

**NOT FOR PUBLICATION UNTIL RELEASED BY
THE SENATE ARMED SERVICES COMMITTEE**

**STATEMENT OF
VICE ADMIRAL GERALD L. HOEWING, U.S. NAVY
CHIEF OF NAVAL PERSONNEL
AND
DEPUTY CHIEF OF NAVAL OPERATIONS
(MANPOWER & PERSONNEL)
BEFORE THE
SUBCOMMITTEE ON PERSONNEL
OF THE
SENATE ARMED SERVICES COMMITTEE
ON
FY05 PERSONNEL PROGRAMS
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Introduction

Mr. Chairman and distinguished members of this subcommittee, thank you for this opportunity to appear before you again this year to apprise you of our recent successes and ongoing efforts in pursuit of optimum personnel readiness within the world's finest Navy.

On behalf of the men and women of the United States Navy, I would like to express our collective gratitude for your exceptional and sustained support in ensuring we have the right people, both in number and quality, as well as the proper tools necessary to correctly man our current and future Naval forces. Your continuing support of initiatives that provide high quality of service and quality of life for Sailors and their families is among the most influential factors in our success in recruiting the very best young men and women this nation has to offer, and in our subsequent ability to retain them in unprecedented numbers in an all-volunteer force during a time of war. Continued congressional support for improvements in compensation, special and incentive pays, healthcare and quality of service enhancements are sending the right signal – we value your service and we want you to stay Navy. Your support for DOD's Fiscal Year 2005 request for a 3.5 percent basic pay raise, our efforts to transform our manpower structure, and further reduction in average out-of-pocket housing costs, from 3.5 percent to zero, will enhance our ability to properly size and shape the 21st century workforce that is our future.

As Chief of Naval Operations, Admiral Vern Clark, recently informed the full Senate Armed Services Committee, we are winning the battle for people. Higher quality recruits, historic retention rates, innovative incentive pay programs, reduced attrition, competitive reenlistments and detailing, and outstanding leadership have all contributed to making our current workforce the very best the United States Navy has ever seen. Admiral Clark has consistently placed manpower at the top of his priority list and has made sure it is the highest priority of all who serve in positions of leadership. As a direct result of initiatives he has supported, we have retained Sailors at near historic rates, while focusing even more on the quality of both those we keep on the rolls and those we bring in through recruiting. Such efforts have combined to allow us to dramatically reduce accession goals. This, in turn, has saved literally millions of dollars in training replacement personnel while preserving knowledge, skills, abilities and leadership experience within our ranks.

In 2003, we exceeded all aggregate retention goals for the third straight year; our recruiters reached their new contract objective for the 29th consecutive month and met our annual active enlisted accession goal for the fifth straight year; we reduced attrition 10 percent from the previous year's levels; and, through decommissioning older, manpower-intensive platforms, improving training and employment processes, and more efficient infrastructure organization, we have further reduced gaps at sea. These accomplishments are helping develop the 21st Century workforce needed for *Sea Power 21*, our vision for how we will organize, integrate, and transform the United States Navy as we defend our nation and defeat our enemies in the uncertain century ahead. As Navy's force structure becomes more technical, 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.

CNO has stated that 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. This places us at a unique crossroads...Navy manpower today exceeds that which is required to most efficiently and effectively man our current and anticipated force structure. And, our people are better, smarter and more talented than they were in years past but not as good as they will be tomorrow. CNO refers to this as the “genius of our people” and because of it, we can sustain our high degree of combat readiness with fewer people.

“One thing we have learned in the global war on terror is that, in the 21st century, what is critical to success in military conflict is not necessarily mass as much as it is capability.”

Donald H. Rumsfeld
Secretary of Defense
4 February 2004

Properly Shaping the Force

As we continue to pursue the kind of new technologies and competitive personnel policies that will eliminate non-productive work, 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, we are proposing a fiscal year 2005 end strength reduction of 7,900 personnel. It is important to note that we have deliberately positioned ourselves for this potential success. Navy has historically been a capital-intensive service. “Manning the equipment” as opposed to “equipping the man” has been our traditional approach. But as we introduce in coming years more sophisticated systems that are designed with the human operator in mind, reductions in manpower, and therefore, end strength naturally follow. Personnel reductions will include both uniformed and civilian positions as we shape manpower requirements to match the significant investments of the past several years.

Our force will be smaller and present a “flatter” profile, meaning, we are reducing the number of junior Sailors who historically have performed menial labor tasks, and we are generally increasing the longevity of our force; thereby reducing the costs associated with loss of experience and retraining. The environment in which our Sailors operate is becoming increasingly more competitive and, by extension, more effective. Achieving and sustaining membership in the 21st Century Navy is based on the potential for further growth and the ability and initiative to make measurable contributions to mission effectiveness. We are fostering a climate that, while recognizing the importance of all supporting elements, places greater emphasis and rewards on those filling operational roles directly associated with war fighting. We are capitalizing on the ability of the individuals without being constrained by labels of active, reserve, civilian or contractor. We are taking new approaches that, in many cases will de-link unit operational tempo (OPTEMPO) from individual personnel tempo (ITEMPO). At every turn we are carefully targeting the educational needs and desires of our people to enhance their professional and personal competence in a directed manner that supports mission accomplishment and stimulates personal growth and development.

The Right Approach

The path on which we have embarked to properly shape our force structure may appear contrary to conventional wisdom. The prevailing argument seems to be that with a war ongoing against global terrorism, no individual service can afford to reduce the size of its workforce. Nothing could be farther from the truth for the Navy. In fact, we think we can be an even more effective fighting force with fewer people on the rolls than we are today. There are two principal reasons: first, we are fundamentally changing the *way* in which work gets done. Technology and better manning practices have permitted us to simply accomplish a given task with far fewer people than it might have required even a decade ago. Consider the manning of one of our destroyers, which now requires a crew of 320, but in the future will be manned a crew of 165. Secondly, we are approaching manpower from a Total Force perspective, closely evaluating not only the relevance of a given task to combat capability, but whether or not that task is best performed by an active duty or reserve Sailor, a civilian employee or a contractor. If it doesn't contribute to combat readiness and if it doesn't need to be done by a Sailor or one of our talented civilians, we don't need to be doing it. At its heart, this is requirements-driven force shaping. We know that the non-productive work must go before the personnel numbers can be significantly reduced over time.

We are reducing excess infrastructure, mostly at large shore installations, that is not immediately and directly tied to the fleet. Most importantly, we are eliminating non-productive work before removing the people. We are abandoning a Cold War era industrial-age manning construct that no longer makes sense in an information-rich world...or against the diverse threats now facing our national security. This is all about how best to employ precious human resources; making sure highly talented Sailors are not engaged in low production work.

Sea Warrior: Investing in Sailors

Sea Warrior, the manpower component of *Sea Power 21*, implements Navy's commitment to the growth and development of our people. It serves as the foundation of war fighting effectiveness by ensuring the right skills are in the right place at the right time. Traditionally, our ships have relied on large crews to accomplish their missions. Today, our all-volunteer force is developing new combat capabilities and platforms that feature dramatic advancements in technology and reductions in crew size. The crews of modern warships are streamlined teams of operational, engineering and information technology experts who collectively operate some of the most complex systems in the world. As optimal manning policies and new platforms further reduce crew size, we will increasingly need Sailors who are highly educated and expertly trained. *Sea Warrior* is designed to enhance the assessment, assignment, training and education of our Sailors. Our fiscal year 2005 request sustains our *Sea Warrior* momentum to change the tools used to assess mission accomplishment and individual 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 of our Sailors.

- ✓ *Sea Swap* – Building on the success of the first crew change in USS FLETCHER (DD 992) in Fremantle, Australia, we expanded the *Sea Swap* initiative to four SPRUANCE-class destroyers (DD) and three ARLEIGH BURKE-class guided missile destroyers (DDG). The *Sea Swap* initiative has saved millions of dollars in transit fuel costs and increased forward presence without lengthening deployment times for our Sailors.
- ***Commander, Naval Installations (CNI) Command*** – Established this past October, CNI is responsible for consolidation of all Shore Installation Management Functions (SIM), e.g., facility maintenance, firefighting, security, mail services, etc. It serves as a single and centralized advocate for shore installations, to establish Navy-wide business practices and generate savings for future investments. The overarching objective is to eliminate redundancy in the SIM process and enable activities to focus on their respective technical missions. CNI’s core responsibility is to provide uniform program, policy and funding for the management and oversight of shore installation support to the Fleet. CNI is an important tool in implementing changes in the Navy’s internal framework as well as rationalizing Navy’s infrastructure within the larger context of Department of Defense transformation initiatives.
- ***Fleet Response Plan (FRP)*** – Our nation must provide for homeland defense, while concurrently being forward deployed and ready to surge to deliver overwhelming and unparalleled combat power wherever and whenever needed. In response to this mandate, CNO launched the FRP. This innovative approach allows us to surge about 50 percent more combat power on short notice, while simultaneously reducing some of the personnel strain of forward rotations. The FRP allows us to consistently deliver six forward deployed or ready-to-surge Carrier Strike Groups (CSGs), almost immediately, plus two additional CSGs in the basic training phase in 90 days or less (6+2). To make this work, we have fundamentally reconfigured our employment policy, fleet maintenance, deployment preparations and fleet manning policies to expand 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.
- ***Integrated Readiness Capability Assessment (IRCA)*** – IRCA was developed to permit us to more carefully examine our readiness processes. Starting with the FRP, we took a hard and realistic look at what we need to deliver required combat readiness. The IRCA helped us understand the collective contributions of all components of readiness, accurately define requirements, align the proper funding and provide a balanced investment to the right accounts. It improved our visibility of the true requirements and gave us a methodology by which to assess and understand acceptable and unacceptable risks to our readiness investments. The bottom line is – we have carefully defined the readiness requirement and identified those areas where we can streamline or cease activities that do not add to readiness.

“We will deliver the right readiness at the right cost to the nation.”Admiral Vern Clark

Chief of Naval Operations
10 February 2004

- ***Professional Military Education (PME)*** - We are taking a more comprehensive approach toward educating our people than we have done in the past. Our PME program will allow us to fully incorporate personal growth and development as part of our mission. We are broadening the professional and intellectual horizons of our members to better prepare them to operate tomorrow's fleet and to assume key naval and joint leadership roles. The PME continuum we are developing, will integrate general education, traditional Navy-specific Professional Military Education (NPME) and Joint Professional Military Education (JPME) curricula.
- ***Human Performance Center (HPC)*** has been established to optimize naval war fighting performance by applying the Human Performance Systems Model and the science of learning to all facets of naval operations. In doing so, we will eliminate barriers to achieving required performance and ensure that training solutions are effective, thereby, saving money and improving readiness.
- ***Integrated Learning Environment (ILE)*** is a family of systems that, when linked, will provide our Sailors with the ability to develop their own learning plans, diagnose performance strengths and weaknesses, and tailor education to support both personal and professional growth. Most importantly, these services will be provided anytime, anywhere via the Internet and the Navy-Marine Corps Intranet (NMCI).
- ***Five Vector Model (5VM)*** – is an innovative assessment tool currently in use to improve the professional development and growth of our Sailors, both officer and enlisted, active and reserve. The enlisted tool is being used at this time and the officer tool is under development. The 5VM in coordination with the Career Management System (CMS), will use the latest in systems technology to create an integrated career management tool allowing Sailors to more successfully plan and execute their careers, and then reap the rewards of serving. Accessed through Navy Knowledge Online (NKO), the 5VM is both a roadmap and a resume, showing Sailors what they need to know, when they need to know it, and how to go about getting that knowledge, skill or ability. Tailored to each individual, it offers a single point of access for all information and resources related to planning and managing their professional and personal lives. Sailors can access their professional and personal development, leadership, certifications and qualifications, and performance vectors. As each vector requirements, or milestones, are plotted, these are linked to the supporting courses (residency, computer-based, Web-delivered), tools and available resources. Based on achieved milestones, the 5VM tracks a Sailor's ranking among his or her peers; identifies promotion potential and feeds various databases from which the electronic training jacket is created. Through the 5VM, Sailors will also link to the CMS to identify duty assignments that will best meet their individual development and promotion needs, as well as alternative duty assignments and non-military educational opportunities. Sea Warrior will ultimately bring together the 5VM and CMS to create an integrated detailing system, allowing Sailors to apply for duty assignments online.

Navy Manpower and Personnel Strategy (N-MAPPS)

We decided several months ago to adopt the Balanced ScoreCard management system as a means of translating our organizational strategy into action and better focusing our activity and budget decisions on achieving our strategic priorities. Under our own brand, N-MAPPS, the Balanced ScoreCard approach provides an effective means by which to measure the things we do against the performance outcomes we expect. For example, one goal is to improve the quality of the force. We need to be able to say *how* we are going to do it as well as how we will know when we have successfully achieved our goal. In this way we will be better able to measure our success and determine whether or not the goals we set for ourselves were the right ones. Using techniques on how to improve government efficiency employing Balanced ScoreCard, we have streamlined our strategy map, making it tighter and more focused. We are also honing our metrics, paring them down to those most essential, as well as sharpening the tolerances. With the proper emphasis on how to measure success, ensuring that we measure the right things, in the right numbers and within appropriate tolerances, we are sure to reach the right conclusions.

How We Will Get There

We have a variety of tools currently available to us that we will employ to ensure we make the right decisions about whom to retain and in what skills and who we separate:

- ***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 to instill competition in the retention process. Most Sailors are authorized to reenlist within their current ratings, because that is where we need them most, it's cost-effective and it benefits our readiness posture. Others, however, will be encouraged to convert from ratings in which we have excess inventory, to undermanned ratings where vacancies are really hurting us. Those Sailors asked to convert will be provided with the necessary training to ensure their success in their new skill areas and they may be eligible for a bonus upon incurring a specified period of obligated service to work in that rating. As you can see, we further enhance readiness in this way, because, by moving experienced and disciplined Sailors from overmanned skill sets into undermanned skill sets, we are balancing our force profile, while capitalizing on the investments we have made in these proven professionals by keeping them in our ranks. 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 16,000 Sailors have applied to reenlist through PTS since the program began just one year ago and we will continue this effort in 2005.
- ***Lateral Conversion Bonus (LCB)*** – Another available method relies on a tool authorized in last year's Defense bill that we refer to as the Lateral Conversion Bonus. While PTS focuses on rating conversions at the end of a Sailor's service obligation, LCBs would be targeted at Sailors we need to convert to undermanned ratings in the middle of a period of obligated service. The benefit to this approach is that, the sooner we can get them into the skill areas in which we need them, the sooner we begin to realize a return on investment, in terms of enhanced personnel readiness...and that's what we're all about. Earlier conversion also

accelerates their competitiveness and enhances their chances for advancement within their new rating.

PTS and LCB were emphasized first because we want you to know that we place great value on the professionalism of our dedicated and experienced Sailors. We will make every reasonable effort to retain these Sailors by considering them for rating conversion prior to any decision to release them from our ranks. It makes good sense from a readiness perspective and it is responsible stewardship of taxpayer dollars to do so. Additionally, it keeps faith with those who voluntarily serve, and their families, by affording them the opportunity to remain a part of our team even if the job they originally enlisted in the Navy to perform is no longer needed. These methods have shown great utility in our efforts to shape the force for the 21st century.

- ***Assignment Incentive Pay (AIP)*** – Authorized in the Fiscal Year 2003 Defense bill, AIP attracts qualified Sailors to a select group of hard-to-fill duty stations. It allows Sailors to bid for additional monetary compensation in return for service in these locations. An integral part of our *Sea Warrior* strategy, AIP is enhancing 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 an average of \$245 extra pay each month. More importantly, challenging duty assignments have been filled without forced assignment of service members contributing to our improvements in quality of service.
- ***Selective Reenlistment Bonus (SRB)*** – While we have enjoyed much success in our retention efforts of recent years, we must not presume that we can rest on these accomplishments or surrender to the notion that the tools that made such successes possible are no longer needed. SRB authority has come increasingly under fire because of the funding required to support it. This has been, and continues to be, our most valuable incentive, directly responsible for much of our unprecedented retention successes in the key skill sets required to maintain our combat readiness. Indeed, SRB adjustments were repeatedly refined last year to improve manning within specific skills (Navy Enlisted Classification (NEC) Codes), vice overall ratings. The direct cost avoidance associated with not having to access, train and grow replacement personnel far outweighs the funds expended to retain Sailors in critical skills using the SRB. Added to that is the costs we would have paid in decreased personnel and military readiness, had we not been so successful in retaining these outstanding professionals in needed ratings. I strongly encourage your continued support for this vital program. I cannot overemphasize the importance that it continues to play in the readiness and capability you observe in our Navy today.
- ***Military to Civilian Conversions*** – We are conducting a careful review of military billets in our shore infrastructure to determine if they truly require a Sailor, or if the task could be performed as effectively, and at lower cost, by a civilian or by private industry. We want to emphasize shore billets where Sailors need, and continue to hone, those skills required by the fleet. In conducting this review, we are using several tools, for example: “zero-based reviews” of individual officer communities and enlisted ratings, functional reviews of service delivery for various infrastructure requirements, and a review of the model for providing total force health care requirements. We will phase in the results of this analysis to ensure that

Sailors continue to have a career path that supports professional growth and that we continue to support the fleet with an appropriate mix of manpower.

To achieve the necessary end strength to match manpower requirements necessary to support our combat readiness requirements, additional methods of shaping the force are currently available for use. These methods, though not preferable, may be used to achieve our manpower goals. We are exploring methods that would allow voluntary decisions by Sailors in targeted skill sets to “right size” the force to match manpower requirements. The tools that are being explored would allow us to effectively, and more precisely, shape the force while contributing to continued success in recruiting, retention and quality of service, thereby avoiding the adverse impacts experienced as a result of using such draconian involuntary separation methods during the post Cold War drawdown.

National Security Personnel System (NSPS)

Last year, Congress authorized NSPS, a new, more flexible, more user-friendly, personnel system, which will undoubtedly help us better manage our civilian workforce. Navy has offered to serve as the testing ground to launch this new and innovative federal employee management system, and we are confident that it will contribute immensely to our ability to get the best-qualified, best-trained, best-educated and most highly motivated civilian federal employees into key positions that are integral to our Total Force manpower effort. It is imperative that we have the kind of flexibility this system affords us as we identify, through such innovative tools as the previously mentioned IRCA, positions currently filled with uniformed personnel that could more appropriately be performed by talented professionals in the civilian workforce, freeing up Sailors to fill positions more closely tied to fleet operations.

We are in the initial stages of identifying competencies required by our civilians to support current and future work requirements. This competency identification provides the basic structure for workforce development, recruitment, succession planning and strategic human capital planning. It also provides a framework supportive of the National Security Personnel System and the changes Navy needs to make in the performance planning process. We believe these changes to how Navy manages its human capital will enhance employee work-life and demonstrate that Navy is an "employer of choice".

For Sailors ready to leave the Navy, we continue to remind them that Navy is an “Employer of Choice” in the civilian world to our mutual benefit. As we expend significant effort and resources to recruit the best and brightest into the Navy, and subsequently in their training and leadership skills, it stands to reason that when these professionals leave the Navy, they are among the most attractive and logical applicants for potential placement in civilian positions. They have a great education, thanks to our PME program that allows us to fully incorporate personal growth and development as part of our mission. Their leadership skills are unparalleled since we have invested in broadening their professional and intellectual horizons in order to better prepare them to operate tomorrow’s fleet and to assume key naval and joint leadership roles. There are many employers who make the mistake of investing in the career development of employees only to lose their talent and experience to employers elsewhere. After investing in Sailors’ career development for many years it makes sense to encourage them

to continue contributing to Navy as a civilian employee. In doing so, we retain the knowledge, skills and abilities they acquired through years of service and specialized training in the Navy.

Diversity

Navy has embarked on a more strategic approach to managing the diversity of our force. During the past year, we have concentrated on three main areas: understanding the current diversity environment, defining our strategic diversity framework, and making a commitment to execution. The implementation plan is concentrated in four major areas, each of which is led by a specific work team: Accessions, Training and Career Development, Organizational Alignment, and Communications. We will also establish a Senior Diversity Leadership Forum that will include membership from the highest levels of the Navy, as well as distinguished leaders of the civilian community. This forum will monitor the execution of our efforts. We envision it becoming the model for our Government and our nation in this critical endeavor. Further, the Diversity Visioning Group, which was formed last year to develop the Strategic Framework for Diversity, will evolve into the Fleet Diversity Council, continuing to lead the effort on the waterfront.

Implementation of the strategic plan will be a multi-year effort that will require us to remain engaged and steadfast. Change will be achieved over time, with continued diligence, commitment and execution from all hands. Evaluating and communicating progress will be key to ensuring we stay the course and succeed. Achieving key milestones, derived from the implementation timelines, we will provide a structure from which to assess progress and identify critical junctures. Implementation milestones will also serve as incremental measures of change and provide opportunities for 'small wins' to be celebrated. The end result, we believe, will be the ability to sew diversity into the fabric of our Navy's culture.

Health of the Officer Corps

While we have made significant inroads in addressing many officer community shortfalls that plagued us for a time after the post Cold War drawdown, we continue to experience specific challenges in our efforts to retain the correct numbers and skill mix of war fighters within our unrestricted line community.

Surface Warfare Officer (SWO) Community - Retention among Surface Warfare Community department head (mid-grade) officers, typically with 6-10 years experience, has been a problem since Fiscal Year 1993. Community management of officers in year groups (YGs) 1994-98 remains a challenge as we strive to ensure annual O-4 requirements are met and preclude excessive department head tour lengths. How successful we are will directly influence the career decisions of division officers approaching the end of initial service obligations. Meeting department head requirements is essential to ensuring a sufficient inventory of post-department head officers to support shore requirements at the O-4 level. We closed Fiscal Year 2003 with shortfalls in meeting our control strength goals. Implementation of a Surface Warfare Critical Skills Bonus has contributed towards reversing the downward trend in retention among O-4 SWOs. An aggressive program of engagement with junior officers and tying key graduate education programs to department head billets has helped mitigate the problem. This, along with

a program that accelerates assignment of our most promising division officers to department head billets afloat, is helping ease the adverse effects of undermanned YGs in today's department head inventory. Availability of sufficient numbers of quality department heads to serve in the fleet remains the community's top priority.

Surface Warfare Officer Continuation Pay (SWOCP) continues to contribute to improved retention among these skilled and highly sought after fleet-experienced officers. The number of officers committing to serve as at-sea department heads continues to be encouraging and validates the effectiveness of SWOCP. We closed out Fiscal Year 2003 meeting 90 percent of department head requirements and have over 90 percent of department head school seats filled. The SWO career path nominally contains a two-year shore tour prior to an officer returning to sea as a department head. This is where most SWOs make their first career decision on whether to commit to serve as department heads. SWO retention is measured at nine years of commissioned service (YCS). Retention improved to 31 percent in Fiscal Year 2003, but remains below goal. Early commitments and take-rates for SWOCP by YG-97 and later foretell continued improvement in SWO retention. Due to lower-than-historical retention following the Cold War, and under-accessing several year groups at the height of the drawdown, SWO community retention must be at least 35 percent to fully support department head at-sea requirements, while 38 percent (goal) will restore much needed selectivity and flexibility in the distribution process.

Submarine Warfare Officer Community - Submarine community, officer accession and retention requirements are based upon manning at-sea billets. Changes in the force structure directly impact at-sea billet requirements and increase necessary out-year accessions and retention. Submarine force structure projections were increased the last two years, following a decision to convert, vice decommission, four SSBNs to SSGNs, resulting in eight additional crews being retained in the force structure. The impact of additional force structure is felt most significantly at the department head level. This increases our accession mission, to meet future requirements, and our retention requirement, to fill the near-term increase in department head requirements. The submarine community measures retention as the continuation rate of officers from three to seven YCS, for a particular YG. This provides a measure of officers available for assignment to submarine department head, nominally at the eight YCS point. Fiscal Year 2003 (YG-96) retention was 43 percent, which exceeded a 41 percent goal required to return department head tour lengths to 36 months. Although retention has improved in the near term, under-accessed year groups (YG-97 and YG-98) are approaching their "stay-leave" decision windows (7 YCS), and retention requirements for these year groups average 40 percent to meet department head manning requirements. For example, YG-97 will require a 43 percent retention rate just to meet requirements for that YG.

Nuclear Officer Incentive Pay (NOIP) has proven to be an effective tool in shaping submarine officer retention. NOIP rate increases in Fiscal Years 2001 and 2003 favorably impacted YG-96 retention. The 2001 increase yielded a 25 percent increase in the number of contracts executed for YG-96 compared with YG-94. The 2003 increase further boosted contracts executed to 41 percent. Continued stiff competition from the private sector for these officers remains a significant cause for concern. Submarine officers possess highly specialized and unique skills associated with their lengthy and costly technical training. Having graduated at

the top of their classes from some of the nation's premier educational institutions, these officers are aggressively pursued for positions in a variety of career fields, many of which are outside the nuclear power industry. Inadequate retention imposes extension of demanding sea tours on officers still serving in order to meet safety and readiness requirements. Excessively long department head tours adversely impact junior officer retention creating a downward spiral. NOIP remains the surest and most cost-effective means of achieving required retention. With forecasts predicting substantial economic growth, and under-accessed YGs approaching department head tours, we must maintain competitive retention incentives so that we can lead, vice chase, the retention challenge.

Naval Special Warfare (NSW)/ (SEAL) Officer Community - The retention metric utilized for SEAL officers is the average retention of officers with 7-10 YCS. SEAL officer retention requirements are necessarily high to meet the demand for a relatively large number of Joint and Navy staff officer assignments for SEALs in pay grades O-4 through O-6. While we have sufficient numbers of volunteers for the SEAL officer program, accessions are limited due to the finite number of junior officer operational assignments. Navy implemented a Special Warfare Officer Continuation Pay (SPECWARCP) for officers with 6-14 YCS, and whose continuation is important to the health of the NSW community. Each of the first three years this was offered, the results exceeded the projected 74 percent goal of eligible officers to contract. While many of those contracts during the first two years were one and three-year contracts, indicating a number of officers remained uncertain about their long-term service plans, contracts for Fiscal Years 2002-03 tended to reflect longer commitments due to a contract rate-realignment. This coupled with increasing accessions beginning in Fiscal Year 1995, has contributed to community stability and a favorable long-term retention outlook. Additionally, realignment of SEAL Teams under Force-21, creating more operational opportunities among mid-grade officers, is expected to further increase overall retention since most individuals enter NSW to serve as war fighters.

Aviation Warfare Officer Community - Naval aviation retention in Fiscal Year 2003 was 49 percent through department head (12 YCS), surpassing last year's mark by six percentage points. Continued improvement can be partially attributed to four consecutive successful years of our Aviation Career Continuation Pay (ACCP) program and the sluggish economy. Despite this favorable retention trend, we remained over 600 junior officers below requirements at the end of Fiscal Year 2003. Aviators retained above Fiscal Year 2003 required CCR, will help alleviate expected shortfalls this year. Required retention rates due to the T-Notch, caused primarily by under-accessing year groups during the drawdown, exceed 55 percent this year and will peak at 81 percent in Fiscal Year 2005, as under-accessed year groups enter their department head tours. Additionally, these ambitious, but necessarily high retention goals clearly illustrate the importance of retaining as many junior aviators as possible. Naval aviation shortages are due to a combination of low accessions, increased time-to-train and retention rates below requirements between Fiscal Years 1996-99.

To maintain optimum combat readiness, Navy has identified and prioritized billets to ensure operational sea duty billets are manned at 100 percent. Next in priority are production billets ashore (pilot and Naval Flight Officer training). Aviator tour lengths have also been adjusted to ensure billet prioritization is maintained. We have been working aggressively to

reduce time-to-train as well as increase aviator production throughput in the training command and Fleet Replacement Squadrons. By accessing to meet steady-state requirements, rated aviator shortages will begin to diminish by Fiscal Year 2007 and should be alleviated when fully accessed year groups enter their department head tours in Fiscal Year 2012 and beyond.

ACCP continues to be our most efficient and cost-effective tool for stimulating retention behavior to meet current and future requirements and overall manning challenges. Recent indicators of recovery within the airline industry, which may be expected to lead to increased hiring, suggest the need to continue offering competitive ACCP to address the continuing aviator shortfall and anticipated increasing challenges to aviator retention efforts. Targeted, stable, efficient and judicious use of limited resources are hallmarks of Navy's ACCP program, which continues to offer the incentive necessary to stabilize our aviation manning profile; thereby sustaining operational combat readiness within Naval aviation.

Maintaining a Vibrant Recruiting Program

Enlisted Recruiting and a Healthy Delayed Entry Program (DEP) - As mentioned earlier, Navy Recruiting experienced a highly successful year in Fiscal Year 2003 and this success has continued through the first quarter of Fiscal Year 2004. A lower accession mission, professional and properly resourced recruiting force, and favorable economic conditions have all contributed to this success. Improving economic conditions and increased emphasis on higher recruit quality have not hurt overall recruiting efforts, thus far. Despite the fact that retention successes have allowed us to reduce the accession mission over the last several years, we must remain ever vigilant that prevailing winds could change quickly, for any number of reasons, necessitating a sudden surge in our recruiting goal. Economic conditions that have proven so favorable to Navy retention and, likewise, recruiting successes, are not expected to continue. The 6.4 percent national unemployment rate of June 2003 decreased to 5.7 percent by December and is projected to continue declining over the next two years. With such uncertainty looming on the recruiting horizon, it is critical that advertising and recruiting budgets remain sufficiently robust to adjust for swiftly improving economic conditions, but also to support continued pursuit of increasing recruit quality. Despite declining accession goals in recent years, the smaller more technical force we are building mandates additional emphasis on recruit quality and education.

Our success in meeting new-contract-objective has helped to restore the health of our DEP, which signals a high probability of long term recruiting success. It has also allowed us to focus more closely on meeting goals for critically manned ratings. We were able to remove 41 ratings from the critically manned ratings list this past fiscal year and we recruited greater than 95 percent of the mission in five of the six remaining critically manned ratings. Another major advantage of a strong DEP is that it provides a strategic opportunity to improve recruit quality. Higher quality recruits are less likely to attrite during the first term of enlistment and are better suited for the increasingly technical 21st Century Navy. A healthy DEP posture alleviates the necessity for crisis-managing each month's accession mission, permitting recruiters to be more selective in the quality of recruits processed. Recruit quality is primarily measured by the percentage of High School Diploma Graduates (HSDGs), recruits scoring in Test Score Categories I-III A (CAT I-III A) or the top half on the Armed Forces Qualification Test (AFQT), and recruits possessing prior college experience.

In Fiscal Year 2003, we accessed 94.3 percent HSDGs, a significant improvement from the previous year's level of 91.9 percent and well above the DOD minimum standard of 90 percent. We accessed 65.7 percent CAT I-III A recruits against a DOD minimum standard of 60 percent and we achieved a 40 percent increase in the percentage of recruits with prior college experience. We are confident in our ability to improve upon these positive trends; therefore, we have set this fiscal year's bar even higher, 95 percent HSDGs, 67 percent CAT I-III A, and a 20 percent increase in the percentage of recruits with college experience. Through December 2003, we are on track to meet each of these objectives. Of particular note on the quality front, last fiscal year, 43.8 percent of African American recruits were in CAT I-III A. During the first quarter of Fiscal Year 2004, 52.4 percent of African Americans who have accessed, or who are contracted to access, are in CAT I-III A, allowing greater diversity representation among Navy's more technical ratings.

Penetrating the College Market - In Fiscal Year 2003, Navy accessed 7.8 percent recruits with prior college experience, largely attributable to aggressive recruiting efforts on junior college campuses. However, the need to improve college market penetration in the future will likely present a formidable challenge without incentives targeted towards college youth. . As ships and aircraft become increasingly technically complex, the Navy's need for recruits with college experience and advanced vocational and technical training is increasing dramatically. The Chief of Naval Operations (CNO) Strategic Studies Group has foreseen a requirement for Navy to recruit 40% of its enlisted force through programs that result in an Associates Degree or directly from the Associates Degree market. Navy is exploring the need for authorities that would provide increased access to this market which is expected to become of significant importance to our future recruiting requirements.

Officer Recruiting - Fiscal Year 2003 proved successful for active officer recruiting, as well. We met 23 of 24 officer community goals, including all goals in the unrestricted line, restricted line, and staff corps communities. We anticipate similar levels of success this fiscal year. Dental Corps, in which we attained only 67 percent of mission, was the only officer community that did not achieve annual goal. We continue our efforts to increase minority recruiting into the officer corps to more closely mirror diversity representation among Americans receiving Bachelor's degrees. We increased minority officer new contracts from 17.9 percent to 21 percent between Fiscal Years 2002 and 2003. Through the first three months of fiscal year 2004, we achieved 24.8% minority officer new contracts. Hispanic and African American communities comprise the largest proportion of improvements between Fiscal Year 2002 and the first quarter Fiscal Year 2004.

Total Force Recruiting - Last fiscal year, we consolidated active and reserve recruiting efforts under Commander, Navy Recruiting Command (CNRC) to establish a Total Force Recruiting mission through unity of effort and command to maximize effectiveness and efficiency. Several pilot programs involving various levels of the chain of command and both enlisted and officer recruiting are underway to evaluate the impacts of the organizational change on active and reserve accession missions. Additionally, beginning with Fiscal Year 2005 President's Budget Submission, active and reserve component recruiting Operations and Maintenance Accounts have been merged in support of the consolidation effort.

While Navy recruited 106 percent of the overall enlisted Selected Reserve (SELRES) goal in Fiscal Year 2003, several ratings, including Master-at-Arms and Hospital Corpsman, achieved less than 70 percent of their respective goals. In Fiscal Year 2004, Navy plans to access about 1,000 National Call to Service (NCS) candidates to meet near-term active duty manning requirements, as well as future SELRES drilling requirements in hard-to-fill ratings, including significant numbers of Master-at-Arms and Hospital Corpsman. Through the first quarter, Fiscal Year 2004, we are on track to meet our overall enlisted SELRES accession mission. Three years of experiencing the highest retention rates among active enlisted personnel in our history has led to an inevitable decline in the number of prior service veterans available to enter the Naval Reserve. Consequently, we were compelled to increase non-prior service Reserve accessions to 39 percent in Fiscal Year 2003, in stark contrast with 18 percent and 32 percent in Fiscal Years 2001 and 2002, respectively. This clearly has its downside in that a greater percentage of SELRES accessions are not deployable until they receive extensive training and experience; thereby, adversely impacting personnel readiness with the Naval Reserve. Through enhanced aggressive prior service recruiting, we hope to limit non-prior service accessions to approximately 18 percent this fiscal year. Similar retention behavior among active component officers yielded a similar impact on officer SELRES recruiting mission in Fiscal Year 2003. Several officer communities requiring prior service experience did not meet accession goals and contributed to attainment of just 91.2 percent overall officer SELRES accession mission. Through first quarter Fiscal Year 2004, we are on track to meet our overall officer SELRES accession mission this year.

Conclusion

Mr. Chairman and distinguished members of this personnel subcommittee, the dedicated men and women of the world's premier naval force continue to sustain our forward worldwide presence on a daily basis in this third year of the Global War on Terrorism. As our CNO has made very clear, "At the heart of everything good in our Navy today is this: we are winning the battle for talent. This is the highest quality Navy the nation has ever seen." Your continued support for our force-shaping initiatives and programs will maintain that high quality and prepare us to better meet the challenges of the 21st Century. In this way, we will collectively set the stage to project greater power and provide greater protection to our nation – enhancing our security in the dangerous and uncertain decades ahead.