastructure A-19

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 bring Career Sea Pay (CSP) levels up to date, fully funded critical bonus programs and increased top-6 manning, as well as improved quality of service for our members and their families, in a focused effort to reduce risk in this critical area. The DoN continues to be encouraged by achievement of recruiting goals and improved retention in the career force. Key readiness accounts are funded to ensure that our forces are ready to meet any tasking, and that supplemental appropriations would be required only for extraordinary demands on our Naval forces.

Goal 2: Operational Risk – the ability to achieve military objectives in a near-term conflict or other contingency.

- Naval Overseas Presence 2-2
- Forward Presence including personnel underway/deployed 2-2, 2-7
- Deployed OPTEMPO (Ship, Aircraft) 2-4, 2-7, 2-11
- Forward Stationed Forces 2-2, 2-4, 2-7
- Naval Force Readiness 2-2, 2-4, 2-5, 2-6, 2-7, 2-8, 2-9, 2-10, 2-12, 2-14
- Battle Force/Reserve/Strategic Sealift Ships 2-3, 2-5, 2-6, 3-4
- Aircraft Force Structure 2-10, 2-12, 2-14, 3-7
- Marine Corps Land Forces 2-16, 3-12
- Equipment Age (Aircraft, Ships) 2-11, 2-7
- Aircraft Flying Hour Program/Mission Readiness 2-10, 2-12
- Aircraft Squadron Material Readiness 2-14
- Aircraft Depot Maintenance 2-14
- Ship Steaming Days 2-4, 2-5
- Ship Depot Maintenance 2-7, 2-8
- Ship Deferred Maintenance 2-7
- Surge Sealift Capacity 2-6

This budget incorporates force structure changes that clearly reflect the wider range of operations and contingencies called for in the new defense strategy. While the additional topline enabled the DoN to retain the core of our warfighting structure, this budget does reflect decommissioning of some older ships and aircraft with high operations and support costs relative to the combat capability they provide. This consolidation has permitted the funding of two SSGN conversions, the employment of three frigates to dedicated Homeland Defense, establishment of a Navy Mobile Security Force flyaway team, and the establishment of a 4th Marine Expeditionary Brigade (MEB) constituted for the Anti-Terrorism/Force-Protection missions. This 4th MEB will consist of an enhanced Chemical Biological Incident Response Force (CBIRF), increased Fleet Anti-Terrorism Battalion to reinforce CBIRF and FAST, and Marine Security Guard Detachments assigned to Department of State security missions. For FY 2003, this represents an acceptable balance to address a wider threat and provide a more robust response capability.

Goal 3: Future challenges – the ability to invest in new capabilities and develop new operational concepts needed to dissuade or defeat mid-to long-term military challenges.

- Ship Programs – surface, submarine, aircraft carrier 3-2, 3-3, 3-4
- Aviation Programs – TACAIR, Fixed Wing, Helicopter, UAV 3-7
- USMC Programs – Ground Equipment 3-11
- Major Surface Weapons 3-3
- Major Aviation Weapons 3-8
- R&D Investment on the Future 3-13
- Science & Technology (R&D) Investment 3-13
- C4I Programs 3-10, 5-3

The ability to sustain the critical elements of the force structure and at the same time invest in new capabilities remains the most challenging element of risk management for the Department. The budget contains funding for only five new construction ships and 83 aircraft, both below the FY 2002 request and well below the sustaining rate required. The program does include funding for key investment and transformational initiatives such as JSF, MV-22, SSGN, DD(X), Carrier Replacement, increased procurement rates for precision guided munitions, priority aviation capability enhancements (E-2C RMP, AESA, ATFLIR, IDECM, MIDS-LVT, E-6 modernization), Cruiser conversions, netted sensors and weapons, and advanced communications (JTRS, MUOS, AEHF). The Department's ability to address future challenges is greatly enhanced within the existing topline, but the ability to capitalize again and transform the force will depend, as importantly, on the transformation of "tail to tooth."

Goal 4: Institutional Risk – the ability to develop management practices and controls that use resources efficiently and promote the effective operation of the Defense establishment.

- Navy Marine Corps Intranet 5-3
- Compliant Financial Systems 5-3

- Enterprise Resource Planning 5-4
- eBusiness 5-4
- Strategic Sourcing/A-76 Competitions 5-5
- Base Realignment and Closure A-20
- Military Construction and Family Housing 4-2,4-3
- Real Property Maintenance 4-4

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 have aggressively challenged our System Commands and other shore activities to find efficiencies, reduce contractor support and eliminate legacy information systems. Good management is more complex than downsizing, outsourcing, and changing for change's sake. The people of the DoN have proven their value and dedication to mission, before and especially since, the terrorist attacks on our Nation, and deserve the utmost respect and full support as they continue to serve.

OTHER PERFORMANCE METRICS

Throughout the Highlights Book metrics have been addressed which are included in our performance plans 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 goals of performance planning across the broad spectrum of DoN missions. Metrics are included for manpower, aviation/ship operations, depot maintenance and procurement programs. These metrics are also contained in budget justification materials supporting the FY 2003 budget submission.

SECTION VI - FINANCIAL SUMMARY

Total Obligational Authority (TOA) has been used throughout this book to express the amounts in the Department of the Navy budget because it is the most accurate reflection of program value. While TOA amounts differ only slightly from Budget Authority (BA) in some cases, they can differ substantially in others. The differences in TOA and BA, as evidenced in the table below, result from a combination of several factors.

	TOA vs BA		
	<i>(In Millions of Dollars)</i>		
	FY 2001	FY 2002	FY 2003
Receipts and Other Funds	-103.5	-166	-166
Financing Adjustments	-514.2	-145.2	-2.7
Reimbursable Orders	(-441.4)	(54.6)	(30.0)
Reprogram to Prior Year	(-598.9)	(0)	(0)
Unobligated Balances	(171.9)	(-335.1)	(-165.5)
Expiring Balances	(318.0)	(0)	(0)
Redemption of Debt	(78.0)	(135.5)	(133.0)
Other Finance Adjustments	(-42.8)	(-0.2)	(-0.2)
Total	-617.7	-311.2	-168.7

Receipts and Other Funds are reflected in BA but not in TOA. Offsetting Receipts include such things as donations to the Navy and Marine Corps, recoveries from foreign military sales, deposits for survivor annuity benefits, interest on loans and investments, rents and utilities, and fees chargeable under the Freedom of Information Act. Trust Funds include funds established for the Navy General Gift Fund, Office of Naval Records and History Fund, Naval Academy General Gift Fund, environmental restoration of Kaho'olawe Island in Hawaii, Ship Store Profits, Midshipman Store, the Naval Academy Museum Fund and the Rooms Liquidating Trust Settlement Account.

Financing Adjustments account for many of the differences between TOA and BA. Generally, funding changes are scored as budget authority adjustments in the fiscal year in which the change itself is effective; for TOA purposes, changes are reflected as adjustments to a specific program year, based on the original appropriation. Reappropriations and rescissions involving prior year programs and transfers to prior year programs are all examples of financing adjustments reflected against different fiscal periods as BA and TOA. Revolving fund and foreign currency transfers are other examples of financing adjustments that count differently in TOA and BA.

Expiring Balances also contribute to the difference between TOA and BA. Expiring balances are funds that were included in BA available for FY 2001 accounts, but were not obligated prior to the end of the fiscal year. These amounts are included in BA totals but not TOA.

The TOA and BA levels for FY 2001 through FY 2003 along with DoN outlay estimates, are summarized in Table 20.

Table 20

Department of the Navy

Summary of Direct Budget Plan (TOA), Budget Authority, and Outlays

(Dollars in Millions)

Account	TOA			BA			OUTLAY		
	FY 2001	FY 2002	FY 2003	FY 2001	FY 2002	FY 2003	FY 2001	FY 2002	FY 2003
MPN	18,041.8	19,550.7	22,094.4	17,939.5	19,550.7	22,094.4	17,528.9	19,397.9	21,854.9
MPMC	6,892.9	7,335.4	8,559.5	6,897.6	7,335.4	8,559.5	6,730.7	7,233.3	8,444.7
RPN	1,580.3	1,654.5	1,927.3	1,585.2	1,654.5	1,927.3	1,507.9	1,618.0	1,833.7
RPMC	451.1	471.2	557.9	451.4	471.2	557.9	430.1	461.3	543.2
O&M,N	25,438.6	26,714.5	29,028.8	24,929.2	26,661.5	29,028.8	24,915.4	25,689.4	28,459.2
O&M,MC	2,922.1	2,904.0	3,358.0	2,848.3	2,901.3	3,358.0	2,836.6	2,881.7	3,179.2
O&M,NR	1,015.3	997.0	1,166.0	980.2	997.0	1,166.0	987.7	958.4	1,100.6
O&M,MCR	146.6	143.2	185.5	144.2	143.2	185.5	139.2	135.4	167.4
ERN	--	255.2	256.9	--	255.2	256.9	--	56.1	171.4
NWCF	145.5	--	424.2	758.5	--	424.2	380.6	229.0	617.8
Payment to Kaho'olawe	73.6	66.9	25.0	59.9	66.9	25.0	59.8	66.9	25.0
APN	8,037.1	7,881.5	8,204.0	8,015.1	7,872.9	8,204.0	8,405.1	7,808.2	8,014.4
WPN	1,422.1	1,410.6	1,832.6	1,438.3	1,390.6	1,832.6	1,555.2	1,384.7	1,466.6
SCN	11,964.7	9,500.1	8,191.2	11,720.6	9,500.1	8,191.2	7,115.1	7,682.6	8,318.1
OPN	3,449.9	4,156.4	4,347.0	3,445.5	4,133.5	4,347.0	3,975.8	3,839.4	4,038.4
PMC	1,190.2	985.2	1,288.4	1,184.6	984.2	1,288.4	1,090.3	1,131.5	1,116.4
PANMC	542.7	457.2	1,015.2	496.3	457.2	1,015.2	460.8	546.6	562.9
Coastal Defense	-	-	-	-	-	-	-	-	-
RDT&E,N	9,596.2	11,389.4	12,501.6	9,578.7	11,370.6	12,501.6	9,461.7	10,519.9	11,783.8
NDSF	497.0	428.6	934.1	399.4	428.6	934.1	456.8	478.1	753.5
Oth Rev & Mgt Fnd									
Total DOD Bill	93,407.8	96,301.6	105,897.5	92,872.4	96,174.7	105,897.5	88,037.8	92,118.3	102,451.2
MCON	910.0	1,133.3	895.1	929.4	1,113.7	895.1	775.0	862.7	1,019.2
MCNR	63.4	52.6	51.6	61.9	51.7	51.6	0.9	47.5	54.7
FH(Con)	409.5	328.0	375.7	412.2	328.0	375.7	288.9	363.1	348.2
FH(Ops)	899.2	899.8	867.8	899.9	899.8	867.8	904.7	881.3	882.1
BRC	426.7	212.2	261.4	426.7	214.7	258.9	519.2	344.5	299.5
Total MILCON Bill	2,708.8	2,626.0	2,451.6	2,730.2	2,608.0	2,449.1	2,488.8	2,499.1	2,603.6
Receipts and Other Funds	--	--	--	-103.5	-166.0	-166.0	-82.7	-158.7	-163.0
Total, DON	96,116.6	98,927.6	108,349.1	95,499.0	98,616.7	108,180.7	90,443.8	94,458.7	104,891.8

APPENDIX A - APPROPRIATION TABLES

MILITARY PERSONNEL, NAVY

Table A-1

*Department of the Navy**Military Personnel, Navy**(Dollars in Millions)*

	FY2001	FY 2002	FY 2003
Pay and Allowances of Officers	4,718	5,006	5,321
Pay and Allowances of Enlisted	11,765	12,919	15,046
Pay and Allowances of Midshipmen	43	45	47
Subsistence of Enlisted Personnel	803	856	876
Permanent Change Station Travel	652	654	726
Other Military Personnel Costs	61	70	78
Total: MPN	\$18,042	\$19,551	\$22,094
End Strength			
Officers	53,908	53,741	53,866
Enlisted	319,601	318,259	317,834
Midshipmen	4,301	4,000	4,000
Total: End Strength	377,810	376,000	375,700

* Note: Totals in Tables may not add due to rounding.

MILITARY PERSONNEL, MARINE CORPS

Table A-2

*Department of the Navy**Military Personnel, Marine Corps**(Dollars in Millions)*

	FY 2001	FY 2002	FY 2003
Pay and Allowances of Officers	1,435	1,538	1,676
Pay and Allowances of Enlisted	4,768	5,098	6,120
Subsistence of Enlisted Personnel	395	423	446
Permanent Change Station Travel	262	247	280
Other Military Personnel Costs	32	31	38
Total: MPMC	\$6,893	\$7,335	\$8,559
End Strength			
Officers	18,062	17,888	18,088
Enlisted	154,872	154,712	156,912
Total: End Strength	172,934	172,600	175,000

RESERVE PERSONNEL, NAVY
Table A-3

*Department of the Navy**Reserve Personnel, Navy**(Dollars in Millions)*

	FY 2001	FY 2002	FY 2003
Unit & Individual Training	646	678	840
Other Training & Support	934	977	1,088
Total: RPN	\$1,580	\$1,655	\$1,927
End Strength			
SELRES/Drilling Reserve	73,341	71,489	73,228
Full-time Support	14,572	14,811	14,572
Total: End Strength	87,913	86,300	87,800

RESERVE PERSONNEL, MARINE CORPS

Table A-4

Department of the Navy
*Reserve Personnel, Marine Corps**(Dollars in Millions)*

	FY 2001	FY 2002	FY 2003
Unit and Individual Training	242	254	329
Other Training and Support	209	218	229
Total: RPMC	\$451	\$471	\$558
End Strength			
SELRES	37,542	37,297	37,297
Full-time Support	2,268	2,261	2,261
Total: End Strength	39,810	39,558	39,558

OPERATION AND MAINTENANCE, NAVY

Table A-5

Department of the Navy
Operation and Maintenance, Navy
(Dollars in Millions)

	FY 2001	FY 2002	FY 2003
<u>Operating Forces</u>			
Air Operations	4,894	5,175	5,297
Ship Operations	7,063	7,461	8,300
Combat Operations/Support	1,848	1,847	2,024
Weapons Support	1,279	1,348	1,433
NWCF Support	18	1	0
Base Support	3,163	3,504	3,902
Total — Operating Forces	\$18,264	\$19,337	\$20,956
<u>Mobilization</u>			
Ready Reserve & Prepositioning Force	471	497	529
Activations/Inactivations	211	247	159
Mobilization Preparedness	41	41	46
Total — Mobilization	\$723	\$785	\$734
<u>Training And Recruiting</u>			
Accession Training	174	182	210
Basic Skills & Advanced Training	921	986	1,079
Recruiting & Other Training & Education	400	425	470
Base Support	568	550	600
Total — Training And Recruiting	\$2,064	\$2,143	\$2,360
<u>Admin & Service-wide Support</u>			
Service-wide Support	1,529	1,632	1,833
Logistics Operations & Technical Support	1,909	1,800	2,058
Investigations & Security Programs	638	694	768
Support of Other Nations	9	10	9
Cancelled Accounts	4	-	-
Base Support	299	313	312
Total — Admin & Service-wide Support	\$4,388	\$4,449	\$4,980
Total: O&MN	\$25,439	\$26,714	\$29,029

OPERATION AND MAINTENANCE, MARINE CORPS

Table A-6

*Department of the Navy**Operation and Maintenance, Marine Corps**(Dollars in Millions)*

	FY 2001	FY 2002	FY 2003
Operating Forces			
Expeditionary Forces	2,071	2,044	2,412
Prepositioning	99	87	85
Total — Operating Forces	\$2,170	\$2,131	\$2,497
Training and Recruiting			
Accession Training	82	115	106
Basic Skills & Advanced Training	241	236	272
Recruiting & Other Training & Education	155	154	187
Total — Training And Recruiting	\$478	\$505	\$565
Admin & Service-wide Support			
Service-wide Support	\$273	\$268	\$296
Total — Admin & Service-wide Support	\$273	\$268	\$296
Total: O&M,MC	\$2,922	\$2,904	\$3,358

OPERATION AND MAINTENANCE, NAVY RESERVE

Table A-7

*Department of the Navy**Operation and Maintenance, Navy Reserve**(Dollars in Millions)*

	FY 2001	FY 2002	FY 2003
<u>Operating Forces</u>			
Air Operations	481	525	548
Ship Operations	144	135	164
Combat Operations/Support	35	37	70
Weapons Support	5	6	6
Base Support	210	209	213
Total — Operating Forces	\$876	\$912	\$1,001
<u>Admin & Service-wide Support</u>			
Service-wide Support	\$139	\$85	\$165
Total — Admin & Service-Wide Support	\$139	\$85	\$165
Total: O&M, NR	\$1,015	\$997	\$1,166

OPERATION AND MAINTENANCE, MARINE CORPS RESERVE

Table A-8

Department of the Navy

Operation and Maintenance, Marine Corps Reserve

(Dollars in Millions)

	FY 2001	FY 2002	FY 2003
<u>Operating Forces</u>			
Expeditionary Forces	114	112	154
<u>Admin & Service-wide Support</u>			
Service-wide Support	33	32	31
Total: O&M,MCR	\$147	\$143	\$186

ENVIRONMENTAL RESTORATION, NAVY

Table A-9a

Department of the Navy
Environmental Restoration, Navy
(Dollars In Millions)

	FY 2001	FY 2002	FY 2003
Environmental Restoration Activities	0	255	257
Total: ERN	\$0	\$255	\$257

KAHO'OLAWE ISLAND

Table A-9b

Department of the Navy
Kaho'olawe Island
(In Millions of Dollars)

	FY 2001	FY 2002	FY 2003
Kaho'olawe Island	74	67	25
Total: Kaho'olawe Island	\$74	\$67	\$25

AIRCRAFT PROCUREMENT, NAVY

Table A-10

*Department of the Navy
Aircraft Procurement, Navy
(Dollars in Millions)*

	FY 2001		FY 2002		FY 2003	
	<u>QTY</u>	<u>\$</u>	<u>QTY</u>	<u>\$</u>	<u>QTY</u>	<u>\$</u>
AV-8B (HARRIER)*	12	260	-	0	-	6
F/A-18E/F (HORNET)	39	2,838	48	3,118	44	3,159
V-22 (OSPREY)	9	963	9	809	11	1,106
AH-1W (SUPER COBRA)	-	2	-	1	-	0
UH-1Y/AH-1Z	-	6	-	0	-	0
MH-60S (VERTREP HELO)	15	284	13	254	15	372
E-2C (HAWKEYE)	5	312	5	275	5	295
MH-60R (SEAHAWK)*	-	54	-	10	-	116
UC-35	1	8	1	7	-	0
C-40A	1	54	-	0	-	0
C-37	1	50	-	0	-	0
T-45TS (GOSHAWK)	14	302	6	183	8	221
JPATS	24	81	6	30	-	0
KC-130J (HERCULES)	3	227	2	155	-	0
Modifications	-	1,280	-	1,250		1,249
Spares and Repair Parts	-	931	-	1,299	-	1,117
Support Equipment/Facilities	-	385	-	488	-	562
Total: APN	124	\$8,037	90	\$7,881	83	\$8,204

* Remanufactured Aircraft Only

** Includes 2 R & D Aircraft

WEAPONS PROCUREMENT, NAVY

Table A-11

Department of the Navy
Weapons Procurement, Navy
(Dollars in Millions)

	FY 2001		FY 2002		FY 2003	
	<u>QTY</u>	\$	<u>QTY</u>	\$	<u>QTY</u>	\$
<u>Missiles (BA1&2)</u>						
TRIDENT II	12	438	12	539	12	587
Tomahawk	-	0	32	74	106	146
AMRAAM	63	38	57	37	100	51
AIM-9X	-	0	105	24	295	53
JSOW	29	161	-	0	363	140
SLAM-ER	30	24	30	26	120	84
STANDARD	86	172	96	156	93	156
RAM	-	23	90	43	90	58
ESSM	29	39	26	42	146	130
Other	143	310	58	237	90	137
<u>Torpedoes (BA3)</u>						
Mk-48 ADCAP	-	43	-	42	-	62
Other	-	56	-	77	-	98
<u>Other</u>						
Gun Mount Mods	-	30	-	27	-	8
CIWS MODS	-	26	-	44	-	32
All Other	-	62	-	49	-	61
Total: WPN	392	\$1,422	506	\$1,418	1,415	\$1,833

SHIPBUILDING AND CONVERSION, NAVY

Table A-12

Department of the Navy
Shipbuilding and Conversion, Navy
(Dollars in Millions)

	FY 2001		FY 2002		FY 2003	
	<u>QTY</u>	<u>\$</u>	<u>QTY</u>	<u>\$</u>	<u>QTY</u>	<u>\$</u>
<u>New Construction/Conversions</u>						
Aircraft Carrier (CVN-77)	1	4,144	-	136	-	244
Attack Submarine (SSN -774)	1	1,767	1	2,263	1	2,219
SSGN Conversion	-	0	-	355	2	825
Cruiser Conversion	-	0	-	65	-	0
Guided Missile Destroyer (DDG-51)	3	3,282	3	3,081	2	2,370
Amphibious Transport Dock Ship (LPD-17)	-	594	-	155	1	604
Auxiliary Dry Cargo Carrier (TAKE-1)	1	336	1	361	-	0
Amphibious Assault (LHD)	-	456	1	257	-	253
Subtotal	6	\$10,579	6	\$6,673	6	\$6,515
<u>Other</u>						
TAGOS/SURTASS	-	10	-	0	-	0
CVN Refueling Overhauls	-	782	1	1222	-	297
Submarine Refueling Overhauls	1	291	2	529	1	360
LCU(X)	-	0	-	3	-	7
LCAC SLEP	1	15	2	46	3	68
Outfitting	-	288	-	296	-	301
Completion of PY Shipbuilding Programs	-	0	-	729	-	645
Total: SCN	8	\$11,965	11	\$9,500	10	\$8,191

OTHER PROCUREMENT, NAVY

Table A-13

*Department of the Navy
Other Procurement, Navy
(Dollars in Millions)*

	FY 2001	FY 2002	FY 2003
Ships Support Equipment	627	766	1,142
Communications and Electronics Equipment	1,551	1,505	1,747
Aviation Support Equipment	257	243	202
Ordnance Support Equipment	480	605	569
Civil Engineering Support Equipment	60	98	146
Supply Support Equipment	148	459	167
Personnel and Command Support Equipment	120	235	202
Spares and Repair Parts	207	238	173
Total: OPN	\$3,450	\$4,149	\$4,347

PROCUREMENT, MARINE CORPS

Table A-14

Department of the Navy
Procurement, Marine Corps
(Dollars in Millions)

	FY 2001		FY 2002		FY 2003	
	QTY	\$	QTY	\$	QTY	\$
<u>Weapons & Tracked Combat Vehicles</u>						
AAV7A1	170	90	85	76	85	63
AAAV	-	0	-	0	1	15
LAV PIP	-	2	-	25	-	53
HIMARS	-	0	-	0	2	8
LW155	-	11	-	0	34	63
Improved Recovery Vehicle	22	42	8	21	0	4
Other	-	34	-	16	-	42
<u>Guided Missiles</u>						
Predator (SRAW)	307	43	-	0	445	36
Other	305	45	-	5	-	11
<u>Communication & Electronics</u>						
Common Computer Resources		80		21		39
Radio Systems		15		49		26
Comm & Elec Infrastructure Supp		83		9		16
Mod Kits MAGTF C4		7		21		31
Intelligence C2 Equipment		8		10		22
Fire Support Equipment		-		4		35
Intelligence Support Equipment		12		9		19
Night Vision Equipment		21		29		23
Other		58		53		79
<u>Support Vehicles</u>						
HMMWVA2	2,071	136	1,625	116	1,667	108
Medium Tactical Vehicle Replacement (MTVR)	2,001	321	1,959	310	1,405	348
Other	33	41	25	9	28	17
<u>Engineering and Other Equipment</u>						
		122		176		197
<u>Spares & Repair Parts</u>						
		19		26		23
Total: PMC	4,909	\$1,190	3,702	\$985	3,667	\$1,288

***PROCUREMENT OF AMMUNITION, NAVY AND
MARINE CORPS***

Table A-15

Department of the Navy

Procurement of Ammunition, Navy and Marine Corps

(Dollars in Millions)

	FY 2001	FY 2002	FY 2003
Navy Ammunition	374	311	739
Marine Corps Ammunition	168	147	276
Total: PANMC	\$543	\$457	\$1,015

**RESEARCH, DEVELOPMENT, TEST AND
EVALUATION, NAVY**

Table A-16

*Department of the Navy
Research, Development, Test and Evaluation, Navy
(Dollars in Millions)*

	FY 2001	FY 2002	FY 2003
Basic Research	385	405	410
Applied Research	636	777	580
Advanced Technology Development (ATD)	791	870	617
Demonstration & Validation (DEM/VAL)	2,633	2,578	2,432
Engineering & Manufacturing Development	2,146	3,737	5,093
RDT&E Management Support	815	681	688
Operational Systems Development	2,189	2,343	2,681
Total: RDT&E,N	\$9,596	\$11,389	\$12,502

NATIONAL DEFENSE SEALIFT FUND

Table A-17

*Department of the Navy
National Defense Sealift Fund
(Dollars in Millions)*

	FY 2001		FY 2002		FY 2003	
	<u>QTY</u>	\$	<u>QTY</u>	\$	<u>QTY</u>	\$
Sealift Acquisition (T-AKE)	-	128	-	0	1	389
DOD Mobilization Assets	-	103	-	170	-	279
Research & Development	-	7	-	10	-	14
Ready Reserve Force	-	259	-	249	-	252
Total: NDSF		\$497		\$429	1	\$934

**MILITARY CONSTRUCTION, NAVY AND NAVAL
RESERVE**

Table A-18

Department of the Navy

Military Construction

(Dollars in Millions)

	FY 2001	FY 2002	FY 2003
Significant Programs			
Operational & Training Facilities	317	197	176
Maintenance & Production Facilities	92	147	101
R&D Facilities	97	37	9
Supply Facilities	17	24	10
Administrative Facilities	57	73	1
Housing Facilities	201	430	290
Community Facilities	44	37	148
Utility Facilities	15	113	57
Pollution Abatement	7	28	11
Unspecified Minor Construction	12	13	23
Planning And Design	51	34	69
Total: Navy	\$910	\$1,133	\$895
Construction Program			
Operational & Training Facilities	63	53	52
Total: Naval Reserve	\$63	\$53	\$52

FAMILY HOUSING, NAVY AND MARINE CORPS

Table A-19

*Department of the Navy**Family Housing, Navy and Marine Corps**(Dollars in Millions)*

	FY 2001	FY 2002	FY 2003
Navy			
Construction	332	205	229
O&M	740	744	707
Total: Navy	1,072	949	936
Marine Corps			
Construction	77	123	147
O&M	159	155	160
Total: Marine Corps	236	278	307
Total: FH,N&MC	\$1,309	\$1,228	\$1,244
<u>New Construction Projects</u>			
Navy	9	3	6
Marine Corps	2	4	4
<u>Construction Units</u>			
Navy	1,055	240	399
Marine Corps	163	336	748
<u>Average Number of Units</u>			
Navy	59,809	56,966	52,918
Marine Corps	23,709	22,776	21,319

BASE REALIGNMENT AND CLOSURE ACCOUNTS

Table A-20

Department of the Navy

Base Realignment and Closure Accounts

(Dollars in Millions)

Costs	FY 2001	FY 2002	FY 2003
BRAC IV	427	212	261
Total: BRAC	\$427	\$212	\$261

Savings	FY 2000	Annual Steady State
BRAC II	466	466
BRAC III	1,360	1,360
BRAC IV	643	732
Total: Savings	2,469	2,558