Mr. Chairman and members of the Committee, I appreciate this opportunity to appear before you. I want to express my gratitude for the substantial investment you have made in making this Navy the best Navy the nation has ever seen.

Your Navy is built to take credible combat power to the far corners of this earth, taking the sovereignty of the United States of America anywhere we need to take it and at anytime we choose to do so. It is capable of delivering the options this nation needs to meet the challenges of today and it is committed to the future capabilities the joint force will need to win throughout the 21st century.

It is a wonderful time to be a part of this Navy and a great privilege to be associated with so many men and women - active and reserve, uniformed and civilian - committed to the service and defense of this nation. I speak for all of our men and women in thanking you for your exceptional and continuous support.

I: Your Navy Today – Projecting Decisive Joint Power Across the Globe

Your Navy's performance in Operations ENDURING FREEDOM (OEF) and IRAQI FREEDOM (OIF) last year proved – more than

anything else – the value of the combat readiness in which you have invested. It demonstrated the importance of the latest technology in surveillance, command and control and persistent attack. It highlighted our ability to exploit the vast maneuver space provided by the sea. Most importantly, it reaffirmed the single greatest advantage we hold over every potential adversary: the genius of young Americans contributing their utmost in their service to this nation.

This past year, the fleet produced the best readiness levels I've seen in my career. We have invested billions of dollars to training, maintenance, spare parts, ordnance, flying hours and steaming days accounts these last few years, and that investment resulted in the combat ready response of more than half the Navy to operations worldwide.

Seven aircraft carriers and nine big deck amphibious ships were among the 164 U.S. Navy ships forward deployed last spring in support of OEF and OIF and contingencies worldwide. The Military Sealift Command sailed and chartered more than 210 ships and moved 94 percent of the nation's joint and combined capability to the fight. We also deployed three Fleet Hospitals, a Hospital Ship, 22 P-3 aircraft, 25 Naval Coastal Warfare detachments and we mobilized more than 12,000 reservists.

OIF and OEF were the most joint operations in our history and they have provided the best possible opportunity to dissect, study and analyze some of the limiting factors and effects of how we fight. Beyond the mere numbers, these operations confirmed that we should continue to pursue the capabilities that enhance our power projection, our defensive protection and the operational independence afforded by the sea.

While we recognize that we must continue to challenge all of our assumptions in a variety of scenarios, our lessons learned indicate that the capabilities-based investment strategies, new war fighting concepts and enabling technologies we are pursuing in our Sea Power 21 vision are on the right vector. Let me give you some examples.

- The reach, precision and persistence of our ***Sea Strike*** capability added lethality to ground combat engagements in Afghanistan and Iraq. The joint surveillance and attack

technologies and processes that we have already put in place forced enemy combat formations to either disband and desert or be destroyed in place by precision weapons. Navy aviation generated more than 7000 combat sorties in support of OIF, sometimes flying joint missions with land-based Air Force tankers more than 900 miles from their carriers. Surface combatants and submarines struck targets throughout Iraq with more than 800 Tomahawk missiles. The initial deployments of new F/A-18E/F Super Hornet squadrons greatly extended our range, payload, and refueling options. And we will realize more of these capabilities in the future through the conversion of the first of four Trident SSBNs into the SSGN conventional strike and Special Operations Forces platform.

- USS HIGGINS (DDG 76) provided early warning and tracking to joint forces in Kuwait and southern Iraq to help warn forces and defend against the threat of theater ballistic missiles. This tracking-only capability demonstrated the initial potential of extending ***Sea Shield*** defenses to the joint force. In a sign of things to come, we advanced our missile defense capability with another successful flight test of our developmental sea-based defense against short-to-medium range ballistic missiles. USS LAKE ERIE (CG 70) and USS RUSSELL (DDG 59) combined to acquire, track and hit a ballistic test target in space with an SM-3 missile in support of the Ballistic Missile Defense program. This was the fifth success in six tests.

Our OIF mine warfare efforts cleared 913 nautical miles of water in the Khor Abd Allah and Umm Qasr waterways, opening 21 berths in the Umm Qasr port and clearing the way for operations in the littoral areas of the Northern Persian Gulf and for humanitarian aid shipments into Iraq. These operations included the use of the High Speed Vessel X1 (JOINT VENTURE), Navy patrol craft and six unmanned, autonomous underwater vehicles (AUV) directly from our science and technology (S&T) program in the littoral for special operations and mine clearance operations, and gave us important insights into our vision for both future littoral and mine warfare concepts and capabilities.

- We projected joint combat forces across the globe with greater speed and agility than we have ever done in the past. Along with our number one joint partner, the United States Marine Corps, we put more than 60,000 combat-ready Marines ashore in Kuwait in 30 days. The Navy's Military

Sealift Command delivered more than 32 million square feet of combat cargo and more than one billion gallons of fuel to the nation's war fighters in Operations Enduring Freedom and Iraqi Freedom. We were able to sustain the strategic and operational flexibility afforded by ***Sea Basing*** to generate a three-axis attack on Iraq from our dispersed aircraft carriers, surface combatants and submarines in the Red Sea, the Mediterranean Sea and the Persian Gulf.

We forged ahead in our shipbuilding investments. We awarded three preliminary design contracts for the Littoral Combat Ship (LCS), leading to the construction of the first LCS in FY05. We selected the baseline design for the DD(X) 21st Century multi-mission destroyer, launched SAN ANTONIO (LPD 17), christened VIRGINIA (SSN 774) and began fabrication of MAKIN ISLAND (LHD 8) and LEWIS AND CLARK (T-AKE 1).

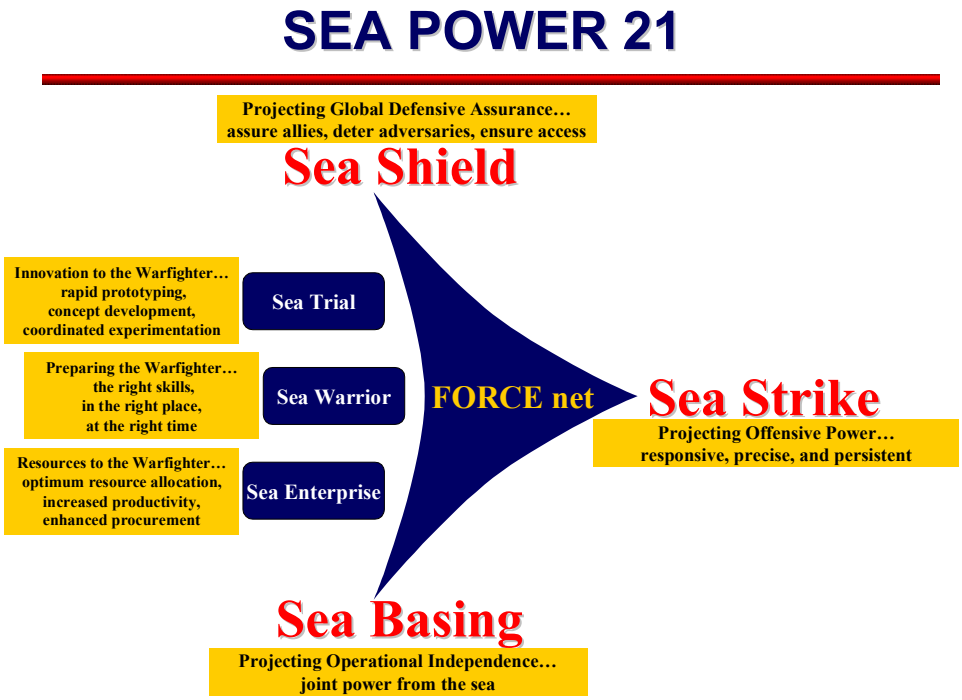
- In OIF, we were able to know more, decide faster and act more decisively than ever before. Our three-axis, multi-platform attack from the Persian Gulf, Red Sea and Mediterranean Sea - as well as the geometric increases in striking power, defensive protection and speed of maneuver generated by our joint forces - is made possible by the power of joint command, control, communications, computers, intelligence, surveillance and reconnaissance (C^4ISR). Fully eighty percent of targets struck with precision ordnance were unknown at aircraft launch. We developed and installed CENTRIX and COWAN networks to enhance joint and coalition interoperability on all of our deploying ships, and we also promulgated the ***FORCEnet*** campaign plan, defining the architecture and standards that will help us further integrate warriors, sensors, weapons, and platforms.

These accomplishments this past year have taught us more about who we are and where we're headed. We know that the combat power of the truly joint force is much more than the sum of the services' contributions. We understand the value of readiness and the importance we must place on improving the fleet's ability to respond and surge with decisive combat power. We relearned the lesson that over flight and basing is not guaranteed; our dominance of the maritime domain and our consequent ability to quickly deliver an agile combat force is a priceless advantage for our nation. And we reaffirmed that our people are now, and always will be, the root of our success.

II: Your Navy Tomorrow – Accelerating Our Advantages

Readiness, advanced technology, dominance of the maritime domain, and the genius of our people - these are our asymmetric advantages. They are the core of our Sea Power 21 Navy and we intend to accelerate these advantages over the coming year. We are in a position to continue to build upon and recapitalize these strengths, to innovate and experiment, and to push the envelope of operational art and technological progress. Our ability to project persistent, sovereign combat power to the far corners of the earth now and in the future depends on it.

In last year's statement, I discussed principally the advantages brought by advanced technology and the vast maneuver area of the sea in our Sea Power 21 vision.



This year, I'd like to spend a few moments on the efforts we've taken to improve our other advantages: our **readiness to respond** to the nation's defense needs and the tools we'll need to ensure the **right people** for our Sea Power 21 Navy.

Today's naval forces and personnel are superbly trained and well provisioned with ordnance, repair parts and supplies. They are ready earlier – for a longer period of time - and

they are deploying at a higher state of readiness than ever before. In short, the Navy the nation has paid for is truly ready to accomplish its missions and it is more ready to do so than I've ever seen it in my career.

I mentioned the results; in OIF, we surged more than half the fleet to fight half a world away. The combined power of our forward presence forces and those that we were able to surge overseas helped keep our enemies on the run. This conflict and our analysis of future campaign scenarios make it apparent that the readiness of both our forward forces and the forces that must surge forward will be critically important to our future. It is no longer good enough to be able to surge just once every ten years or so.

The war on terrorism and the unpredictability of the global security environment make this an immediate imperative. The nation needs a Navy that can provide homeland defense and be *both* forward and ready to surge forward to deliver overmatching and decisive combat power whenever and wherever needed. We are committed to do so.

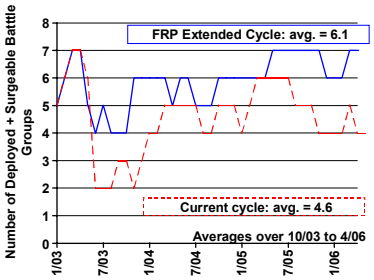
With this in mind, we launched the **Fleet Response Plan (FRP)** this past year. The FRP resets the force in a way that will allow us to surge about 50 percent more combat power on short notice and at the same time, potentially reduce some of the personnel strain of forward rotations.

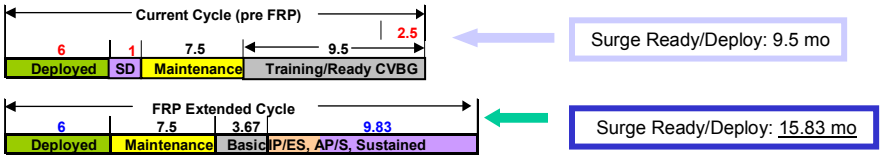
In simplest terms, rather than having only two or three CSGs forward-deployed and properly equipped at any one time - and an ability to surge only a maximum of two more - the FRP enables us to now consistently deliver <u>six</u> forward deployed or ready to surge Carrier Strike Groups (CSGs) almost immediately, <u>plus</u> <u>two</u> additional CSGs in the basic training phase in 90 days or less. This FRP capability is commonly known as six plus two.

To do this, we have fundamentally reconfigured our employment policy, fleet maintenance, deployment preparations and fleet manning policies to expand the operational availability of non-deployed fleet units. We have shifted the readiness cycle from one centered solely on the next-scheduled-deployment to one focused on returning ships to the right level of readiness for both surge and deployed operations. The net result is a fleet that is more ready, with more combat power - more quickly - than was possible in the past.

FRP AND AN EXTENDED CYCLE: What Does It Yield?

- **Increased Surge Capability**
- **More responsive force**
- **Fiscally efficient, properly funded, pre-planned maintenance**
- **Progressive and predictive levels of readiness**





Bottom Line: More ships in an employable status, sooner in the cycle for a longer period of time!

Our forward rotations remain critically important to our security, to strengthening alliances and coalitions, and to the global war on terrorism. But it is clear we must make these rotations with purpose, not just to fill the calendar.

For example, implementing the new Proliferation Security Initiative to counter weapons of mass destruction as a tool for terrorists and their sponsors is likely to involve the use of forward naval forces in maritime interdiction. Additionally, we plan to be ready to establish Initial Missile Defense operations using forward-deployed ARLEIGH BURKE class guided missile destroyers and their AEGIS systems in Long-Range Tracking and Surveillance roles. And of course, we will continue to provide Combatant Commanders with the combat-credible, rapidly employable forward forces required for the nation's defense.

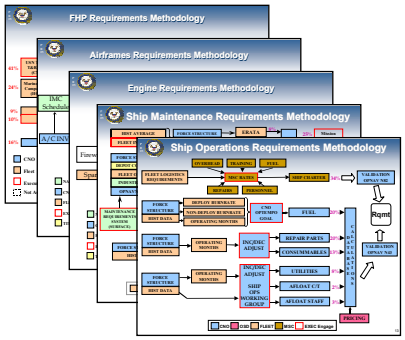
But at the same time, we recognize that our ability to rapidly surge significant additional combat power and provide a range of joint employment options is critically important to the swift and decisive combat operations that must be our future. The FRP allows us to do just that.

We have an obligation to accurately assess the readiness needs and create the resources necessary to support this FRP capability. This has also been a major focus this past year.

Readiness is a complex process. It is much more than a count of our end strength, our ordnance and spares, and the number of hours and days spent training. It is the product of our ability to deliver the required effects needed to accomplish the mission. We know too that readiness at any cost is unacceptable; as leaders we must achieve and deliver the right readiness at the right cost.

The **Integrated Readiness Capability Assessment (IRCA)** was developed for the FY05 budget to more carefully examine our readiness processes. Starting with our new FRP operating construct, we took a hard look at everything that we needed to have on hand and what we needed to do to deliver the required combat readiness for the nation's needs.

INTEGRATED READINESS CAPABILITY ASSESSMENT



- **Process**
  - **Map modeling process**
  - **Identify opportunities for mitigation**
  - **Assess level of risk**
    - **Process Change**
    - **Management Initiatives**
    - **Transformational**

FRP capability used as the yardstick for all assessments

The IRCA assessment helped us understand the collective contributions of all the components of readiness, accurately define the requirements, align the proper funding and provide a balanced investment to the right accounts. It improved our visibility into the true requirements and it gave us a methodology to assess and

understand both acceptable and unacceptable risks to our current readiness investments.

The end result is this: we have carefully defined the readiness requirement. We have identified areas where we can streamline or cease activities that do not add to readiness. And we have requested the funds our commanders need to create the right readiness for FY05. I ask for your support of this year's current readiness request as we've re-defined these processes and already taken acceptable risks. **We will deliver the right readiness at the right cost to the nation.**

These improvements to our operational availability of forces and the associated readiness elements will not be made on the backs of our people.

We have a smart, talented cadre of professionals who have chosen a lifestyle of service. Our ability to challenge them with meaningful, satisfying work that lets them make a difference is part of our covenant with them as leaders.

A new operating concept like the Fleet Response Plan could not be made if we still had the kind of manpower-intensive mindset to problem solving we had even five years ago. But today, thanks to your sustained investment in science and technology among others, we have already realized some of the advancements in information technology, simulators, human system integration, enterprise resource planning, web-enabled technical assistance and ship and aircraft maintenance practices that can reduce the amount of labor intensive functions, the training and the technical work required to ensure our readiness.

These advances speak to our larger vision for our Sea Power 21 Navy and its Sea Warrior initiative. Our people are today's capital assets. Without them, all the advanced weaponry in the world would sit dormant. But at the same time, it is the *effects* they deliver that are the true measure of their contribution to readiness and capability.

We have long had a force stove-piped into active and reserves, uniformed and civilian, sea and shore, and enlisted and officer components, all with work driven largely by the limits of industrial age military capabilities, personnel practices, technology and the organizational models of the day.

In today's era, when we have whole corporations bought or sold just to capture the *intellectual* capital of an organization, we recognize that our **human resource strategy** must capture the talents and efforts of our capital as well. **Our vision for the future is a more truly integrated workforce wholly committed to mission accomplishment.** This must include a total force approach that can functionally assess missions, manpower, technology and training and produce an enterprise-wide resource strategy.

The principles of this strategy are clear. We will capture the work that contributes to mission accomplishment. We will define enterprise-wide standards. We will leverage technology to both enhance and capitalize on the growth and development of our people. We will streamline organizational layers. We will instill competition. And we will incentivize the talents and behaviors needed to accomplish the mission.

There is still much to study and discuss as we develop our total force approach in the months and years ahead, but we can already see that the application of these principles will help us more accurately define our manpower requirement and lead us to a smaller workforce in the future.

The benefits are enormous. Our people will be powerfully motivated and better educated and more experienced in the coming years. They will be properly equipped to maintain, operate and manage the higher technology equipments that are our future. Our combat capabilities will continue to grow.

We must be committed to building a Navy that maximizes the capability of its people while minimizing the total number in the manpower account. Manpower is never free; in fact, manpower we do not truly need limits both the true potential of our people and the investments needed to transform our combat capability for the future.

Our developing human resource strategy will likely require changes in the way we recruit, assess, train and manage the workforce. Sea Warrior of course, is crucial here. Last year's authorization of the National Security Personnel System (NSPS) is very important to such an effort as well. The NSPS Act authorized a more flexible civilian personnel

management system that allows DoD to be a more competitive and progressive employer at a time when our national security demands a highly responsive system of civilian personnel management. The legislation also ensures that merit systems principles govern changes in personnel management, whistleblowers are protected, discrimination and nepotism remain illegal, and veterans' preference is protected. This will facilitate the kind of competition and performance we need for the future. The Navy has volunteered to be in the first wave of conversions to NSPS in 2004.

Most importantly, I believe we will also need these kinds of flexible authorities and incentive tools to shape the career paths and our skills mix in a way that lets us compete for the right talent in uniform, not just within the Navy, but with all the nation's employers as well.

In the months ahead, I will continue to discuss with you our developing human resource strategy and the kinds of authorities we'll need to deliver on it.

We are beginning to realize the powerful war fighting capabilities of Sea Power 21. Our culture of readiness and our commitment to developing a 21st Century workforce will help us employ those transformational capabilities to achieve unprecedented maritime power.

III. Our FY05 Budget Request

This past year our Navy's budget request continued our effort to sustain our current readiness gains, deepen the growth and development of our people and invest in our transformational Sea Power 21 vision while harvesting the efficiencies needed to fund and support these three critical priorities.

This year we intend to:

- **Deliver the right readiness at the right cost** to support the war on terror and the nation's war fighting needs,

- **Shape the 21st century workforce** and deepen the growth and development of our **people**,

- **Accelerate our investment in Sea Power 21 to recapitalize and transform** our force and improve its ability to operate as an effective component of our joint war fighting team.

At the same time, we will continue to **pursue the Sea Enterprise improvements that make us a more effective Navy in both FY05 and beyond.** Our Navy budget request for FY05 and the future supports this intent and includes:

- Nine (9) new construction ships in FY05, including construction of the first transformational destroyer (DD(X)) and the Littoral Combat Ship (LCS), the acceleration of a SAN ANTONIO Class Amphibious Transport Dock Class ship from FY06 to FY05, and one SSBN conversion and refueling. Our request this year includes the following ships:

    - 3 ARLEIGH BURKE Class Guided Missile Destroyers (DDG)
    - 1 VIRGINIA Class submarine (SSN)
    - 1 SAN ANTONIO Class Amphibious Transport Dock (LPD)
    - 2 Lewis and Clark Class Dry Cargo and Ammunition ships (T-AKE)
    - 1 21st Century Destroyer (DD(X))
    - 1 Littoral Combat Ship (LCS), and
    - 1 SSBN conversion/refueling

The investment plan across the future year's defense plan (FYDP) also includes three Maritime Prepositioned Force (Future) (MPF (F)) ships and advanced procurement for an MPF (F) aviation variant. While our build rate dips to six ships in FY06, this is a reflection of a shift in focus to the next generation surface combatants and sea basing capabilities. We have also assessed the risks and divested several assets that have high operating costs and limited technological growth capacity for our transformational future; this includes decommissioning two coastal mine hunter ships, and the accelerated decommissioning of the remaining SPRUANCE-class destroyers, SACRAMENTO Class Fast Combat Store Ships and the first five TICONDEROGA-class guided missile cruisers in the future year's plan.

- Procurement of 104 new aircraft in FY05, including the F/A-18 E/F Super Hornet, the MH-60 R/S Seahawk and Knighthawk Multi-mission Combat Helicopter, the T-45 Goshawk training aircraft and the Marine Corps MV-22 Osprey among others. We continue to maximize the return on

procurement dollars through the use of multi-year procurement (MYP) contracts for established aircraft programs like the Super Hornet and we have increased our research and development investment this year in the Joint Strike Fighter (JSF), the EA-18G Airborne Electronic Attack (AEA) aircraft and the broad area anti-submarine, anti-surface, maritime and littoral intelligence, surveillance and reconnaissance (ISR) capable Multi-mission Maritime Aircraft (MMA).

- Investment in transformational unmanned underwater vehicles (UUV) like the Long-Term Mine Reconnaissance System, and unmanned aviation vehicles (UAV) such as the Broad Area Maritime Surveillance UAV and the Joint – Unmanned Combat Air System. The budget also requests funding for experimental hull forms like the X-Craft, and other advanced technologies including the Joint Aerial Common Sensor (JACS).

- A 3.5 percent basic pay raise, and a reduction in average out-of-pocket housing costs from 3.5 percent to zero, allowing Sailors and their families more of an opportunity to own their own homes and have more of a stake in their communities;

- Investment in housing and Public-Private Ventures that will help eliminate inadequate barracks and family housing by FY07 and enable us to house shipboard Sailors ashore when their vessel is in homeport by FY08;

- Readiness investment that supports the Fleet Response Plan (FRP), including sustained funding for ship and aircraft operations, aviation depot maintenance, and precision guided munitions. This includes improvements in ship maintenance and training scheduling to maximize surge capabilities.

A. <u>Delivering the Right Readiness at the Right Cost</u>

To me, the "right readiness" is the return on your investment in the Navy. Readiness is the catalyst that brings combat power to bear whenever it is needed. Achieving readiness at any cost however is not good for the nation. This year's request accurately defines our readiness needs, assesses the risks to our investment and - as requested - will deliver the resources necessary for leaders in the Navy to create the required readiness.

- ***Ship Operations and Flying Hours*** requests funds for ship operations OPTEMPO of 51.0 days per quarter for our deployed forces and 24 days per quarter for our non-deployed forces. We have properly funded the flying hour account to support the appropriate levels of readiness and longer employability requirements of the FRP. This level of steaming and flying hours will enable our ships and air wings to achieve the required readiness over the longer periods defined by the Fleet Response Plan, and as a result, it will improve our ability to surge in crisis and sustain readiness during deployment.

- ***Ship and Aviation Maintenance.*** We have made significant improvements these last few years by reducing major ship depot maintenance backlogs and aircraft depot-level repair back orders; improving aircraft engine spares; adding ship depot availabilities; ramping up ordnance and spare parts production; maintaining steady "mission capable" rates in deployed aircraft; fully funding aviation initial outfitting; and investing in reliability improvements.

Our FY05 request continues to improve the availability of non-deployed aircraft and meets our 100 percent deployed airframe goals. Our ship maintenance request continues to 'buy-down' the annual deferred maintenance backlog and sustains our overall ship maintenance requirement. We are making great strides in improving the visibility and cost effectiveness of our ship depot maintenance program, reducing the number of changes in work package planning and using our continuous maintenance practices when changes must be made.

- ***Shore Installations.*** Our Facilities Sustainment, Restoration and Modernization (SRM) program remains focused on improving readiness and quality of service for our Sailors. While our FY05 Military Construction and Sustainment program reflects difficult but necessary trade-offs between shore infrastructure and fleet recapitalization, the majority of the SRM trends are very good. Facilities sustainment has increased in FY05. Our budget request keeps us on a course to achieve the DoD goal of a 67-year recapitalization rate by FY08, achieve DoN goals to eliminate inadequate family and bachelor housing by FY07 and provides Homeport Ashore Bachelor Housing by FY08. We are exploring innovative solutions to provide safe, efficient installations for our service members,

including design-build improvements, and BRAC land sales via the GSA Internet. Additionally, with the establishment of Navy Installations Command, we have improved our capability to manage our dispersed facility operations, conserve valuable resources, establish enterprise-wide standards and continue to improve our facility infrastructure.

- ***Precision Guided Munitions*** receive continued investment in our FY05 request with emphasis on increasing the Joint Stand-Off Weapon (JSOW) baseline variant, Joint Direct Attack Munition (JDAM), Tactical Tomahawk (TACTOM), and Laser-Guided Bomb (LGB) inventory levels, while the JSOW penetrator variant enters full-rate production. We have also entered into a Common Missile program with the U.S. Army to replace the aging inventory of TOW, Maverick and Hellfire missiles. Joint partnerships with the Air Force and Army in several of our munitions programs continue to help us optimize both our inventories and precious research and development investments and will remain a focus for us in the future.

- ***Training Readiness***. We continue to make significant strides in this critical area. In FY04, the Congress supported two important programs to advance our training readiness. First, you endorsed the Training Resource Strategy (TRS), to provide more complex threat scenarios and to improve the overall realism and value of our training. Additionally, you funded the Tactical Training Theater Assessment and Planning Program to provide for a comprehensive training range sustainment plan. Our FY05 budget continues this work. We are working to make the Joint National Training Capability a reality. We have established a single office to direct policy and management oversight for all Navy ranges as well as serve as the resource sponsor for all training ranges, target development and procurement, and the Navy portion of the Major Range Test Facility Base (MRTFB).

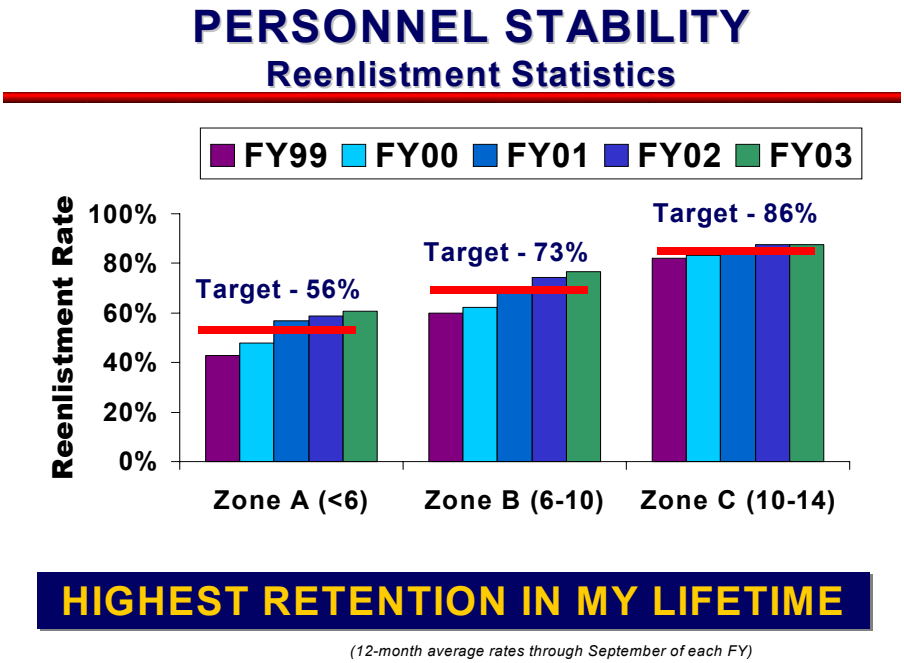
- ***Environmental Readiness***. In the last two years, Congress has provided significant legislative relief from encroachment and environmental requirements by amending the Endangered Species Act, the Migratory Bird Treaty Act and the Marine Mammal Protection Act. These amendments help to balance environmental stewardships and realistic military training. We will continue to focus the use of our ranges on military training, and remain committed to our

environmental obligations through integrated natural resource management plans. We will make every effort to protect marine mammals while ensuring our Sailors are properly trained and our transformational systems are properly tested. We look forward to demonstrating our ongoing commitment to environmental stewardship.

B. Shaping the 21st Century Workforce

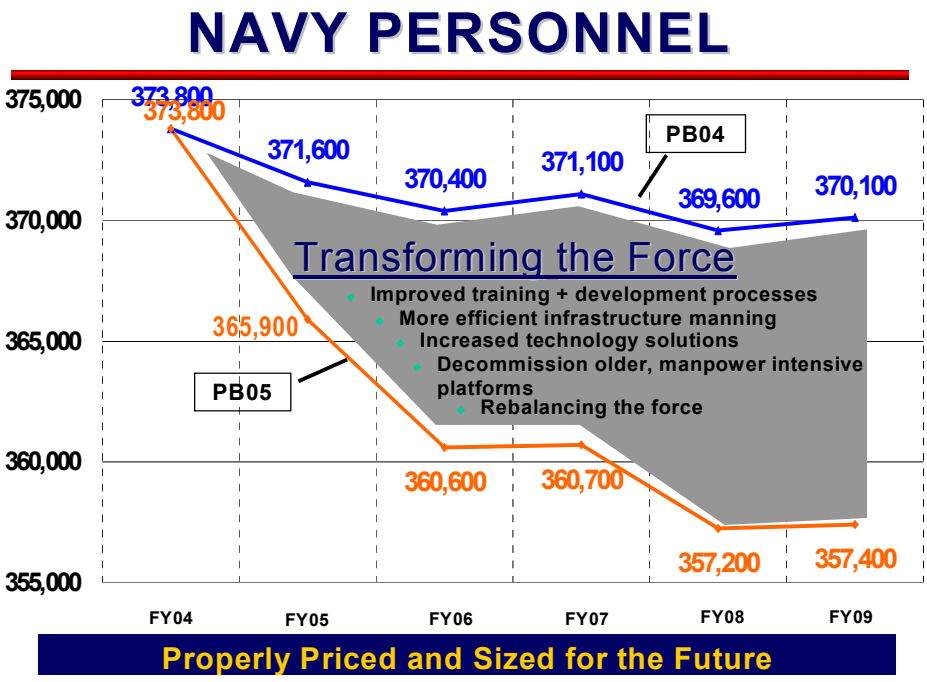
At the heart of everything good in our Navy today is this: we are winning the battle for people. Higher quality recruits, historic retention rates, innovative incentive pay pilots, reduced attrition, competitive reenlistments and detailing, and outstanding leadership in the ranks has made this the highest quality workforce the Navy has ever seen.

In 2003 specifically, we exceeded all of our aggregate retention goals for the third straight year; our recruiters reached their quotas for the 28th consecutive month; we reduced attrition another 10 percent from FY02 levels; and, through decommissioning older, manpower-intensive platforms, improving training and employment processes, and more efficient infrastructure organization, we have reduced gaps at sea to less than 1,000, down from 18,000 gaps just six years ago.



These accomplishments will help us develop the 21st Century workforce we'll need for our Sea Power 21 Navy. As our Navy becomes more high tech, so must our workforce. Our people will be a more educated and experienced group of professionals in the coming years, and we must properly employ their talents. **We will spend whatever it takes to equip and enable these outstanding Americans, but we do not want to spend one extra penny for manpower we do not need.**

As part of that effort, we continue to pursue the kind of new technologies and competitive personnel policies that will streamline both combat and non-combat personnel positions, improve the two-way integration of active and reserve missions, and reduce the Navy's total manpower structure. To that end, we are proposing a FY05 Navy end strength reduction of 7,900 personnel.



We will use existing authorities and our Perform to Serve program to preserve the specialties, skill sets and expertise needed to continue the proper balancing of the force.

We intend to build on the growth and development momentum of the last three record-breaking years. We are fully committed to ensuring every Sailor has the opportunity and resources to successfully compete. Our goal remains attracting, developing, and retaining the most highly

skilled and educated workforce of warriors we have ever had, to lead the 21st century Navy.

As I testified last year, ***Sea Warrior*** is designed to enhance the assessment, assignment, training and education of our Sailors.

Our FY05 budget request includes the following tools we need to enhance mission accomplishment and professional growth:

- ***Innovative personnel employment*** practices are being implemented throughout the fleet. Optimal manning experiments in USS BOXER (LHD-4), USS MILIUS (DDG 69) and USS MOBILE BAY (CG 53) produced revolutionary shipboard watch standing practices, while reducing overall manning requirements and allowing Sailors to focus on their core responsibilities. The fleet is implementing best practices from these experiments to change Ship Manning Documents in their respective classes. **Optimal manning means optimal employment for our Sailors.**

We have our fourth crew aboard USS FLETCHER (DD 992) and our third crew aboard USS HIGGINS (DDG 76) in our ongoing *Sea Swap* initiative. This has saved millions of dollars in transit fuel costs and increased our forward presence

without lengthening deployment times for our Sailors. FLETCHER and HIGGINS will return to San Diego this year after a period of forward deployed operations of 22 months and 17 months respectively. We will continue to assess their condition and deep maintenance needs to develop and apply lessons learned to future Sea Swap initiatives.

- ***Selective Reenlistment Bonus (SRB).*** Targeted bonuses such as SRB are critical to our ability to compete for our highly trained and talented workforce both within the Navy and with employers across the nation as well. Proper funding, adequate room for growth and the flexible authorities needed to target the right skills against the right market forces are important to the shape of the workforce. This program specifically targets retention bonuses against the most critical skills we need for our future. We ask for your continued support and full funding of this program.

- ***Perform to Serve (PTS).*** Last year, we introduced PTS to align our Navy personnel inventory and skill sets through a centrally managed reenlistment program and instill competition in the retention process. The pilot program has proven so successful in steering Sailors in overmanned ratings into skill areas where they are most needed that the program has been expanded. More than 2,400 Sailors have been steered to undermanned ratings and approved for reenlistment since the program began last February and we will continue this effort in 2005.

- ***Assignment Incentive Pay (AIP)*** is a financial incentive designed to attract qualified Sailors to a select group of difficult to fill duty stations. AIP allows Sailors to bid for additional monetary compensation in return for service in these locations. An integral part of our *Sea Warrior* effort, AIP will **enhance combat readiness by permitting market forces to efficiently distribute Sailors** where they are most needed. Since the pilot program began last June, more than 1,100 AIP bids have been processed resulting in 238 Sailors receiving bonuses for duty in these demanding billets. We ask for continued support of this initiative.

- ***Professional Military Education (PME).*** We are taking a more comprehensive approach to the education of our people than we have done in the past. We are in the process of developing a PME continuum that integrates general education, traditional Navy-specific Professional Military

Education (NPME), and Joint Professional Military Education (JPME) curricula. This will allow us to develop a program that fully incorporates all aspects of our professional and personal growth and development training needs. Improvements so far include establishing networks with civilian educational institutions, developing new degree programs, and establishing partnerships with other services' institutions. We are also expanding opportunity through distance learning and the Internet. We are committed to broadening the professional and intellectual horizons of both our officers and our enlisted men and women to prepare them to operate tomorrow's fleet and assume key naval and joint leadership roles.

- ***Human Performance Center (HPC)*** has been established to apply Human Performance and Human System Integration principles in the research, development and acquisition processes. In short, the HPS will help us understand the science of learning. They will ensure training is driven by Fleet requirements and they will focus requirements on the performance needed to carry out our missions. This will eliminate potential performance and training deficiencies, save money and help us improve our readiness.

- The ***Integrated Learning Environment (ILE)*** is the heart of our Revolution in Training. ILE is a family of systems that, when linked, will provide our Sailors with the ability to develop their own learning plans, diagnose their strengths and weaknesses, and tailor their education to support both personal and professional growth. They will manage their career requirements, training and education records. It will match content to career requirements so training is delivered at the right time. Most importantly, these services will be provided anytime, anywhere via the Internet and the Navy-Marine Corps Intranet (NMCI).

We are taking advantage of every opportunity to accelerate the tools we need to develop our 21st Century workforce. The improvements and pilots that Congress has supported – including bonuses, pay table adjustments, retirement reforms, better medical benefits, and our Sea Warrior initiatives – are having the desired impact.

Your support of our FY05 request for a 3.5 percent basic pay raise, for our efforts to transform our manpower structure in some fundamental ways, and for a reduction in average out-of-pocket housing costs from 3.5 percent to

zero will have a direct effect on our ability to properly size and shape the 21st century workforce that is our future.

C. <u>Accelerate Our Investment in Sea Power 21</u>

As I testified last year, Sea Power 21 defines the capabilities and processes that the 21st century Navy will deliver. We now have an opportunity to accelerate the advantages that our vision for a joint, netted and sea-based force provides this nation, thanks to the tremendous investments that you have made in our battle for people, in the quality of service for each of our Sailors, and in readiness.

This year, we will pursue distributed and networked solutions that could revolutionize our capability. We will focus on the power of Sea Basing and our complementary capability and alignment with our number one joint partner, the U.S. Marine Corps. We will sustain a robust science and technology program, and we will exploit investments made in joint research and development wherever possible.

For example, we are urgently pursuing technical advances to support our Sailors, Soldiers, Airmen and Marines in Iraq. The Naval Sea Systems Command and the Office of Naval Research are working closely with all services, government agencies, industry, and academic and government laboratories to identify, test, and deploy promising technologies that can counter improvised explosive devices (IEDs), snipers, suicide bombers and other force protection threats. We are also pursuing other quick-reaction technology initiatives such as persistent wide-area surveillance using small Unmanned Aerial Vehicles, blue force tracking technology, body armor and extremity protection. We are committed to ensuring that the joint force on the ground is as equipped as they possibly can be to accomplish their mission.

Our highest priority programs within each of the core capability sets that define our *Sea Power 21* vision.

Sea Basing *is the projection of operational independence*. Our future investments will exploit the largest maneuver areas on the face of the earth: the sea. Sea Basing serves as the foundation from which offensive and defensive fires are projected - making Sea Strike and Sea Shield a

reality. Sea Basing capabilities include, Joint Command and Control, Afloat Power Projection and Integrated Joint Logistics.

Our intent is to maximize our sea basing capability and minimize as much as possible our reliance on shore-based support nodes. To do this, we will make doctrinal, organizational and operational changes mandated by this concept and by the underlying technology that makes it possible. We have an opportunity here, along with the U.S. Marine Corps and the U.S. Army, to reexamine some of the fundamentals of not only how we move and stage ground forces, but how we fight ashore as well. Our highest priority Sea Basing investments include:

- *Surface Combatant Family of Ships*. As I've already testified, the power of joint forces in OIF was in the synergy of individual service strengths. The same concept holds true within the Navy itself. We seek the synergy of networks, sensors, weapons and platforms that will make the joint force greater in combat power than the sum of the individual parts. Development of the next generation of surface combatants as "sea frames" - analogous to "air frames" - that are part of a modular system is just such an endeavor.

The *surface combatant family of ships* allows us to dramatically expand the growth potential of our surface combatants with less technical and fiscal risk. To bring these concepts to life and to take them -- and the fight -- to the enemy, we have decided upon three entirely new ship classes. The first to premier will be the Littoral Combat Ship (LCS) in 2007. The advanced strike destroyer (DD(X)) will follow in about 2011. And just a few years after the first DD(X), the keel will be laid on the first CG(X), the next class of cruiser designed from the keel up for theater air and ballistic missile defense.

Our research and development efforts and experimentation with high speed and theater support vessels like SWIFT, and the X-Craft later this year, are helping us reduce our technical risk and apply important lessons in hull design and mission modularity to the development of the surface combatant family of ships. DD(X)is the heart of the family and will spiral promising technologies to both CG(X) and LCS in the future. I will discuss each one of these ships in more detail below.

- *CVN 21* is the centerpiece of the Navy Carrier Strike Group of the future. It will bring transformational capabilities to the fleet, including a new electrical generation and distribution system, the electro-magnetic aircraft launching system (EMALS), a new/enlarged flight deck, weapons and material handling improvements, and a crew reduction of at least 800 personnel. It will be able to generate higher daily and sustained sortie rates than our NIMITZ-class aircraft carriers. Our FY05 request of $979M in research and development and procurement funding continues the development of CVN 21 and several critical technologies in the lead ship, including the EMALS prototype and testing already ongoing in Lakehurst, New Jersey. Construction of the CVN 21 remains on track to start in FY07.

- *CVN 70 RCOH*. The FY05 budget provides advanced procurement funds for the USS CARL VINSON (CVN 70) RCOH, now scheduled to begin in FY06. CVN 70 has sufficient reactor fuel for one additional deployment. This action makes the best possible use of CARL VINSON's remaining fuel capacity and improves shipyard work loading.

- *MPF(F)*. These future Maritime Prepositioning Ships will serve a broader operational function than current

prepositioned ships, creating greatly expanded operational flexibility and effectiveness. We envision a force that will enhance the responsiveness of the joint team by the at-sea assembly of a Marine Expeditionary Brigade that arrives by high-speed airlift or sealift from the United States or forward operating locations or bases. These ships will off-load forces, weapons and supplies selectively while remaining far over the horizon, and they will reconstitute ground maneuver forces aboard ship after completing assaults deep inland. They will sustain in-theater logistics, communications and medical capabilities for the joint force for extended periods as well. Our FY05 request accelerates the lead MPF(F) from FY08 to FY07 to reflect our emphasis on Sea Basing capabilities.

Sea Strike *is the projection of precise and persistent offensive power.* The core capabilities include Time Sensitive Strike; Intelligence, Surveillance and Reconnaissance; Ship to Objective Maneuver; and Electronic Warfare and Information Operations.

We are already investing in impressive programs that will provide the capabilities necessary to support Sea Strike; these include the following FY05 priorities:

- *DD(X)*. The technology engine for the Fleet, DD(X) is the centerpiece of a surface combatant family of ships and will deliver a broad range of capabilities. This advanced multi-mission destroyer will bring revolutionary

improvements to precise, time-critical strike and joint fires and our Expeditionary Strike Groups of the future.

Transformational and leap ahead technologies include an electric drive and integrated power system; an Advanced Gun System with the high rate of fire and precision to reach almost 8 times farther and command more than 110 times the area of our current five inch capability; the new Multi-Function Radar/Volume Search Radar suite; optimal manning through advanced system automation, stealth through reduced acoustic, magnetic, IR, and radar cross-section signature; and enhanced survivability through automated damage control and fire protection systems. DD(X) is an enabler both technically and operationally. This seaframe will also reduce our seagoing manpower requirements and will lower total ownership costs.

This program will provide a baseline for spiral development of technology and engineering to support a range of future seaframes such as (CG(X)). It will also enable the transformation of our operations ashore. Imagine an Army or Marine rifleman on the ground and Navy Petty Officer at sea looking at the same real-time picture of enemy troops encamped at a municipal airport. With the push of a button, the rifleman sends targeting coordinates to the Petty Officer in a DD(X) more than 50 miles offshore. Within a few minutes, rounds from the AGS start falling on the airport with incredible accuracy. That kind of on-demand, persistent time-critical strike will revolutionize our joint fire support and ground maneuver concepts of operation and it will free our strike fighter aircraft for more difficult targets at much greater ranges.

DD(X)'s all-electric drive, called the Integrated Power System (IPS), will not only drive the ship through the water, but will also generate the kind of power capacity that will enable eventual replacement of the Advanced Gun System (AGS). When combined with the physical capacity and volume of the hull form, DD(X) could lead us to revolutionary technologies from the naval research enterprise like the electromagnetic rail gun and directed energy weapons. The fact that rail guns do not require any explosives will free up magazine space for other mission areas. This capability is projected to be a reality in the 2015 to 2018 timeframe. DD(X) will be in service for decades after that; having the kind of growth potential to

install those kinds of technologies dramatically lowers our future development costs.

The funding profile for DD(X) supports the 14,000-ton design and the S-Band Volume Search Radar (VSR). Lead ship detail design and construction are planned to start in FY05.

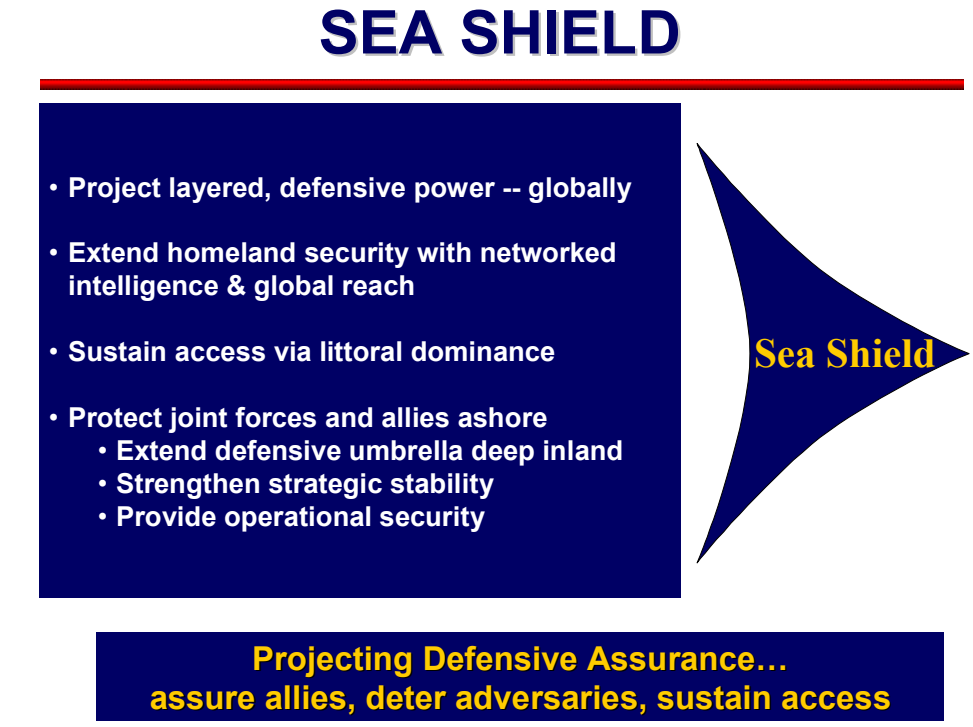
- *JSF.* The Joint Strike Fighter will enhance our Navy precision with unprecedented stealth and range as part of the family of tri-service, next-generation strike aircraft. It will maximize commonality and technological superiority while minimizing life cycle cost. The JSF has just completed the second year of a 10-11 year development program, and is experiencing a variety of typical challenges that affect System Development and Demonstration (SDD) program schedule and cost. Additional design work is required to address technical issues, primarily weight projections. The budget therefore realigns $5B from procurement appropriations in FY05 through FY09, and Low Rate Initial Production was deferred one year to FY07. The JSF remains vital to our future. It will give us the range, persistence and survivability needed to keep our strike fighters viable for years to come.

- *SSGN.* Funding is included in FY05 to continue the SSGN conversion program. Our future SSGN capability will provide covert conventional strike platforms capable of carrying 150 Tomahawk missiles. The SSGN will also have the capacity and capability to support Special Operations Forces for an extended period, providing clandestine insertion and retrieval by lockout chamber, dry deck shelters or the Advanced Seal Delivery System, and they will be arrayed with a variety of unmanned vehicles to enhance the joint force commander's knowledge of the battlespace. The inherently large capacity of these hulls will enable us to leverage future payloads and sensors for years to come. We still expect our first SSGN to be operational in 2007.

- *EA-18G.* Last year, you initiated funding at our request to replace the aging EA-6B Prowler with the EA-18G Airborne Electronic Attack aircraft. Increased EA-6B usage in 2003 has resulted in wing center section or outer wing panel fatigue for some 43 EA-6B aircraft, making your support last year critical to our ability to dramatically accelerate the recapitalization of the nation's only joint

electronic attack capability. Using the demonstrated growth capacity of the F/A-18E/F, the EA-18G will quickly recapitalize our Electronic Attack capability at lower procurement cost, with significant savings in operating and support costs; all while providing the growth potential for future electronic warfare (EW) system improvements. It will use the Improved Capability Three (ICAP III) receiver suite and provide selective reactive jamming capability to the war fighter. This will both improve the lethality of the air wing and enhance the commonality of aircraft on the carrier deck. We begin purchasing airframes in FY06 and will achieve initial operating capability in 2009.

Sea Shield *is the projection of layered, global defensive power.*



Sea Shield will enhance deterrence and war fighting power by way of real-time integration with joint and coalition forces, high speed littoral attack platforms setting and exploiting widely distributed sensors, and the direct projection of defensive power in the littoral and deep inland. Sea Shield capabilities include, Homeland Defense, Sea and Littoral Control, and Theater Air and Missile Defense. Our highest priority Sea Shield programs this year include:

• *Mine Warfare Programs*. We intend to field a set of unmanned, modular Mine Counter-Measure (MCM) systems employable from a variety of host platforms or shore sites to minimize our risk from mines and sustain our national economic and military access to every corner of the globe. Our future MCM capability will be faster, more precise and organic to both Expeditionary and Carrier Strike Groups and will ultimately remove both the man and our mammals from the minefield. Within the FYDP, we expect to reduce the time that it takes to render sea mining ineffective by at least half of the time that it takes us today.

Our FY05 budget request includes funding to realize organic mine warfare capabilities in one Strike Group this year, while maintaining the funding necessary for a potent and dedicated Mine Countermeasure (MCM) force. We have also requested an increase of $167M across the FYDP for mine warfare programs, to include unmanned vehicles such as the Long-Term Mine Reconnaissance System (LMRS) to provide a clandestine mine reconnaissance capability from our LOS ANGELES-class submarines, and the Remote Minehunting System on ARLEIGH BURKE-class destroyers (DDGs 91-96). Both of these programs are scheduled to reach Initial Operating Capability (IOC) milestones this year. Future introduction of the Littoral Combat Ship (LCS) with mine warfare mission modules will improve the ability of Strike Groups to neutralize mine threats in parallel with - not in sequence before - other operations.

• *Littoral Combat Ship (LCS)*. The role of LCS is to provide access to joint forces in the littorals; a capability gap we identified as a result of the 2001 Quadrennial Defense Review. During the past year and a half, considerable campaign analysis and fleet battle experiments have demonstrated that naval forces need better ways to fight mines; small, fast, highly armed boats; and quiet diesel and advanced air-independent propulsion submarines operating in shallow waters. The performance of U.S. Navy Patrol Craft and the experimental HSV-X1 JOINT VENTURE in the Iraqi littoral was critical to the early detection and destruction of the Iraqi mine threat. The same kind of capability needs to be delivered in a fast, maneuverable, shallow-draft platform that has the survivability to operate independently. LCS will have these characteristics, along with self-defense, navigation, and command-and-control systems.

LCS will be built from the keel up to be a part of a netted and distributed force, and will be the first ship designed with FORCEnet as a requirement. The main battery of LCS will be its off-board systems: manned helicopters and unmanned aerial, surface and underwater vehicles. It is the off-board vehicles - with both sensors and weapons - that will enter the highest threat areas. Its modular design, built to open-systems architecture standards, provides flexibility and a means to rapidly reconfigure mission modules and payloads. As technology matures, the Navy will not have to buy a new LCS platform, but will upgrade the mission modules or the unmanned systems.

LCS also will have an advanced hull design and be significantly different from any warship that has been built for the U.S. Navy. Detail design and construction of the first LCS Flight 0 ship is planned in FY05. The LCS requirements process is tailored to support the rapid delivery of two flights (Flight 0 and 1) of ships, using an evolutionary, "spiral" acquisition approach. The spiral development process allows time-phased capability improvement for ship and mission systems. This incremental development and delivery strategy supports the ship's accelerated acquisition schedule, diverse threat and capability requirements, and dynamic levels of technology push/pull. The ship's modular, open design will also enable lifecycle adaptability and affordability. Four LCS's have been added since last year's budget plan was submitted.

- *Missile Defense*. Our Navy is poised to contribute significantly in fielding initial sea based missile defense capabilities to meet the near-term ballistic missile threat to our homeland, our deployed forces, and our friends and allies. We are working closely under the authority of the Missile Defense Agency (MDA) to deliver this much-needed capability to the nation's Combatant Commanders. Our sea-based missile defense programs experienced tremendous success on the test range this year, scoring two of three intercepts. Continued development and testing will support Initial Defensive Operations beginning in the fall of 2004, with select ARLEIGH BURKE-class destroyers providing Long Range Surveillance and Tracking to the nation's capability late this year.

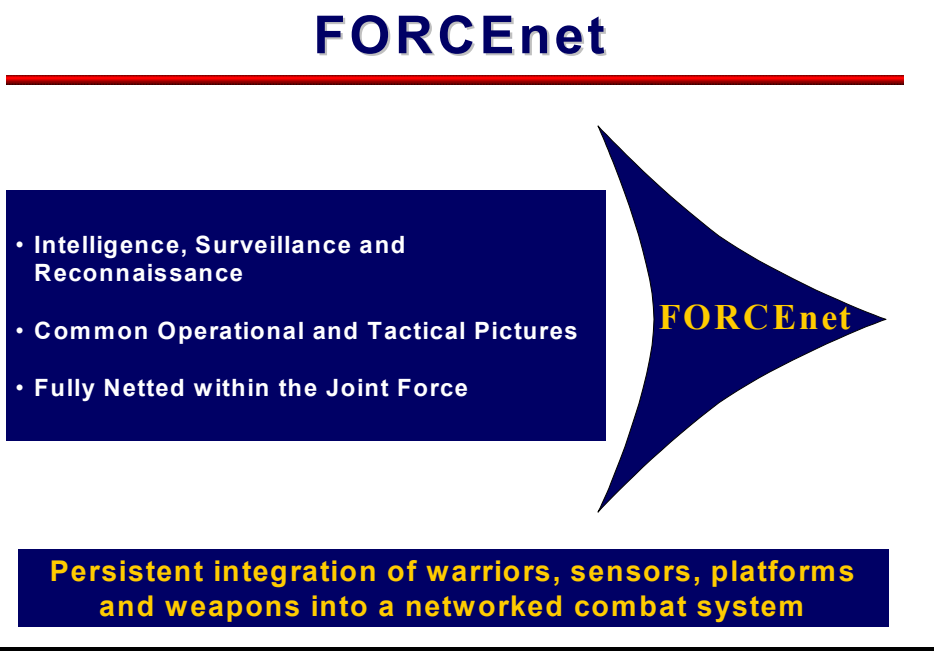
- *Multi-mission Maritime Aircraft (MMA) – Broad Area Maritime Surveillance (BAMS)*. We significantly increased this year's research and development funding for the Multi-

Mission Aircraft to recapitalize our 1950's-era Lockheed "Electra" based P-3 force. Our acquisition plan was further refined this past year with the integration of the Broad Area Maritime Surveillance-Unmanned Aerial Vehicle (BAMS-UAV) program into the overarching Maritime Patrol and Armed Reconnaissance requirement. This lethal combination of manned and unmanned reconnaissance aircraft will recapitalize our maritime patrol anti-submarine warfare, anti-surface warfare and armed intelligence, surveillance and reconnaissance capability. We also developed a robust sustainment plan for the current P-3 fleet that includes special structural inspections (SSI) and kits that extend P-3 service lives by a minimum of 5,000 hours. This SSI program will replace, correct or modify our current P-3 force to ensure that they do not prematurely reach the end of their fatigue life before we achieve Initial Operating Capability (IOC) of the MMA in 2013.

- *VIRGINIA-class submarine (SSN-774).* The first ship of this class was christened this year and will commission in 2004. This class will replace LOS ANGELES-class (SSN-688) attack submarines and will incorporate new capabilities, including unmanned vehicles, and the ability to support Special Warfare forces. It will be an integral part of the joint, networked, dispersed 21st Century Fleet. Our FY04 budget funded the first of five submarines under the multi-year procurement (MYP) contract authorized by Congress last year. The second submarine of the MYP contract is funded in FY05. Approximately $240M in economic order quantity advance procurement is funded in FY05 in support of this contract.

- *CG Modernization*. Funding for the TICONDEROGA-class cruiser modernization continues in FY05. The Cruiser Modernization Program is a mid-life upgrade for our existing AEGIS cruisers that will ensure modern, relevant combat capability well into this century and against evolving threats. These warships will provide enhanced area air defense to the joint force commander. These modifications include installations of the Cooperative Engagement Capability, which enhances and leverages the air defense capability of these ships, and an ASW improvement package. These converted cruisers could also be available for integration into ballistic missile defense missions when that capability matures. Our first cruiser modernization begins in FY06.

FORCEnet is the operational construct and architectural framework for naval warfare in the joint, information age. It will allow systems, functions and missions to be aligned in a way that will transform our situational awareness, accelerate speed of decisions and allow naval forces to greatly distribute its combat power in a unified, joint battlespace. FORCEnet provides the world-class IT tools that we need to continue to be the world-class Navy.



Programs that will enable the future force to be more networked, highly adaptive, human-centric, integrated, and enhance speed of command include:

- *Navy Marine Corps Intranet (NMCI)*. NMCI is operational and providing commercial IT services for more than 300,000 DoN employees and two Combatant Commanders. This initiative, as part of our FORCEnet strategy, is providing a single, secure shore-based network and will link with our tactical networks to provide end-to-end collaboration within the DoN and across the joint community. FY05 funding of $1.6B provides for NMCI operations and, at the same time, continues transition of the remaining legacy IT networks to NMCI enterprise network services. This past year, with the help of the authorizing language you provided, the NMCI program finalized a full partnership agreement with the Defense Information Systems Agency for operations and provisioning.

- *Mobile User Objective System (MUOS).* The new MUOS Satellite Communications (SATCOM) program will increase DoD Narrowband UHF SATCOM capacity by roughly 1300 percent over current capabilities. MUOS is a $6.4B joint interest program, and it supports a particularly important "Comms-on-the-Move" capability for handheld terminals, aircraft, missiles, and UAVs in urban and heavily wooded terrain. We plan to reach the Initial Operating Capability milestone in 2009, with Full Operational Capability in 2013.

- *Joint Aerial Common Sensor (JACS).* We have partnered with the Army in the Joint Aerial Common Sensor development program in our pursuit of a replacement for the aging EP-3 airborne information warfare and tactical signals intelligence (SIGINT) aircraft. JACS will provide multi-intelligence strike targeting data and Signals Intelligence capabilities, and will include a Synthetic Aperture Radar, Ground Moving Target Indicator, Electro-Optical and Infrared Sights, and Measurements and Signature capabilities. These will be coupled with automatic/manual data fusion. Our FY05 request includes $25M for this program.

- *Joint Tactical Radio System (JTRS).* JTRS will be the wireless "last tactical mile" component of the Global Information Grid (GIG) and will transform Navy's tactical communications systems by incorporating Internet Protocol (IP) communications over multi-spectral radio frequency (RF) media. JTRS is a software programmable, multi-band, multi-mode family of net-workable radios, capable of simultaneous voice, data, video communications and mobile ad hoc networking. Our FY05 request includes $56M for JTRS.

- Deployable Joint Command Control System (DJC2). DJC2 is the SECDEF and CJCS priority C2 transformation initiative. DJC2 will provide a standing, fully deployable, scaleable, and standardized command and control (C2) capability to the Regional Combatant Commanders (RCC) and Joint Force Commanders. DJC2 responds to the need for joint, deployable C2 capability, with first RCC delivery to PACOM in FY05. DJC2 is an enabler for the Standing Joint Force Headquarters concept being developed by Joint Forces Command (JFCOM). DoN is Lead Component for the acquisition program, and we ask your support for the $81M we've requested in FY05.

D. Improving Effectiveness

As I've testified, your Navy today is the most capable and most ready Navy in our history, thanks in large part to the support of the Congress and of the American people. But, I believe that we can do better – that, in fact, we must do better - as stewards of the public trust in determining not just *how much* we should spend on programs, but *how* those defense dollars are spent. This is especially true today because of the strategic challenges posed by the ongoing global war on terrorism, because of our need to recapitalize aging, Cold War-era infrastructure and capability, and because of the burgeoning technological and operational changes that will dramatically alter the way we fight. **Revolutionizing the way in which our defense dollars are spent presents opportunities to increase our effectiveness, both now and in the future.**

Sea Enterprise is focusing headquarters leadership on outputs and execution, and is creating ideas that will improve our productivity and reduce our overhead costs. Its key objectives are to:

- Leverage technology to improve performance and minimize manpower costs
- Promote competition and reward innovation and efficiency
- Challenge institutional encumbrances that impede creativity and boldness in innovation
- Aggressively divest non-core, under-performing or unnecessary products, services and production capacity
- Merge redundant efforts
- Minimize acquisition and life-cycle costs
- Maximize in-service capital equipment utilization
- Challenge every assumption, cost and requirement

Department of the Navy senior leadership is actively engaged in tracking the execution of ongoing *Sea Enterprise* initiatives totaling approximately $40B, and identifying $12.4B in cost savings and requirements mitigation across the Future Years Defense Program (FYDP). We are committed to efficiency and productivity improvements that will generate the savings necessary to augment our investment stream and implement our *Sea Power 21* vision - delivering the right force, with the right readiness, at the right

cost. Specific highlights of these fiscal transformation initiatives include:

- ***Right Readiness.*** Along with the Fleet Response Plan, we have also initiated processes ashore that will generate a more effective force. As just one example, we have established a single shore installation management organization, Commander, Navy Installations (CNI), to globally manage all shore installations, promote "best practices" development, and provide economies of scale, increased efficiency, standardization of polices, and improved budgeting and funding execution. This initiative is anticipated to save approximately $1.2B across the FYDP.

- ***Right Cost.*** We've taken a hard look at our "level of effort" programs to maximize return on taxpayer investment. This year's effort generated $2B in future savings in programs not supported by specific performance metrics in force structure, readiness or cost benefit. In addition, we focused on streamlining our organizations and processes as a means to harvest efficiencies and control costs. Innovative programs like SHIPMAIN and the Naval Aviation Readiness Integrated Improvement Program are aiding in developing and sharing best practices, streamlining maintenance planning and improving performance goals in shipyards, aviation depots, and intermediate maintenance activities. We also reorganized the Navy Supply Systems Command, including the establishment of the Naval Operational Logistics Support Center to consolidate transportation, ammunition and petroleum management. We will continue to look for additional opportunities in this area while leveraging the gains already made.

- ***Right Force.*** We believe transformation to our future force must include improving our buying power. To improve upon our force structure, we're divesting non-core, redundant, under-performing, and outdated products and services. We are using multi-year procurement contracts and focusing where possible on economic order quantity purchase practices to optimize our investments. An excellent example lies in the F/A-18E/F multi-year procurement contract that anticipates procurement of 210 aircraft while saving us in excess of $1.1B across the FYDP. We also recognize the need to transform our single greatest asymmetric advantage, our people. The upcoming year will focus on ensuring we not only have the right number, but the right mix of military, civilian, and

contractor personnel to accomplish the mission at the lowest possible cost. You've given us a tremendous tool to enhance our flexibility in this area, the National Security Personnel System, and we plan to take full advantage of it.

Building on prior efforts, I'm dedicating a significant amount of personal time to conducting execution reviews with leadership at the major commands across the Navy because, as I see it, leadership engagement in execution is an essential step to achieving our *Sea Enterprise* objectives. These reviews have provided me the opportunity to focus on the intricate details of the organizations while ensuring commanders are aligned with the vision and direction in which we are steaming. We focus on ways to swiftly move from strategy to implementation, as well as innovative ways to reduce costs and return resources to the enterprise for reinvestment.

In 2005, the Navy will continue to pursue product and process efficiencies and the opportunities to be more effective while improving our war fighting capability. Harvesting the savings for recapitalization is a vital part of that effort, and we will continue to balance the benefits of new productivity initiatives against operational risks. Our intent is to foster a culture of continuous process improvement, reduce overhead, and deliver the right force structure both now and in the future.

IV. Conclusion

For us, winning the Global War on Terrorism remains our number one objective - - and victory is the only acceptable outcome. To achieve this, we are **accelerating the advantages** we bring to the nation.

The Fleet Response Plan will improve upon the operational availability of fleet units, providing forward deployed forces for enhanced regional deterrence and contingency response, while at the same time, retaining the ability to rapidly surge in times of crisis.

We are investing in enhanced war fighting capability for the joint force, using the extended reach of naval weapons and sensors to reach farther and more precisely with striking power, and deliver broader defensive protection

for joint forces ashore and fully leverage our command of the sea.

We are creating a personnel environment that attracts, retains and relies upon creative, effective and competitive people. We are investing in the tools, the information technology and the training that delivers more meaningful job content to them because it is they who offer us our greatest advantage.

The support of Congress is vital to our readiness today and to building the Navy of tomorrow - **I thank you for your dedicated efforts and support**.