

Section 2: *Performance Information*





How the Department Evolved

1775 - The Army, Navy, and Marine Corps were established in concurrence with the American Revolution.

1789 - The War Department was established and was the precursor to what is now the Department of Defense.

1798 - The Department of the Navy, and the U.S. Coast Guard, were founded.

1947 - Congress established a civilian, Cabinet-level Secretary of Defense. The Department of the Air Force was created, the War Department was converted to the Department of the Army, and the three military departments of the Army, Navy and Air Force were placed under the direct control of the first Secretary of Defense.

1949 - the national defense structure was consolidated further, creating what we now know as the Department of Defense, and withdrawing cabinet-level status for the three Military Department Secretaries.



Section 2: Performance Information

Overview

This overview describes the Department’s strategic planning process and its methods for measuring performance. Due to the volume of information, the Department’s printed Fiscal Year (FY) 2006 Performance and Accountability Report includes the results for selected performance measures under each strategic goal. The complete performance report includes a full discussion of each metric and is available on the Department’s website (www.dod.mil/comptroller/par/fy2006/FY06PARSection2.pdf).

The Department’s Quadrennial Defense Review serves as the Department’s strategic plan. The Secretary’s Annual Defense Report serves as the Department’s annual performance plan. The 2001 Quadrennial Defense Review (www.defenselink.mil/pubs/qdr2001.pdf) and the 2005 Annual Defense Report (www.dod.mil/execsec/adr2005.pdf) set forth the performance objectives and goals that form the basis for the FY 2006 Performance and Accountability Report. The most recent Quadrennial Defense Review, submitted to the Congress in February 2006, will form the basis for performance reporting for FYs 2007-2010 (www.defenselink.mil/qdr/report/Report20060203.pdf).

To demonstrate tangible benefits to the American public and to carefully monitor its own performance, the Department uses the performance management model depicted in the diagram below.



The performance model incorporates the following elements:

Mission

The mission of the Department of Defense is to provide the military forces needed to deter war and to protect the security of our country.

Strategic Objectives

The 2005 National Defense Strategy (www.defenselink.mil/news/Mar2005/d20050318nds1.pdf) established four strategic objectives for the Department of Defense:

- *Secure the United States from direct attack* by dissuading, deterring, and defeating those who seek to harm the U.S. directly, especially violent extremists with weapons of mass destruction.
- *Secure strategic access and retain global freedom of action* by promoting the security, prosperity, and freedom of action of the U.S. and its partners by securing access to key regions, lines of communication, and the global commons (i.e., international waters and airspace, space, cyberspace).
- *Strengthen alliances and partnerships* by expanding the community of nations that share principles and interests with the U.S. and help these partners increase their capacity to defend themselves and collectively meet challenges in the Nation’s interest.
- *Establish favorable security conditions* by creating conditions conducive to a favorable international system by honoring America’s security commitments and working with others to bring about a common appreciation of threats; a broad, secure and lasting peace; and bring about the steps required to protect against these threats.



Strategic Goals

The Department's resources to achieve these strategic objectives are limited and choices must be made between competing priorities by balancing the demands of the present against preparations for the future. Balancing priorities involves managing risk. The Department's risk management framework includes four dimensions that are described below. These dimensions form the basis for the Department's strategic goals.

- Force management risks are associated with managing military forces fulfilling the missions described in the National Defense Strategy. The primary concern is the ability to recruit, retain, train, and equip a ready force and sustain that readiness.
- Operational risks are associated with the current force executing the strategy successfully within acceptable human, material, financial, and strategic costs. The primary concern is the ability to achieve and maintain operational superiority.

- Institutional risks are associated with the capacity of new command, management, and business practices. The primary concern is to align the Department and its resources to support the warfighter.
- Future challenges risks are those associated with the Department's capacity to execute future missions. The primary concern is to ensure success against an array of prospective future challengers.

Performance Goals and Measures

The following table lists each strategic goal, its supporting performance goals, and the associated measures and metrics. Results for the measures and metrics in *italics* appear later in this section of the report. Results for all of the measures and metrics appear in the web version of the report.



Section 2: Performance Information

Strategic Goal	Performance Goals and Associated Measures and Metrics
1. Balance Force Management Risk—Recruit, Retain, Train, and Equip a Ready Force and Sustain Readiness	
1.1 Ensure Sustainable Military Tempo and Maintain Workforce Satisfaction <ul style="list-style-type: none"> • Personnel Tempo (PERSTEMPO) Across Occupational Groups • Personnel Tempo (PERSTEMPO) Standards Met • <i>Quality of Life Social Compact Improvement Index</i> • <i>Commitment to Military Life Index</i> • <i>Satisfaction with Access</i> • <i>Overall Satisfaction with Appointment</i> • <i>Satisfaction with Military Health Plan</i> 	1.2 Maintain a Quality Workforce <ul style="list-style-type: none"> • <i>Active Component End Strength</i> • <i>Reserve Component Selected Reserve End Strength</i> • <i>Active Component Enlisted Recruiting Quantity</i> • <i>Reserve Component Enlisted Recruiting Quantity</i> • <i>Active Component Enlisted Recruiting Quality</i> • <i>Reserve Component Enlisted Recruiting Quality</i> • <i>Critical Skill Recruit Needs</i> • <i>Active Component Enlisted Retention Goal</i> • <i>Selected Reserve Component Enlisted Attrition</i> • <i>Manning Level of Critical Skills</i> • Retain Balanced Mix on Non-Commissioned Officer Grade/Experience
1.3 Maintain Reasonable Force Costs <ul style="list-style-type: none"> • Civilian Force Costs • Community Quality of Life Per Capita Cost • <i>Cost Per Enlisted Recruit—Active Component</i> • <i>Cost Per Enlisted Recruit—Reserve Component</i> • <i>Cost of Basic Training</i> • <i>Military Personnel Costs—Enlisted Pay Gap</i> • <i>Medical Cost Per Equivalent Life Per Month</i> • Primary Care Provider Productivity • Total Costs for Contractor Support 	1.4 Shape the Force of the Future <ul style="list-style-type: none"> • <i>Military Human Resources Strategic Plan</i> • <i>Civilian Human Resources Strategic Plan</i> • <i>Civilian Recruiting Cycle Time</i> • <i>Implement New Reserve Component Management Paradigm (Continuum of Service)</i> • <i>Active Component/Reserve Component Force Mix</i> • Identify Future Critical Skills • Meeting Civilian Critical Fill Goals • Optimal Officer Career Plans
2. Balance Operational Risk—Achieve and Maintain Operational Superiority	
2.1 Maintain Force Readiness <ul style="list-style-type: none"> • <i>Adaptive Planning</i> • <i>Analytic Baselines</i> • <i>Operational Lessons Learned</i> • <i>Defense Readiness Reporting System Implementation</i> 	2.2 Ensure Superior Capabilities Exist to Succeed <ul style="list-style-type: none"> • <i>Global Force Management</i> • <i>Theater Security Cooperation</i>
2.3 Align Forces Consistent with Strategic Priorities <ul style="list-style-type: none"> • <i>Joint Concepts</i> 	2.4 Transition Forces Rapidly to Meet New Threats <ul style="list-style-type: none"> • <i>Operational Availability</i>
3. Balance Institutional Risk—Align the Organization and its Resources to Support the Warfighter	
3.1 Improve the Readiness and Quality of Key Facilities <ul style="list-style-type: none"> • Base Realignment and Closure • <i>Eliminate Inadequate Domestic Family Housing by 2007</i> • <i>Fund to a 67-Year Recapitalization Rate</i> • Restore Readiness of Key Facilities by 2010 	3.2 Manage Overhead and Indirect Costs <ul style="list-style-type: none"> • <i>Reduce Percentage of the Department's Budget Spent on Infrastructure</i>
3.3 Realign Support to the Warfighter <ul style="list-style-type: none"> • <i>Reduce Customer Wait Time</i> • <i>Reduce Major Defense Acquisition Program Annual Rate of Acquisition Cost Growth</i> • <i>Reduce Major Defense Acquisition Program Acquisition Cycle Time</i> • <i>Reduce Major Defense Acquisition Program Operating and Support Cost Growth</i> 	3.4 Streamline the Decision Process, Improve Financial Management, and Drive Acquisition Excellence <ul style="list-style-type: none"> • <i>Improve the Transparency of Component Submissions for Alignment of Program Review to Strategic Trades</i> • <i>Increase Visibility of Trade Space</i> • <i>Provide Explicit Guidance for Program and Budget Development</i>
4. Balance Future Challenges Risk—Execute Future Missions Successfully Against an Array of Prospective Challengers	
4.1 Define and Develop Transformational Capabilities <ul style="list-style-type: none"> • <i>Intelligence Activities</i> • <i>Global Net Enabled Information Sharing Environment</i> • <i>Defense Technology Objectives</i> • <i>Net-centric Solutions</i> 	4.2 Define Skills and Competencies for the Future <ul style="list-style-type: none"> • <i>Intelligence Human Resources Systems</i> • <i>Strategic Transformation Appraisal</i>
4.3 Develop More Effective Organizations <ul style="list-style-type: none"> • <i>Enhance Homeland Defense</i> • <i>Establish a Standing Joint Force Headquarters</i> • <i>Transform the Department's Training</i> 	4.4 Drive Innovative Joint Operations <ul style="list-style-type: none"> • <i>Experiment with New Warfare Concepts</i> • Science and Technology



Performance Results

During FY 2006, the Department effectively accomplished its mission, met its strategic objectives and goals, and met 63 percent of its performance goal measures as indicated in the table below.

Strategic Goal	Performance Goal (Number of Reported Measures)	Performance Rating and Number of Results			
		Met or Above Target	Slightly Below Target	Below Target	Data Not Available
1. Balance Force Management Risk—Recruit, Retain, Train, and Equip a Ready Force and Sustain Readiness	1.1 Ensure Sustainable Military Tempo and Maintain Workforce Satisfaction	2	2		3
	1.2 Maintain a Quality Workforce	4	3	3	1
	1.3 Maintain Reasonable Force Costs	5	3		1
	1.4 Shape the Force of the Future	6	1	1	
2. Balance Operational Risk—Achieve and Maintain Operational Superiority	2.1 Maintain Force Readiness	4			
	2.2 Ensure Superior Capabilities Exist to Succeed	2			
	2.3 Align Forces Consistent with Strategic Priorities	1			
	2.4 Transition Forces Rapidly to Meet New Threats	1			
3. Balance Institutional Risk—Align the Organization and its Resources to Support the Warfighter	3.1 Improve the Readiness and Quality of Key Facilities	3			1
	3.2 Manage Overhead and Indirect Costs	1			
	3.3 Realign Support to the Warfighter			1	3
	3.4 Streamline the Decision Process, Improve Financial Management, and Drive Acquisition Excellence	3			
4. Balance Future Challenges Risk—Execute Future Missions Successfully Against an Array of Prospective Challengers	4.1 Define and Develop Transformational Capabilities	4			
	4.2 Define Skills and Competencies for the Future	2			
	4.3 Develop More Effective Organizations	2		1	
	4.4 Drive Innovative Joint Operations	2			
Summary Results		42	9	6	9

The data in this report are the latest available at the time of publication. In many cases, FY 2006 data are incomplete due to timing and reporting cycles. Some results are presented as of the second or third quarter, and may include year-end projections based on these data. Nearly half of the Department's performance data are current as of the third quarter; another one-third is current as of the fourth quarter or the end of the year. The web version of the FY 2006 report includes the due date for final data for each measure. The FY 2007 Performance and Accountability Report will include final FY 2006 results. It also will identify significant deviations from targeted and actual results.



Section 2: Performance Information

In FY 2005, the Department reported on 70 performance measures. Four of those measures were deleted from this report for the following reasons:

- The “TRICARE Prime Outpatient Market Share” measure was dropped because the results provided limited value.
- “Enhanced Planning Process” is now covered by the “Analytic Baselines” measure.
- “Link Defense Resources to Key Performance Goals” is covered by two metrics: “Improve the Transparency of Component Submissions for Alignment of Program Review to Strategic Trades” and “Provide Explicit Guidance for Program and Budget Development.”
- “Support Acquisition Excellence Goals” is now covered by three measures that address various reductions in the Major Defense Acquisition Program.

Final results for FY 2005 for selected measures are presented in this section of the report; complete FY 2005 results for all measures are contained in the web version of this report.

Descriptions of each strategic goal and specific results for FY 2006 are presented below.

**Strategic Goal 1:
Balance Force Management Risk - Recruit, Retain, Train, and Equip a Ready Force and Sustain Readiness**

This goal focuses on the Department’s efforts to support American forces and ensure they have what is required to defend the Nation today and in the years ahead. These performance measures address the human part of the defense equation—what information is helpful for the Department to manage its workforce properly and continue to attract and retain the best and the brightest and sustain the quality of the all-volunteer force. The Department uses a wide range of measures and indicators to monitor the “pulse” of the workforce and to ensure the Department meets its military objectives.

**Performance Goal 1.1:
Ensure Sustainable Military Tempo and Maintain Workforce Satisfaction**

This performance goal focuses on deployment of forces and factors that influence recruitment and retention decisions. The military lifestyle presents special challenges to family life. Overseas tours away from support networks, frequent moves that disrupt a spouse’s career or a child’s school routine, and long separations from family members test the strength of our military families everyday. Military Tempo measures, which track time away from home, continue to be collected. However, payment for excessive tempo has been suspended. The current payment requirements have been considered punitive in nature, do not reflect the Services’ deployment patterns, and are not appropriate compensation for exceeding member expectations. The compensation for excessive deployment is being re-evaluated to be more Service-specific and appropriate.

The Department uses a variety of measures to gauge its success in making military life a desirable career path. Below are selected metrics.



Quality of Life and Commitment to Military Service Indices

Many factors contribute to an individual's decision to join and remain in a career field, but the "benefits" package is always a key consideration. To attract and maintain a quality workforce, the Department developed the Modernized Social Compact that outlines a 20-year strategy for Quality of Life support to ensure that programs and services keep pace with the changing needs of the transforming military. The Compact is designed to help Service members keep pace with the American standard of living, to recognize and facilitate changing demographics (for example, two-thirds of military families live off the installation), and meet expectations of military members and their families.

The Department uses the Quality of Life Social Compact Improvement Index to ensure that it provides support to families. The Index monitors eight key programs and services supporting military members and families: housing, Military OneSource (a one-stop website for military members and their families containing useful information on life issues), off-duty/voluntary education, financial readiness, child development, the Department's education activity, commissaries, and exchanges. Functional areas and metrics may be added or eliminated as data mature and priorities change. The Index will be cross-referenced with a metric that measures the Community Quality of Life Per Capita Cost to ensure that programs are provided at a level sufficient to meet the unique needs of military members and their families. The Department is analyzing results from the 2006 surveys.

The following table shows the Department's progress toward developing and meeting the standards represented by the Quality of Life Social Compact Improvement Index.

Quality of Life Social Compact Improvement Index					
Metric	FY 2002	FY 2003	FY 2004	FY 2005 Target/Actual	FY 2006 Target/Actual ^A
Trend data to monitor improvements in leading Quality of Life indicators	No historical data; new metric	Developed framework for index	Met or exceeded standards in 4 of 8 functional areas For 2 functional areas, some of the Department's Components met or exceeded standards Did not meet standards for 1 functional area Metric for 1 functional area was under development	Met or exceeded standards in 3 of 8 functional areas For 4 functional areas, some of the Department's Components met or exceeded standards Metric for 1 functional area was under review	Meet or exceed standards in 8 functional areas
^A FY 2006 data will not be available until the first quarter of FY 2007.					

The Department is developing a Commitment to Military Life Index to track the factors that influence and predict commitment to military service for Active, Guard, and Reserve members and spouses. Commitment is a primary predictor of a Service person's intention to remain in the military and is useful in making resource decisions. This index is modeled after an approach used in corporate America to measure employee commitment. A



Section 2: Performance Information

complementary Index of Spousal Commitment to the Military is being developed to acknowledge the importance of both military and family factors in predicting commitment to the military.

The value of the Commitment Index will be to demonstrate the fluctuations and factors of commitment over time. The Commitment Index survey questions will be included in all surveys of Active Duty members, and once each year in a Reserve and Guard survey. The Index will gain meaning as the factors influencing commitment are tracked at different points in time. The data will be used in further research that will look at how commitment indicators are linked to actual reenlistment decisions. The survey instrument will be reviewed and updated as needed, and data will be cross-referenced with the Quality of Life Social Compact Improvement Index and Community Quality of Life Per Capita Cost metric.

Medical Care

Another factor that influences recruitment and retention is the quality of the health benefits offered to members. The Military Health System provides operational medicine, training, research and force health protection across the full range of military operations. It also delivers health care for the system’s 9.2 million eligible beneficiaries, including Active, activated Reserve, and eligible family members, through direct and managed care programs. The Department uses three metrics to gauge the effectiveness of its medical programs: (1) satisfaction with access, (2) overall satisfaction with appointment, and (3) satisfaction with military health plan.

Access

Access is a significant factor in the overall satisfaction with medical care and an area for focused improvement. The Department measures satisfaction with access to appointments based on monthly customer satisfaction surveys aimed at individuals who had an outpatient medical visit at a Military Treatment Facility hospital or clinic during the previous month. The survey includes a question, “How would you rate the (clinic name) on ease of making this appointment by phone?” The Department computes the percentage of respondents (weighted by appropriate sampling weights) who answer “Good,” “Very Good,” or “Excellent” (on a scale from “Poor” to “Excellent”). Quarterly reports are available by Military Service branch. The table below shows the aggregate Military Health System score.

Satisfaction with Access					
Metric	FY 2002	FY 2003	FY 2004	FY 2005 Target/Actual ^A	FY 2006 Target/Actual ^B
Satisfaction with access	80.8%	83.0%	81.8%	≥84% / 81.0%	≥84% / 80.6%
^A Actual performance represents a weighted average for the entire fiscal year. ^B FY 2006 data are estimated as of the second quarter.					

Satisfaction with access decreased after the survey method changed from mail to telephone. A slight change was expected, but the size of the decrease raised concerns about access to the hospitals or clinics. Using other tools,



Section 2: Performance Information

the Department conducted a review to determine whether this was an issue across-the-board for the Military Health System or was focused on Military Treatment Facilities. Two major areas (“getting needed care” and “getting care quickly”) from the quarterly beneficiary survey showed that responses from most enrollees were at or near the norm. However, enrollees in the TRICARE Prime program, a program similar to a health maintenance organization, appear to be less satisfied. Part of the reason may be the priority given to the returning wounded, which forces the TRICARE Prime enrollees to seek care in the private sector while the Military Treatment Facilities are treating the returning wounded. As more appointments become available in the military hospitals and clinics for TRICARE Prime beneficiaries, the scores should improve.

Although performance to date for FY 2006 is below the goal, it is expected to continue to improve throughout the rest of the year. It is unlikely that the Department will achieve the goal for the year. Access to care is a very important issue for the Military Health System, and the Department will continue to monitor and take appropriate action as needed.

Appointment Satisfaction

The Department also looks at beneficiaries’ overall satisfaction with their outpatient medical appointments at a Military Treatment Facility hospital or clinic during the month. Overall satisfaction with the appointment is affected by numerous factors during the visit, including the experience in getting an appointment, the wait time at the appointment, the interaction with the provider, and interactions with the pharmacy or ancillary services. This metric is based on a monthly customer satisfaction survey for individuals who had an outpatient medical visit during the previous month. The metric is based on Question 12 of the customer satisfaction survey, which asks: “All things considered, how satisfied were you with the (name of clinic) during this visit?”

The survey is conducted monthly and computes the percentage of respondents (weighted by appropriate sampling weights) who answer “Good,” “Very Good,” or “Excellent” (on a scale from “Poor” to “Excellent”). Results are based on the summation of data for all surveys completed by patients during the year. Although information is available by Military Service branch, the table below shows only an aggregate Military Health System score.

Overall Satisfaction With Appointment					
Metric	FY 2002	FY 2003	FY 2004	FY 2005 Target/Actual ^A	FY 2006 Target/Actual ^B
Overall satisfaction with appointment	87.1%	88.4%	87.6%	≥ 89% / 88.8%	≥ 89% / 90.5%
^A Actual performance represents a weighted average for the entire fiscal year. ^B FY 2006 data are estimated as of the second quarter.					

The FY 2006 performance has continued to exceed the goal for the Military Health System. Once individuals obtain an appointment, they are satisfied with the health care services they receive and the overall treatment by the staff. Although the survey method changed from a mailed survey to a phone-based survey in FY 2005, the surveys did not show any decline in overall satisfaction with the appointment. The Department expects the score at the end of the fiscal year to remain above the goal.



Section 2: Performance Information

Satisfaction with Health Plan

Satisfaction with the “company” health plan is an important recruitment/retention consideration in virtually every career path, and the military is no different. This metric provides a key indicator of the performance of the Military Health System. This metric uses the following survey item: “We want to know your rating of all your experience with your health plan. Use any number from 0 to 10 where 0 is the worst health plan possible and 10 is the best health plan possible. How would you rate your health plan now?”

Satisfaction is measured as the percentage of respondents (weighted by appropriate sampling weights) who answer 8, 9, or 10. Currently, the results for the year are actually based on the respondents’ interactions with the health system during the prior fiscal year. The table below shows that the Department has made steady improvements in health plan satisfaction rates since FY 2002.

Satisfaction with Military Health Plan					
Metric	FY 2002	FY 2003	FY 2004	FY 2005 Target/Actual ^A	FY 2006 Target/Actual ^B
Percentage satisfied with military health plan	46.5%	51.2%	53%	≥ 57% / 53%	≥ 57% / 56%

^A Actual performance represents a weighted average for the entire year.
^B FY 2006 data are final as of the third quarter.

Throughout FY 2006, eligible beneficiaries’ satisfaction with the plan has improved. The results for each quarter of FY 2006 are above the comparable quarter for FY 2005. Issues with claims processing have been resolved, and development of the provider network is occurring smoothly. The next issue for focused improvement is access to care; the Department expects to make improvements that will have a positive impact on the beneficiaries’ overall satisfaction with the plan.

Performance Goal 1.2:
Maintain a Quality Workforce

This goal focuses on ensuring that the Department has the appropriate numbers and skill mix in its military forces. Metrics cover three broad categories: total strength, recruitment results, and retention results. The categories link together very closely; a shortfall or overage in one has implications for the other two.

Military Manpower

Two metrics track the total number of Active Component and Reserve Component forces available, or what the Department refers to as the end strength. End strength is the number of forces that are onboard at the end of the fiscal year to execute the Department’s mission.



Section 2: Performance Information

Active Components

The table below shows the end strength for the Active Components. The percentages beneath each figure indicate the percentage difference between the planned and actual end strength.

Active Component End Strength (in thousands)					
Service	FY 2002	FY 2003	FY 2004	FY 2005 Target/Actual	FY 2006 Target/Actual ^A
Army	486.5 (+1.4%)	499.3 (+4.0%)	499.5 (+3.6%)	502.4 / 492.7 (-1.9%)	512.4 / 496.4 (-3.1%)
Navy	383.1 (+1.9%)	382.2 (+1.7%)	373.2 (-0.2%)	365.9 / 362.9 (-0.8%)	352.7 / 353.5 (+0.2%)
Marine Corps	173.7 (+0.7%)	177.8 (+1.6%)	177.5 (+1.4%)	178.0 / 180.0 (+1.1%)	179.0 / 178.9 (-0.0%)
Air Force	368.3 (+2.6%)	375.1 (+4.4%)	376.6 (+4.8%)	359.7 / 353.7 (-1.7%)	357.4 / 352.6 (-1.3%)

^A FY 2006 data are as of the third quarter.

The Nation continued to operate in a state of national emergency due to the Global War on Terror. As a result, the Congress authorized end-strength increases during FY 2006 for the Army and Marine Corps. The Army's authorization was increased to 512,400. The Marine Corps' authorization was increased by 1,000. The Marine Corps reached its new authorization by the end of the third quarter. The Army began the fiscal year with 492,700 soldiers (short of the desired FY 2005 end strength), but expects to end FY 2006 just 1.9 percent short of its goal.

Leveraging technology and modernizing weapons platforms have helped achieve a reduction in manpower requirements. The Air Force is slightly below its authorized strength as of the third quarter and most likely will not meet its FY 2006 authorized strength. However, the Air Force plans to reduce strength by 23,200 in FY 2007; therefore, falling below the FY 2006 authorization is not a concern. The Navy had a 13,200 reduction in authorized strength in FY 2006 and ended the third quarter slightly above its FY 2006 authorized strength. In FY 2007, the Navy plans another strength reduction of 12,000. While both the Air Force and the Navy reduce strength levels, they are properly shaping the force using force-shaping tools such as moving qualified Service members into undermanned critical skills areas and applying high accession and retention standards to ensure a highly qualified workforce with the right people, in the right jobs, at the right time.

Reserve Components

At the end of the third quarter, four Department Components (Army National Guard, Army Reserve, Navy Reserve, and Air National Guard) were below their targets. The Navy Reserve will close FY 2006 under strength due to recruiting shortfalls and fewer re-enlistments. The shortfall in the two Army Reserve Components was attributed to a strong economy, which results in fewer individuals joining the Reserve.



Section 2: Performance Information

Based on current projections, the Reserve forces should achieve the following strength levels:

Reserve Component Selected Reserve End Strength (numbers in thousands)					
Reserve Component	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006 Target/Actual ^A
Army National Guard	351.1 (+0.3%)	351.1 (+0.3%)	342.9 (-2.0%)	333.2 (-4.8%)	350.0 / 340.4 (-2.7%)
Army Reserve	206.7 (+0.8%)	211.9 (+3.4%)	204.1 (-0.4%)	189.0 (-7.8%)	205.0/189.8 (-7.4%)
Navy Reserve	88.0 (+1.1%)	88.2 (+0.4%)	82.6 (-3.9%)	76.5 (-8.3%)	73.1 / 70.3 (-3.8%)
Marine Corps Reserve	39.9 (+0.9%)	41.0 (+3.8%)	39.7 (+0.1%)	39.9 (+0.9%)	39.6 / 39.5 (-0.3%)
Air National Guard	112.1 (+3.4%)	108.1 (+1.4%)	106.7 (-0.2%)	106.4 (-0.3%)	106.8 / 105.2 (-1.5%)
Air Force Reserve	76.6 (+2.6%)	74.8 (-1.1%)	75.3 (-0.6%)	75.8 (-0.4%)	74.0 / 74.7 (+1.0%)

^A FY 2006 data are final as of the third quarter.

Recruitment

The Department uses several metrics to provide insight into the outcomes of its recruiting efforts. The first set answers the question: “Did the Department meet its annual recruiting goals?” The second set ranks the educational level and aptitude of the recruits. The third set examines the Department’s success in recruiting individuals with critical skills.

Number of Recruits – Active Components

All Active Components met their third quarter recruiting goals and are expected to meet their year-end recruiting goals for FY 2006.

Active Component Enlisted Recruiting Quantity (numbers in thousands)					
Metric	FY 2002	FY 2003	FY 2004	FY 2005 Target/Actual	FY 2006 Target/Actual ^A
Number of enlisted Active Component accessions	196.5	184.9	182.6	169.5 / 163.3	179.7 / 120.1

^A FY 2006 data are final as of the third quarter.

Number of Recruits – Reserve Components

All Reserve Components, except Navy Reserve and Air National Guard, met their recruiting goals through the end of the third quarter in FY 2006. The strong economy and the pressures of the Global War on Terror have created



Section 2: Performance Information

a lower propensity among Service-eligible young people to join and a decreased desire by those who typically influence potential recruits to consider military service. Enhanced recruiting and retention incentives have helped.

Reserve Component Enlisted Recruiting Quantity (numbers in thousands)					
Metric	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006 Target/Actual ^A
Number of enlisted Reserve Component accessions	147.1	133.1	118.2	141.1	141.1 / 101.2
^A FY 2006 data are final as of the third quarter.					

Educational Levels and Aptitude

Aptitude test results and education levels correlate closely to job performance for both Active and Reserve members. All military enlisted applicants (Active and Reserve) take the Armed Services Vocational Aptitude Battery exam, which includes the Armed Forces Qualification Test. This test measures math and verbal skills, which directly correlate with trainability and on-the-job performance. The table below shows how test percentiles are grouped into categories:

Armed Forces Qualification Test Categories and Corresponding Percentile Score Ranges	
Category	Percentile Score Range
I	93–99
II	65–92
IIIA	50–64
IIIB	31–49
IV	10–30
V	1–9

Those who score at or above the 50th percentile are ranked in categories I-III A. The Department values these higher-aptitude recruits because their training and job performance are superior to those in the lower groupings. The Department also values recruits with high school diplomas because years of research and experience demonstrate that high school graduates are more likely to complete their initial 3 years of enlistment.

Quality benchmarks for recruiting were established in 1992 based on a study conducted jointly by the Department and the National Academy of Sciences. The study produced a model linking recruit quality and recruiting resources to the job performance of enlistees. From this model, the Department derived its minimum acceptable quality thresholds for Active and Reserve members as follows:

- 90 percent with high school diplomas or equivalent
- 60 percent in aptitude test categories I–III A
- Not more than 4 percent in aptitude test category IV



Section 2: Performance Information

Adhering to these benchmarks reduces personnel and training costs, while ensuring that the force meets high performance standards.

As the following tables show, the quality of Active and Reserve Component recruits is fairly consistent from year to year. Three of the four Active Components met their quality goals, while the Army missed its high school diploma goal. Most Reserve Components have met the quality standards in their recruiting efforts through the end of the third quarter. It appears the Navy Reserve missed its target due to challenges in reporting. The Navy is working on a solution. While the Army National Guard missed its targets slightly as of the end of the third quarter, fourth quarter trends suggest that it may meet the goal of 90 percent recruits with high school diplomas and less than 4 percent in the Armed Forces Qualification Test category IV.

Active Component Enlisted Recruiting Quality					
Category	FY 2002	FY 2003	FY 2004	FY 2005 Target/Actual	FY 2006 Target/Actual ^A
Percentage of recruits holding high school diplomas	94%	95%	95%	>90% / 93%	>90% / 92%
Percentage of recruits in Armed Forces Qualification Test categories I-III A	70%	72%	73%	>60% / 70%	>60% / 70%
Percentage of recruits in category IV	0.7%	0.2%	0.3%	<4% / 1.9%	<4% / 1.5%
^A FY 2006 data are final as of the third quarter.					

Reserve Component Enlisted Recruiting Quality					
Metric	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006 Target/Actual ^A
Percentage of recruits holding high school diplomas	89%	87%	87% ^B	85%	>90% / 89%
Percentage of recruits in Armed Forces Qualification Test categories I-III A	66%	66%	66b%	63%	>60% / 61%
Percentage of recruits in test category IV	1.1%	1.5%	2.0%	3%	<4% / 4%
^A The FY 2006 data are final as of the third quarter.					
^B Excludes Air National Guard.					

Critical Skills

The third set of recruitment metrics evaluates the Department's success in attracting recruits with critical skills that are in high demand. This metric captures the fill rate for enlisted skills that the Services consider most critical for recruitment emphasis, such as linguists, explosive ordinance disposal technicians, and military police. Positions requiring these skills are difficult to fill, either because they are viewed as undesirable or dangerous, or persons with the needed specialty skills are not readily available.



Section 2: Performance Information

To obtain these skills, the Department may provide enlistment bonuses, incentives to recruiters, etc. Currently, the metric is applied only to Active Duty enlisted recruits.

The exact fill rate for each skill is measured and each Service is rated based on the recruit rate for its lowest skill rating. The Department uses the following criteria for evaluating overall unit readiness with respect to skill match (the categories and percentages indicate whether unit personnel have the skills to fit the unit's missions):

- C1—Fully mission capable 85% or above
- C2—Mostly mission capable 75% to 84%
- C3—Major parts mission capable 65% to 74%
- C4—Some parts mission capable 64% and below

The "C" rating, short for capability rating, focuses on the weakest link in the chain. For example, if a unit needs five critical skills to perform its mission successfully, and only four of the five are filled at a rate of 85 percent or more, the unit's "C" rating is based on the fifth skill fill rate. If it is filled at only 60 percent then the unit as a whole receives the lowest rating of C4.

The following tables show the overall fill rates for designated skills and how the data breaks down by Active Component. As of the third quarter, the Air Force met the target, but the other Services did not.

Critical Skill Recruit Needs					
Metric	FY 2002	FY 2003	FY 2004	FY 2005 Target/Actual	FY 2006 Target/Actual ^A
Percentage of designated skill positions filled	No historical data; new metric	No historical data; new metric	95%	95% fill rate / 65%	95% fill rate / 84%
^A FY 2006 data are final as of the third quarter.					

Retention

The ability of the Department to retain Active and Reserve forces in certain numbers at certain career levels is a key driver that has both staffing and budget repercussions. Poor retention rates require greater recruiting efforts and increased funding to train new Service members.

Active Components

The table below shows that the Active Components continue to have excellent retention rates and are meeting or exceeding year-to-date goals. The figures reflect reenlistment numbers as of the end of the third quarter; the Marine Corps has already met its annual goal. The other Services are expected to meet their annual reenlistment goals by the end of the fiscal year.



Section 2: Performance Information

Active Component Enlisted Retention Goal (numbers in thousands)					
Service ^A	FY 2002	FY 2003	FY 2004	FY 2005 Target/Actual	FY 2006 Target/Actual ^B
Army					
Initial	19.4	19.8 / 21.8	24.9	26.9 / 27.8	26.5 / 24.5
Mid-career	23.1	19.5	21.1	23.8 / 24.4	24.5 / 19.6
Career	15.7	12.8	14.0	13.5 / 17.3	13.2 / 12.4
Total	58.2	54.2	60.0	64.2 / 69.5	64.2 / 56.5
Navy ^C					
Zone A	59%	62%	54%	53% / 52%	15.0 / 11.2
Zone B	75%	77%	70%	69% / 63%	8.0 / 6.5
Zone C	87%	88%	87%	85% / 85%	4.0 / 3.6
Total					27.0 / 21.3
Marine Corps					
First term	6.1	6.0	6.0	5.9 / 6.2	5.9 / 5.9
Subsequent	7.3	5.8	7.7	5.1 / 7.0	6.3 / 6.4
Total	13.3	11.8	13.7	11.0 / 13.1	12.1 / 12.3
Air Force ^C					
Zone A	72%	61%	63%	51% / 41%	19.4 / 14.8
Zone B	78%	73%	70%	71% / 70%	9.3 / 7.8
Zone C	95%	95%	97%	88% / 89%	6.2 / 5.2
Total					31.9 / 27.8

^A Definitions by years of service:
 Army: Mid-career—7 to 10; career—10 or more
 Navy: Zone B—6 to 10; Zone C—10 to 14
 Air Force: Zone B—6 to 10; Zone C—10 to 14
 Marine Corps: First term—Marines on their initial contract who are interested in reenlisting during their Expiration of Active Service fiscal year;
 Subsequent—Marines in the ranks of sergeant, staff sergeant, and gunnery sergeant.

^B FY 2006 actual data are final as of the third quarter. Target is the annual retention goal.

^C The Navy and Air Force in FY 2005 and prior years tracked retention as a percentage of the target. To enhance consistency in the reporting process across the Department, the Navy and Air Force began reporting the actual number of reenlistments in FY 2006.

Reserve Components

To assess retention trends in the Reserve Components, the Department uses attrition rather than retention rates. Attrition is computed by dividing total losses from the Selected Reserve of a specific Component for a fiscal year by the average personnel strength of that Component's Selected Reserve for that year. This metric is preferable to retention rates for two reasons: (1) only a small portion of the Reserve Component population is eligible for reenlistment during any given year, and (2) the Reserve Components have different business practices than the Active Components due mainly to the lack of mobility of reservists.

The table below shows that Reserve Component attrition overall is within anticipated limits. Reserve Component Enlisted attrition is generally lower when compared to third quarter results from the prior year. Components anticipate achieving targets at year-end due to Command emphasis on providing support to Reserve members and their families.



Selected Reserve Component Enlisted Attrition Ceiling

Selected Reserve Component	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006 Target/Actual ^A
Army National Guard	20.6%	18.1%	18.6%	20.2%	19.5% / 14.3%
Army Reserve	24.6%	22.1%	22.6%	23.4%	28.6% / 16.1%
Navy Reserve	26.5%	26.5%	28.2%	31.2%	36.0% / 26.0%
Marine Corps Reserve	26.0%	21.4%	26.3%	22.1%	30.0% / 18.9%
Air National Guard	7.3%	12.7%	11.5%	10.2%	12.0% / 8.4%
Air Force Reserve	8.7%	17.0%	13.6%	14.7%	18.0% / 11.0%

^A FY 2006 data are estimated as of the third quarter.

Critical Skills

The Department also is developing a way to measure its effectiveness at retaining critical military skills. To be designated as “critical,” a skill must meet two tests: (1) it must be short of its targeted manning level, and (2) it must be critical to the Service’s mission. As a first step, the Department established a common definition and metric to monitor critical skills across the Services.

A skill shortage may occur when fewer individuals are assigned than are authorized (quantitative) or when the average experience is substantially different from the desired experience (qualitative). These shortages are actual, projected, or have a past trend of historical shortages. To be considered mission critical, a skill must meet at least one of the following criteria:

- Require notably above-average training or replacement costs
- Be in high demand in the civilian sector
- Present a recruiting challenge
- Be crucial to combat readiness
- Be a low-density, high-demand skill

The Service’s overall rating can be no higher than its lowest-rated critical skill; the Department’s score can be no higher than the lowest-rated Service.

The Department monitors each Service’s ability to retain members in its top 10 critical skills using a stoplight scoring system. Overall, the Department and the individual Active Components are rated “Red” for critical skills. Only 10 of 40 (25 percent) designated skills achieved 95 percent or greater fill goal. A skill retention rate of 95 percent or greater is assessed “green”, 85-94 percent “yellow,” and 85 percent or less “red.” Most critical skills require difficult training and very stringent prerequisites for continuation, and they are highly sought in both the private sector and among other government agencies.

Section 2: Performance Information



Manning Level of Critical Skills					
End-State Metric	FY 2002	FY 2003	FY 2004	FY 2005 Target/Actual	FY 2006 Target/Actual ^A
Percentage of skills deemed critical for retention relative to a Department-wide benchmark	No historical data; new metric	Started to define critical skills Developed list of critical skills	Established common definitions for critical skills Tested data collection	Began tracking the metric during the second quarter FY 2005	>95% fill for all skills/ Overall Services rating: Red 25% of designated skills achieved 95% or more of goal
^A FY 2006 data are final as of the third quarter.					

**Performance Goal 1.3:
Maintain Reasonable Force Costs**

This goal focuses on the cost to maintain the military force necessary to fulfill the Department’s mission. The term “force costs” refers to all the force-related activities that make up overall labor costs for the Department. Per capita costs for recruiting and basic training; civilian and contractor support costs; medical costs and Quality of Life initiatives; productivity of primary care providers; and the pay gap between private sector and military compensation that exists for enlisted personnel are measures that help the Department manage its labor costs. Several of these cost factors are described below.

Per Capita Costs to Recruit and Train

The cycle to recruit, train, and replace Service members is a major cost driver for force management. Two factors provide a rudimentary indicator of the price of replenishing the force over time: the average annual cost to recruit one new Service member and the cost to complete basic training per Service member. The cost per recruit tends to increase annually, while the cost of basic training has remained relatively stable. Each year, the Department enlists approximately 180,000 new recruits for the Active Components and 130,000 for the Reserve Components.

Recruiting Costs

The two tables below indicate the cost per Active and Reserve Component recruit along with indicators that track costs and trends over time. The cost of recruiting an Active or Reserve Component member is calculated by dividing a Service’s total expenditures for enlisted recruiting by the total number of recruits. Recruiting expenditures include recruiting personnel compensation, enlistment bonuses, college funds, advertising, communications, recruiting support, and other resources within the recruiting Service.

The estimated cost per enlisted recruit in FY 2006 is below the FY 2003 - FY 2005 levels. The FY 2006 estimate does not include supplemental appropriations. These increased resources will be reflected in the FY 2008 President’s Budget submission.



Section 2: Performance Information

Reliable FY 2006 recruiting costs for the Reserve Components could not be determined. Changes in Component personnel procedures and system problems have made it difficult to determine the reliability and validity of the cost per enlisted recruit for the Reserve Components. The Department is actively pursuing a solution to this problem.

Cost Per Enlisted Recruit—Active Component (Constant FY 2006 Dollars)					
Metric	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006 ^A
Cost per recruit	\$14,901	\$15,156	\$15,153	\$16,386	\$14,845

^A FY 2006 data are as of the FY 2007 President's Budget.

Cost Per Enlisted Recruit—Reserve Component (Constant FY 2005 Dollars)					
Metric	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006 Target/Actual
Cost per recruit	\$6,636	\$7,773	\$9,174	\$10,012	2% variance from target /not available

Training Costs

Basic training encompasses the fundamental introduction and indoctrination provided to enlisted recruits. Performance and production targets are driven by the number of recruits and vary by Service and year. Basic training costs are projected by fiscal year and include manpower, support equipment, facilities, and all other costs associated with indoctrinating recruits into military culture, raising their standards of physical conditioning, and instructing them in basic military skills.

Overall funding for recruit training in FY 2006 was \$2.1 billion, down 0.7 percent from FY 2005. The Services anticipate approximately 44,600 more entrants to basic training in FY 2006 than in FY 2005. As the table below shows, the cost of basic training per enlisted Service member will decrease from \$12,477 in FY 2005 to \$9,764 in FY 2006 and is within 1.2 percent of the targeted \$9,646 per enlisted Service member.

Cost of Basic Training (Constant FY 2006 Dollars)					
Metric	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006 Target/Actual ^A
Cost of basic training per enlisted recruit	\$8,763	\$9,216	\$11,734	\$12,477	\$9,646 / \$9,764

^A FY 2006 data are estimated as of the third quarter.



Section 2: Performance Information

Closing Pay Gap

The Department monitors the gap between military pay for enlisted members and pay for comparable civilian positions. To help ensure sufficient military manpower for national defense, the Department tries to maintain competitive salaries and benefits. The Department has found that military pay at about the 70th percentile of pay earned by comparably experienced civilian workers is an effective benchmark for competitive compensation. Military compensation significantly less than the 70th percentile leads to recruiting and retention problems that are costly to remedy. The pay gap for officers was eliminated in FY 2002 through a combination of targeted pay increases, across-the-board raises that exceeded the average increases in the private sector, and general increases in allowances.

Although a good leading indicator of recruiting or retention trends, this metric alone is not sufficient to gauge the overall efficiency or effectiveness of the military personnel compensation program. The Department plans to monitor changes in total military personnel costs, the probability that an enlisted member will remain in service after 15 years, and the average experience at promotion for grades affected by the pay gap.

Measurement of the enlisted pay gap is based on private sector pay by education and years of experience and compared to enlisted pay, by pay grade and years of service. The Department’s goal is to close at least 25 percent of the remaining gap annually until the gap is eliminated. After the gap is closed, the goal is to ensure that military pay remains at approximately the 70th percentile of comparable civilians.

As the table below shows, the Department exceeded its target and came very close to eliminating the enlisted pay gap in FY 2006. This positive change was the result of a 3.1 percent across-the-board pay raise compared with a 2.6 percent increase in the private sector, as measured by the Employment Cost Index. Another important factor was a 6 percent increase in the average housing allowance and a 2 percent increase in the subsistence or food allowance.

Military Personnel Costs—Enlisted Pay Gap					
Metric	FY 2002a	FY 2003	FY 2004 ^A	FY 2005	FY 2006 Target/Actual
Percentage of enlisted pay gap closed	48%	61%	73%	88%	91% / 97%
^A Data for FY 2002 and FY 2004 changed from prior reports because the baseline for civilian wages was updated due to the availability of more recent data. FY 2000 costs were used as a baseline.					

Medical Costs

Another metric looks at how well the Military Health System manages the care for those individuals who have chosen to enroll in a health maintenance organization-type of benefit. It is designed to capture: (1) how efficiently a Military Treatment Facility provides care; (2) how efficiently the facility manages the demand of its enrollees; and (3) how well the facility determines whether care should occur inside the facility or be purchased from a managed care support contractor.



Section 2: Performance Information

The overall measure can be broken into multiple components that allow for review of utilization factors and unit cost information for both direct care and purchased care. Military Treatment Facilities determine how much it costs to provide care and how many times enrollees receive care. The top-level measure is used to track overall performance and the detailed measures allow for review and management at the local level.

The initial data, as shown in the table below, appear to indicate an increase in monthly care costs per enrollee of approximately 7.2 percent compared to the target of 3.8 percent. The Department expects to move closer to its target as more of the claims are completed.

Medical Cost Per Equivalent Life Per Month					
Metric	FY 2002	FY 2003	FY 2004	FY 2005 Target/Actual ^A	FY 2006 Target ^B /Actual ^C
Medical cost per enrollee per month	\$168	\$179	\$192	\$213 / \$208	\$221 / \$223
Percentage change	Not available (first year data reported)	6.5%	7.3%	≤10.9% / 8.3%	≤3.8% / 7.2%

Metric information has been updated to reflect change from straight enrollee count to an equivalent life factor. This factor allows for better comparison across time due to changes in enrollees.

^A FY 2005 data represent the best estimate of final information.

^B FY 2006 dollar value target is based on a 6-month period for FY 2006 compared to the same period for FY 2005. Dollar values will change as claims data become final.

^C FY 2006 data are estimated as of the second quarter.

**Performance Goal 1.4:
Shape the Force of the Future**

This goal focuses on developing a military force trained and prepared to meet future threats and international challenges. Metrics are designed to gauge civilian and military human resource strategic planning and the correct “mix” of forces to ensure the appropriate balance between Active and Reserve forces.

Human Resources Strategic Plans

Good human capital management is one of the key tenets of the Department’s transformation initiative.

Military Human Resources Strategic Plan

The Department’s Military Human Resources Strategic Plan focuses on six goals:

- Increase the willingness of the American public to recommend military service to youth
- Recruit the right number of quality people
- Develop, sustain, and retain the force
- Transition members to and from Active and Reserve status seamlessly
- Develop a flexible, integrated human resources management information system
- Sustain continuous human resources process improvement

Section 2: Performance Information



This plan establishes the legislative and policy priorities for the next several years, such as the following:

- Accessing enlisted personnel with the right level of education and aptitude
- Ensuring that the force is manned with the right number of military members with the appropriate skills
- Implementing a demonstration program evaluating various personnel management policies and programs for extending careers, such as an “up-and-stay” policy (versus “up-or-out”) for certain high-investment specialties

During FY 2006, the Department completed studies that provided: (1) the final report for variable officer career lengths; (2) the Defense Advisory Committee on Military Compensation report for recommendations on a flexible and competitive compensation system; (3) alternatives for the military retirement system and obstacles to their implementation; (4) the report on the Service General and Flag Officer career management process; (5) a validation of the Armed Services Vocational Aptitude Battery; (6) a first step in implementing the policy change to align enlisted grade and experience pyramids; (7) a strategic approach to joint personnel issues; and (8) alternatives for a flexible and competitive compensation system.

Civilian Human Capital Strategic Plan

The Department employs approximately 720,000 civilians worldwide to support its military forces in a wide variety of administrative, technical, and professional occupations.

The Department’s Civilian Human Capital Strategic Plan is a comprehensive plan for ensuring a strong civilian workforce, able to meet the mission challenges of today and the future, and guiding the civilian human resources policies, programs and initiatives. In FY 2006, the Department revised the plan to establish long-term goals with performance metrics that align with: (1) the 2006 Quadrennial Defense Review, (2) the Department’s overall human capital strategy, and (3) Office of Personnel Management human capital initiatives. The plan is designed to create:

- World Class Enterprise Leaders, who manage people effectively in a joint environment, ensure continuity of leadership, and sustain a learning environment that drives continuous improvement across the enterprise
- Mission-Ready Workforce characterized by agility, flexibility, diversity, and seamless integration with the Total Force
- Results-Oriented Performance Culture that is mission-focused and results-oriented
- Enterprise Human Resources Support that is strategically aligned and customer-focused, and provides measurable, leading-edge results

During FY 2006, the Department focused on implementing the plan and metrics to measure performance. Results will be measured using the evaluation method outlined in the Civilian Human Capital Accountability System, scheduled for completion in the fourth quarter of FY 2006. Annually, the Department will provide a Human Capital Accountability Report to the Office of Personnel Management.

Efficient Civilian Hiring

In 2004, the Office of Personnel Management imposed new goals for both non-Senior Executive Service and Senior Executive Service hiring actions. Non-Senior Executive Service positions should be filled in 45 working days or



Section 2: Performance Information

less, measured from the date the vacancy announcement closed to the date of the job offer. Senior Executive Service positions should be filled in 30 working days or less, measured from the date the vacancy announcement closed to the date the package was submitted to the Office of Personnel Management Qualifications Review Board. The Department adopted both of these models as its principal measures of hiring efficiency.

Data collection began in FY 2005. The data were benchmarked, data collection processes were refined, and results were verified. The Department began reporting accurate and reliable data during the second quarter of FY 2006.

Job offers for all non-Senior Executive Service positions were made well within the 45-day model. Against the 30-day model for Senior Executive Service positions, the Department reduced its time to an average of 75 days, a 40 percent reduction from the original FY 2005 benchmark of 125 days.

The Department’s performance against the models is presented in the table below.

Civilian Recruiting Cycle Time					
End-State Metric	FY 2002	FY 2003	FY 2004	FY 2005 Target/Actual	FY 2006 Target/Actual ^A
Trend data to monitor the number of days appropriated fund positions are vacant	No historical data; new metric	Drafted performance measures	Issued reporting requirements for measure	Collected and validated data Began to characterize results	Non-Senior Executive Service hires: 45 days / 31 days
		Established benchmark with <i>Fortune 500</i>	Integrated Office of Personnel Management reporting requirements into the Department’s reporting requirements	Calculated the Department’s time-to-fill metric: 71% actions within 90 days 12% actions within 120 days 17% actions over 120 days Data for Office of Personnel Management metric not yet collected	Senior Executive Service hires: 30 days / 75 days

^A FY 2006 data are final as of the third quarter.

Balance Between Active and Reserve Components

The 2001 Quadrennial Defense Review directed a comprehensive study of the proper mix of the Active and Reserve Component forces. Subsequently, the Secretary of Defense directed the Services to review their force structures and, where required, rebalance them to ease the stress on the Guard and Reserve. The Secretary’s guidance was to promote judicious and prudent use of the Reserve Components with force rebalancing initiatives, reduce strain through the efficient application of manpower and technological solutions, and improve the balance of Active and Reserve Component capabilities.

The Department began tracking rebalancing actions in FY 2003. The Services reviewed their force structure initiatives and took rebalancing actions as necessary. The tables below show the results of the Department’s efforts to rebalance the Active and Reserve Components. The first table shows the rebalancing results through the end of FY 2006 and the second table shows the projected rebalancing actions between FY 2007 and FY 2012.

Section 2: Performance Information



Active Component/Reserve Component Force Mix Rebalancing Actions FY 2003 – FY 2006					
Service	Unit of Measure	FY 2003	FY 2004	FY 2005	FY 2006
Army	Spaces	2,500	4,467	16,799	15,365
Navy	Spaces	19,713	8,752	4,699	1,178
Marines	Spaces	0	0	6,000	2,123
Air Force	Spaces	273	5,147	1,407	395
TOTAL	Spaces	22,486	18,366	28,905	19,061

Active Component/Reserve Component Force Mix Rebalancing Actions Projected FY 2007 – FY 2012							
Service	Unit of Measure	FY 2007	FY 2008	FY 2009	FY 2010	FY2011	FY 2012
Army	Spaces	19,704	8,569	2,599	1,288	435	1,186
Navy	Spaces	296	238	(94)	68	8	23
Marines	Spaces	180	0	0	0	0	0
Air Force	Spaces	298	1,069	203	228	258	65
TOTAL	Spaces	20,478	9,876	2,708	1,584	701	1,274

Beginning in FY 2006, the Services must report their rebalancing plans and results in terms of the addition of force structure (spaces) to stressed capability areas. Previous reporting focused on unit force structure changes. This shift in focus may result in report numbers different from those expected. Due to these new requirements, the final results of the Services' efforts to rebalance are not yet available.

Continuum of Military Service

A review of the use of Reserve Component forces directed by the 2001 Quadrennial Defense Review proposed the concept of "continuum of service." Under this concept, a Reservist who normally trains 38 days per year could volunteer to move to full-time service for a period of time or to some increased level of service between full-time and his or her normal Reserve Component commitment, without completely abandoning civilian life. Similarly, an Active Duty Service member could request transfer into the Reserve Component for a period of time, or some status in between, without jeopardizing his or her full-time career and opportunity for promotion. Military retirees with hard-to-find skills could return on a flexible basis and create opportunities to serve for others with specialized skills.

This concept allows for better transition between Active and Reserve Component service and enhances Reserve Component usage. Some initiatives related to the continuum concept will require legislative, policy, or regulatory changes that may take several years to complete. Currently, the Department's efforts are focused on: (1) creating a seamless flow between Active and Reserve Component forces; (2) encouraging volunteerism and establishing new



affiliation programs; (3) simplifying rules for accessing, employing, and separating Reserve Component personnel; (4) increasing the flexibility of the Reserve Component compensation system; and (5) enhancing combined Active and Reserve Component career development.

Strategic Goal 2:

Balance Operational Risk - Achieve and Maintain Operational Superiority

This goal focuses on the Department's efforts to create plans that can be adapted quickly as events unfold, train for the next real-time mission, and supply the warfighters with the resources they need immediately. These challenges are today's threats, so goals address achieving near-term objectives, not long-term outcomes.

Performance Goal 2.1: Maintain Force Readiness

In today's rapidly changing world, the Department must have the capability to respond quickly and effectively to a wide range of potential challenges. The Department is replacing existing planning methods that are too deliberate and slow with a new system that will yield plans that provide relevant options to the President and Secretary of Defense on a timely basis. The long-term goal is to have a networked capability to produce, update, and transition through crisis situations seamlessly by the end of FY 2009. The Department refers to this capability as "net-centricity," which means harnessing the power of information connectivity by enabling critical relationships between people and organizations.

Adaptive Planning

Adaptive planning is a methodology for developing timely war and contingency plans responsive to the current security environment. The Department plans to have the initial spiral of capability to produce plans on demand by 2008 via the DoD's Secret Internet Protocol Network (SIPRNET) together with web portal and tools to obtain process and display data from the military services and agencies.

In FY 2006, the Secretary approved a three-phased approach to the adaptive planning:

- Phase I—Initiation (through FY 2007), which will deploy new technology and exercise portions of the adaptive planning construct on select priority plans.
- Phase II—Implementation (FYs 2007–2008), which will produce electronic plans for all contingencies in a collaborative joint command and control environment.
- Phase III—Integration (FY 2009 and beyond), which will produce and maintain "living" plans in a collaborative environment.

The Department continues to test and refine the web-based tools used to build campaign plans. Additional tools, such as war-gaming, are being integrated into the web portal or are under consideration. These tools will be interoperable with authoritative data sources and key command and control planning and execution systems.



Section 2: Performance Information

Analytic Baselines

The Secretary of Defense directed that the Department create a foundation, or set of analytic baselines, for strategic analyses that rely on common scenarios and data. These baselines are intended to help provide responsive and analytically sound insights to help senior staff make decisions on joint warfighting issues and policy. The analytic baselines provided a “warm starting point” for Quadrennial Defense Review analytic efforts and insights. The Department continues to develop and update its analytic baselines.

Operational Lessons Learned

The Department takes lessons learned very seriously and ensures that lessons learned are integrated into training processes and systems. Lessons learned from operational missions must be captured systematically and injected into the full range of preparatory and planning activities; ongoing experimentation; concept development; doctrine; and joint tactics, techniques, and procedures development. These actions will result in a robust Joint Lessons Learned Program that encompasses the range of joint Military Service, Reserve, and Guard Component activities. The Department developed the strategic and operational requirements for a collaborative, web-enabled, and net-centric Joint Lessons Learned Information System. This system, when fully operational, will facilitate knowledge management of lessons learned in concert with the Joint Training System, the Joint Training and Information Management System, the Defense Readiness Reporting System, and Military Service systems through the Global Information Grid.

Defense Readiness Reporting System Implementation

The 2001 Quadrennial Defense Review directed the Department to change fundamentally the way force “readiness” is measured, reported, and resolved. The Department launched a series of policy and procedure changes to develop and use a new readiness reporting and assessment system. When implemented, the system will provide capabilities-based, adaptive, near-real-time information for all military units. Readiness will be assessed from the perspective of the Combatant Commanders. This is important because Combatant Commanders describe their roles and responsibilities in terms of mission-essential tasks and assigned missions or core tasks first, and then assess their ability to conduct those tasks.

In June 2006, the Department released a new version of the Defense Readiness Reporting System that integrates mission-essential task assessment functionality with asset visibility in a single software application. The Department also released additional system guidance. This system is being used actively to support various readiness forums in the Department and to answer readiness questions at the highest levels.

Performance Goal 2.2

Ensure Superior Capabilities Exist to Succeed

This goal focuses on the Department’s efforts to have the right capabilities in the right place to achieve the desired effect—before deploying forces to deter or fight an adversary. A key part of this goal is to ensure that the Department recognizes how deploying forces from one region to another may impede or enhance its ability to accomplish strategic goals in another region or at home.



Global Force Management

Global Force Management is a method for monitoring joint force operational availability. It is designed to manage continuously the process that provides forces to conduct operational missions (called “sourcing”) using analytically-based availability and readiness management methods. The objective is to integrate data on worldwide availability and readiness. This process provides comprehensive insight into U.S. force availability worldwide and accounts for ongoing operations and constantly changing unit availability. It leverages the most responsive, best-positioned force at the time of need and guides the allocation of Service forces that rotate into the theater. The term “theater” refers to a strategic area of national security interest.

Global Force Management also provides senior decision-makers a way to: (1) assess risk in terms of forces available to source Combatant Commanders’ war plans, and (2) predict the likely stress on the force associated with proposed allocation, assignment, and apportionment changes. In simple terms, Global Force Management ensures that decision-makers know the location and status of all forces so that they can make informed assignment decisions. In FY 2006, the Department improved its existing force assignment information to develop optimal joint force sourcing solutions. The Department also completed its initial electronic documentation of organizational hierarchies, command and support relationships, and manpower.

Theater Security Cooperation

Theater security cooperation entails developing the right defense partnerships with friends and allies to promote specific U.S. security interests. Recently, the Department initiated a comprehensive security cooperation strategy review that focused the activities of Combatant Commands, the Services, and Defense Agencies on common goals to garner the necessary cooperation. Security cooperation embraces all interactions with foreign defense establishments, and it is the primary means of building relationships that promote specific U.S. security interests. Security cooperation activities help America’s allies develop military capabilities for self-defense and to support coalition operations. They also provide information, intelligence, and access. In FY 2006, the Department published and began to implement its Security Cooperation Guidance. The first comprehensive security cooperation assessments were submitted, analyzed, and forwarded to the Secretary of Defense. The Department is researching assessment metrics for determining the effectiveness of the security cooperation program and evaluating the capabilities required for security cooperation.

Performance Goal 2.3: Align Forces Consistent with Strategic Priorities

This goal focuses on developing plans and concepts to ensure that the Department’s forces are able to work together in a wide variety of joint operations in any number of circumstances around the globe.

Joint Concepts

Joint concepts provide the operational context for the transformation of the Armed Forces by bridging the gap between strategic guidance and the Department’s strategy for providing resources for operations. As they are revised, all joint concepts are written in a problem/solution format to facilitate validation through assessment and experimentation.



Section 2: Performance Information

The Capstone Concept for Joint Operations guides the development of future joint capabilities as well as force development and employment, primarily by providing a broad description of how the future joint force will operate across the range of military operations 8 to 20 years in the future. Joint Operating Concepts apply a solution in greater detail to a specified mission area, while Joint Functional Concepts apply elements of the capstone solution to describe how the joint force will perform an enduring military function across the range of military operations. Joint Integrating Concepts provide an operational-level description of how a joint force commander will perform a specific operation or function. In FY 2006, the Department institutionalized joint collaboration; informed strategy, operational plans, and defense planning scenarios; generated a robust body of joint warfighting knowledge; provided a solid conceptual basis for joint experimentation; described cross-cutting military functions; identified key joint force capabilities required, and identified 93 joint capability gaps.

**Performance Goal 2.4:
Transition Forces Rapidly to Meet New Threats**

This goal focuses on strategies to ensure that the Department can respond to threats in a variety of ways by using all of its available resources.

Operational Availability

The Department must prevent terrorists from harming America, its people, and its friends and allies. The Department must be able to rapidly transition military forces to post-hostilities operations, and identify and deter threats to the United States, while standing ready to assist civil authorities with mitigating the consequences of a terrorist attack or other catastrophic event. These diverse requirements demand integration with and leveraging of other elements of national power, such as international alliances and partnerships. The Department is developing a broader portfolio of capabilities and is realigning forces using a building-block approach to match those capability portfolios with mission goals. Continued implementation of several of the Department's initiatives previously discussed, such as Global Force Management, Adaptive Planning, and Analytic Baselines, will help the Department meet this goal.

**Strategic Goal 3:
Balance Institutional Risk - Improve Organization Efficiency to
Support the Warfighter**

This goal focuses on the Department's internal transformation efforts to streamline the decision process, improve financial management, build a base of facilities ready and able to meet the highest standards for quality and readiness, and drive acquisition excellence.

**Performance Goal 3.1:
Improve the Readiness and Quality of Key Facilities**

This goal focuses on the physical property assets that support the Department's mission and its people.



Eliminate Inadequate Domestic Family Housing by 2007

The Department’s goal is to ensure that Service members and their families are provided safe, modern, and attractive housing that the average American would be proud to call home. Housing can be a key factor in recruitment and retention decisions. The issue is important enough to warrant a stand-alone initiative in the President’s Management Agenda. As of September 30, 2006, the Department was rated green on both status and progress.

The Department plans to eliminate all inadequate family housing at bases located in the United States by the end of FY 2007 and at bases located in other countries by FY 2009. In general, inadequate housing is any unit that requires a major repair, component upgrade, component replacement, or total upgrade. Each Service evaluated its housing, identified inadequate units, and developed a plan to eliminate these units through a combination of traditional military construction, operations and maintenance support, and privatization. The plans are updated annually in the President’s Budget.

For FY 2006, the Department is on track to exceed its target by eliminating more than 29,000 inadequate housing units. The table below shows the Department’s progress in reducing inadequate housing for Service members and their families.

Inadequate Domestic Family Housing (numbers in thousands)					
Metric	FY 2002 ^A	FY 2003 ^A	FY 2004 ^A	FY 2005	FY 2006 Target /Actual ^B
Number of inadequate family housing units (U.S.)	130.5	115.6	93.3	61.3	27.6 / 29.2245
Inadequate family housing units as a percentage of total family housing units (U.S.) ^C	59%	59%	55%	50%	40%

^A Prior-year values changed based on revised family housing inventory data included in the Services’ FY 2007 President’s Budget requests.
^B FY 2006 actual data are estimated as of the end of the third quarter.
^C Percentages decrease gradually because the total owned housing is also decreasing due to privatization.

Fund to a 67-Year Recapitalization Rate

The Department’s facilities recapitalization metric measures the rate at which the facilities inventory is being recapitalized. Recapitalization means to restore or modernize facilities. Recapitalization may involve total replacement of individual facilities, but often occurs incrementally over time without a complete replacement. The performance goal for recapitalization equals the average expected service life of the facilities inventory, currently 67 years. That average is based on the expected service life benchmarks, weighted by value of the facilities represented by each benchmark.

The FY 2006 recapitalization rate estimated at 73 years exceeds the budgeted rate of 111 years, an outcome similar to that of FY 2005 in which the actual rate of 67 years exceeded the budgeted rate of 104 years. The increased



Section 2: Performance Information

investment in recapitalization is influenced by two factors: (1) supplemental funding to restore facilities damaged or destroyed by Hurricanes Katrina and Rita, and (2) the initiation of FY 2005 Base Realignment and Closure spending.

The expected service life of the facilities inventory is also a function of facilities sustainment. Sustainment includes the routine maintenance and repair necessary to achieve the expected service life. To achieve a normal expected service life, full sustainment levels must be assumed. A reduced expected service life results from less than full sustainment. Sustainment levels required to achieve a normal expected service life are benchmarked to commercial per-unit costs; for example, \$1.94 per square foot is needed annually to properly sustain the aircraft maintenance hangar inventory over a 50-year life cycle. The facilities sustainment model adjusts these costs to local areas. The Department’s goal continues to be full sustainment annually for all facilities. Fully sustaining the Department’s facilities is more cost effective over the life of the facility and prevents the premature deterioration that leads to more costly restoration requirements.

In the future, the title of this metric will be changed to more accurately reflect its content. The metric appropriately addresses facilities sustainment as well as recapitalization. Since both are addressed, the title of this metric beginning with FY 2007 will be “Real Property Asset Life-Cycle Metrics.”

Status of Funding a 67-Year Recapitalization Rate					
Metrics	FY 2002	FY 2003	FY 2004 ^A	FY 2005 ^B	FY 2006
Facilities recapitalization metric (years)	101	149 ^C	88 ^D	67 ^E	73
Facilities sustainment model (percent)	89% ^B	93%	71%	79%	91%

FY 2006 data are estimated as of the year-end.
^A Three Defense Agencies (Defense Logistics Agency, the Department of Defense Education Activity, and TRICARE Medical Activity) were included beginning in FY 2004, but excluded in previous years.
^B Estimated (the Facilities Sustainment Model was first fielded in FY 2003)
^C FY 2003 data are as of the FY 2005 President’s Budget.
^D FY 2004 data are as of the FY 2006 President’s Budget.
^E FY 2005 data are as of the FY 2007 President’s Budget.

**Performance Goal 3.2:
Manage Overhead and Indirect Costs**

This goal focuses on the Department’s efforts to control its overhead costs and maximize the funds available for direct support to the warfighter.

Reduce Percentage of the Department Budget Spent on Infrastructure

The budget share devoted to infrastructure is one of the principal measures used by the Department to gauge progress toward achieving its infrastructure reduction goals. A downward trend in this metric indicates that the balance is shifting toward less infrastructure and more mission programs. The Department updates the percentage



Section 2: Performance Information

of the budget spent on infrastructure each time the President's Budget is revised. The Institute for Defense Analyses reviews and normalizes the data to adjust for the effect of definitional changes in the database that mask true content changes. Prior-year data are normalized to permit accurate comparisons with current-year data. Because of these adjustments, there may be slight shifts upward or downward in the targets established for past-year infrastructure expenditures.

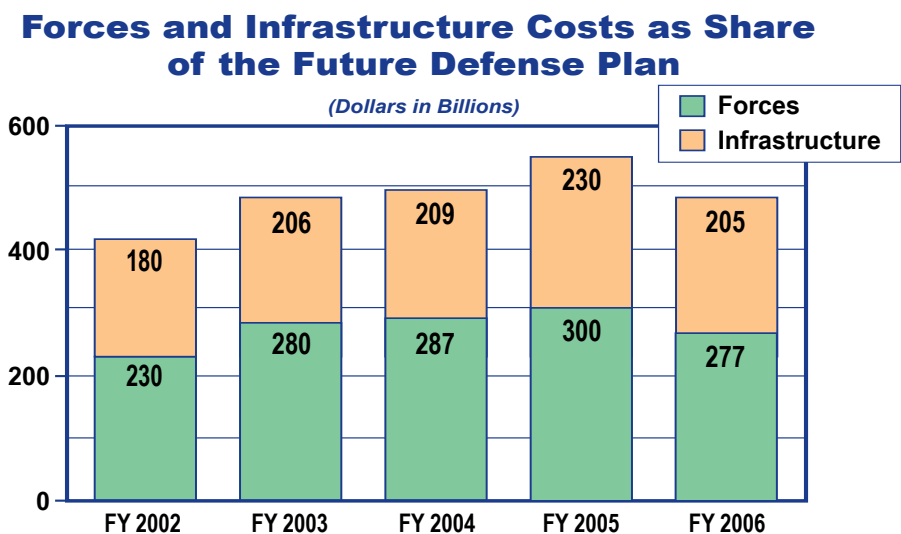
The Department will allocate an estimated 42 percent of total obligational authority to infrastructure activities in FY 2006, about the same as the preceding year. The Department continues to maintain its allocation of resources to forces fighting the Global War on Terror and meeting other operational requirements. The percentage of infrastructure requirements has decreased slightly since FY 2002 due to reform initiatives, including savings from previous Base Realignment and Closure rounds, strategic and competitive sourcing initiatives, and privatization and reengineering efforts.

The tables below show the percentage and dollar amounts the Department has spent on infrastructure.

Defense Budget Spent on Infrastructure					
Metric	FY 2002	FY 2003	FY 2004	FY 2005 Target/Actual	FY 2006 Target/Actual ^A
Department budget spent on infrastructure (percent)	44%	42%	42%	42% / 43%	42% / 42%

^A FY 2006 data are estimated as of the fourth quarter. This is a lagging indicator. Projections are based on the FY 2007 President's Budget and the Future Years Defense Program.

The following chart shows the dollars spent on infrastructure consistent with the percentages provided in the previous table.





Section 2: Performance Information

**Performance Goal 3.3:
Realign Support to the Warfighter**

This goal focuses on the Department’s efforts to shift support to the warfighter by providing equipment and supplies more quickly and by minimizing costs associated with the acquisition process.

Reduce Customer Wait Time

Customer wait time measures the elapsed time from when a customer orders and receives an item. The customer’s order may be filled from assets on hand at the customer’s military installation or naval vessel, or through the Department’s wholesale logistics system. This metric includes orders for spare and repair parts ordered by organizational maintenance activities. Below the enterprise level, customer wait time is captured by each of the Military Services and the Defense Logistics Agency.

The table below shows that, through the second quarter of FY 2006, the Department experienced an average customer wait time of 17 days. The Department has reduced its wait time over the past several years but did not meet the FY 2006 target of 15 days due to the continuously high demand for critical items, primarily due to the Global War on Terror, and to delays in closing out transactions. The Department continues efforts to reduce customer wait time through supply chain improvements.

Customer Wait Time					
Metric	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006 Target/Actual ^A
Customer wait time (in days)	16	19	23	21	15 / 17
^A FY 2006 data are final as of the second quarter.					

Acquisition Reform

The Department uses three metrics to track efforts to reduce costs and improve the speed in which the Department completes major acquisitions.

Reduce Major Defense Acquisition Program Annual Rate of Acquisition Cost Growth

The Department measures the amount that acquisition costs grow from year to year. Acquisition cost growth can occur for various reasons, including technical risk, schedule slippage, programmatic changes, and overly optimistic cost estimates. The Department seeks to reduce cost growth from all sources, providing an output target for procurement managers of individual systems, as well as for the aggregate procurement programs of the individual Services. The objective is a downward trend toward an ultimate goal of no growth.

The table on the next page shows the trend in the annual growth in acquisition costs.



Section 2: Performance Information

Major Defense Acquisition Program Annual Rate of Acquisition Cost Growth (Lagged)						
Metric	FY 2001 ^A	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006 Target/Actual ^B
Percent annual growth	13.9%	6.4%	5.0%	3.5%	6.9%	Data Not Available

Acquisition cost growth is calculated using data from the December Selected Acquisition Reports.
^A Results for FY 2001 reflect acquisition cost growth for a 2-year period (FYs 2000 and 2001). There were no December 2000 Selected Acquisition Reports, because a Future Years Defense Program was not included in the FY 2002 President's Budget submission.
^B Results for FY 2006 will be available in April 2007 with the release of the December 2006 Selected Acquisition Reports.

Reduce Major Defense Acquisition Program Acquisition Cycle Time

Leveraging new technologies faster through rapid development and fielding of weapon systems will enable U.S. forces to stay ahead of the equipment advances of potential adversaries. Acquisition cycle time is the elapsed time from program initiation—when the Department makes a commitment to develop and produce a weapon system—until the system attains initial operational capability. The Department measures the average cycle time across all Major Defense Acquisition Programs.

During the 1960s, a typical acquisition took 84 months to complete. By 1996, a similar acquisition required 132 months from program start to initial operational capability. To reverse this trend, the Department established an objective to reduce the average acquisition cycle time for Major Defense Acquisition Programs started since 1992 to fewer than 99 months, a reduction of 25 percent. The Department achieved that initial objective by using techniques such as demonstrated technology, time-phased requirements and evolutionary development, and integrated test and evaluation.

The Department is seeking to reduce the average cycle time to fewer than 66 months for all Major Defense Acquisition Programs started after FY 2001. The table below shows that the Department has not met its target. To achieve the objective, the Department is introducing further improvements to development and production schedules similar to those initiated for managing system performance and cost.

Major Defense Acquisition Program Acquisition Cycle Times (in months)						
Metric	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 Target/Actual	FY 2006 Target ^A
Acquisition cycle time for new starts in FY 1992–FY 2001	102	103	102	101	<99 / 101	<99 / Not Available
Acquisition cycle time for new starts after FY 2001	N/A	N/A	76	80	<66 / 81	<66 / Not Available

^A Results for FY 2006 will not be available until the April 2007 release of the December 2006 Selected Acquisition Reports.



Section 2: Performance Information

Reduce Major Defense Acquisition Program Operating and Support Cost Growth

This metric measures the amount that operating and support costs grow from year to year. Operating and support costs are the infrastructure expenses associated with acquisition programs. Real cost growth can occur for various reasons, including technical or programmatic changes, changes in the support strategy or concept, and overly optimistic cost estimates. The Department’s objective is to attain a zero percent operating and support cost growth. The table below only shows results for 2 years, which is not enough data to provide meaningful trend analysis. Over time, this metric will help the Department manage its costs.

Major Defense Acquisition Program Operating and Support Cost Growth						
Metric	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006 Target/Actual ^A
Percentage of annual operating and support cost growth	No historical data; new metric	No historical data; new metric	Established metric baseline from which to measure growth	2.3%	6.0%	0% / Not available

^A Results for FY 2006 will be available in April 2007 with the release of the December 2006 Selected Acquisition Reports.

**Performance Goal 3.4:
Streamline the Decision Process, Improve Financial Management, and Drive Acquisition Excellence**

This goal focuses on improving the Department’s planning structure to ensure that decisions are based upon an accurate baseline of facts and information.

Improve the Transparency of Component Budget Submissions for Alignment of Program Review to Strategic Trades

Improving the transparency of the Department’s Component program and budget submissions will help align resource plans and enable senior-level decision-makers to reach better-informed decisions for strategic resource trades.

To achieve a consistent baseline, the Department must first streamline the flow of data. Each data element should be collected once by a single authoritative source collection system, and all parties should agree on the accuracy and validity of the data, as well as the authority of the source that provided it. The Department can reuse the same resource data with confidence to support multiple decisions.

Efforts to refine the submission of program and budget data are underway in the Services, Defense Agencies, and the Office of the Comptroller. Streamlining the data flow to eliminate dual submissions between budget and program systems and standardizing and reducing requirements will reduce workload and improve data quality. Criteria that measure transparency improvements include: (1) the number of data elements requested at each point in the cycle, and (2) the level of human effort required annually to maintain data structure accuracy.



The Department's Enterprise Transition Plan includes a target to fully deploy the systems supporting this metric by FY 2010. As part of this plan, a unified information architecture will be implemented by FY 2008.

Increase Visibility of Trade Space

"Trade space" is the range of budget alternatives available to the decision-maker, based on full knowledge of real and potential impacts. In FY 2003, the Department restructured its budget planning guidance to better define where more or less risk should be taken across the Department's programs. This revised structure directed the Services and Agencies to apply explicit criteria for risk management and to align their resource plans accordingly. During the program and budget review, any resource proposal that varied from guidance was corrected in the President's Budget.

The Department further strengthened the guidance as a resource decision tool by adding more details on how Services and Defense Agencies were expected to meet the Secretary's intent within fiscal constraints. The Strategic Planning Guidance, issued in FY 2006, marked the first attempt to estimate the direct cost of program priorities within the context of the overall Department's budget. It is still difficult to develop a truly independent cost estimate of planning priorities or to assess accurately all the variables associated with estimating the potential trade space created by accepting increased risk in some areas of the Department.

The newly initiated Enhanced Planning Process will provide a continuous, open, and collaborative analytic forum to examine closely issues of the greatest interest to the Secretary. The process is intended to produce programmatic recommendations that will be documented in a new annual publication, the Joint Programming Guidance.

Provide Explicit Guidance for Program and Budget Development

In March 2003, a study team explored ways to make the existing program and budget development process less cumbersome, more responsive, and more helpful to the Secretary in managing and enhancing joint capabilities. The Joint Defense Capabilities Study, completed in November 2003, recommended focusing the Secretary's annual planning and programming guidance on high-level strategic issues, and framing resource alternatives as capabilities rather than programs. The study also recommended that actual results become a formal part of the overall assessment process. Accordingly, "execution of funds" was added to the overall process, and became the Department's Planning, Programming, Budgeting, and Execution System. The Department has enhanced its planning process to focus on strategic and joint issues that address core military capabilities.

To implement the 2006 Quadrennial Defense Review Report, the Department developed eight execution road maps:

- Institutional Reform and Governance
- Strategic Communications
- Building Partnership Capacity
- Sensor-Based Management of the Intelligence, Surveillance, and Reconnaissance Enterprise
- Authorities
- Irregular Warfare
- Joint Command and Control
- Tag, Track, and Locate



Section 2: Performance Information

In developing the road maps, the Department conducted experiments and studies to evaluate proposals for improving its planning, programming, and budgeting decision processes. In addition, the Department continued to modify its decision-making processes to strengthen the linkages between planning, budgeting, and execution. To monitor these activities, the Department established a Quadrennial Defense Review Execution Office, which reports progress to the Secretary.

**Strategic Goal 4:
Balancing Future Challenges Risks - Execute Future Missions Successfully Against
an Array of Prospective Challengers**

This goal focuses on the Department’s efforts to transform over time to effectively counter the increasing rate of change and degree of uncertainty in the regional and global threats faced by the United States.

**Performance Goal 4.1:
Define and Develop Transformational Capabilities**

This goal focuses on the Department’s efforts to take into account not just the challenges to immediate war plans, but also the challenges to people and transformation. The Department has moved from a “threat-based” to a “capabilities-based” approach to defense planning, focusing not only who might threaten America, or where, or when—but more on how the U.S. might be threatened, and what portfolio of capabilities the Department will need to deter and defend against those new threats.

Transformation is not only about technology. It is also:

- Changing the way challenges and opportunities are viewed
- Adapting the Department to that new perspective
- Refocusing capabilities to meet future challenges instead of those the Department is currently prepared to meet

Intelligence Activities

The Department focuses on explicit and effective measures for its intelligence activities to deny our enemies advantages while exploiting their weaknesses by employing intelligence, security, and counterintelligence means. The success of any intelligence program depends on four fundamental areas:

- Aligning intelligence, security, counterintelligence strategy, policy, and processes for maximum effectiveness and efficiency
- Integrating intelligence activities horizontally (i.e., communication among and within agencies to promote information sharing)
- Focusing intelligence activities on supporting the warfighter’s requirements
- Improving intelligence, surveillance, and reconnaissance capabilities



The Department's intelligence community is conducting numerous activities to improve the effectiveness of intelligence in military operations and for overall national security. Further, the Department requires current and comprehensive policies to guide its intelligence community in accordance with the four fundamental areas. The ongoing efforts include identifying directives, instructions, regulations, and manuals that should be developed, modified, or canceled.

One of the major developments to come out of these activities is the Intelligence Campaign Planning process to integrate, synchronize, prioritize, and focus the Department's intelligence on achieving specific military objectives. In simple terms, this process determines what information is needed, identifies knowledge gaps and capability shortcomings, and coordinates with the broader intelligence community to mitigate the shortfalls.

The Department is conducting a definitive review of all existing policies and directives relating to intelligence, counterintelligence, and security activities to codify a common language and understanding of intelligence issues. Various targeted activities address intelligence shortcomings for each of the four fundamental areas.

In FY 2006, the Department's intelligence community took steps to increase its role in sharing terrorist screening information with intelligence and law enforcement communities directly supporting the Global War on Terror. It worked across the Department and the broader intelligence community to resolve many impediments related to sharing intelligence information about foreign disclosure and coalition operations. This effort resulted in significantly improved intelligence access for Combatant Commands.

Technology Innovation

Global Net Enabled Information Sharing Environment

Today's diverse mission environments require the secure, quick, and accurate movement of information in support of military operations and Combatant Commanders. The Department's ability to construct a global information network configured with the information required for modern combat operations and able to support critical command and control requirements has been limited by the flow of information through the network and processing power at any given time or point.

The foundation of a Net Enabled Information Sharing Environment is commercially available information technology with enhancements that will:

- Achieve a ubiquitous, assured, and robust multi-security level Internet Protocol based information transport networks;
- Provide bandwidth and computing resources matched to user's missions needs;
- Provide collaboration tools and other mission support tools: and,
- Assure authorized access by managing the identity of users whether human or software

The Department is continuing with information technology enhancements to establish specific geographic requirements and meet the demands of the Global War on Terror. In FY 2006, the Department made significant progress in developing communications paths and infrastructure upgrades to support ongoing operations around the world.



Section 2: Performance Information

The Department increased investments in information transport and development of better bandwidth requirements utilization models that will allow greater capacity needed to support warfighter needs. In addition, the Department restructured its future satellite communications approach to ensure both the successful and timely delivery of increased capability and the synchronization of the phasing and pacing of terminals and space vehicles.

The Department began a pilot implementation of Internet Protocol version 6 (IPv6) on intranets that carry operations traffic. The Internet Protocol provides the addressing mechanism that defines how and where information such as text, voice, music, and video move across separately owned and operated networks. The current Internet protocol cannot accommodate the increasing number of global users and devices that are connecting to the Internet. As a result, IPv6 was developed to overcome those limitations by expanding available address space, improving end-to-end security, facilitating mobile communications, enhancing quality of service, and easing system management burdens. All federal agencies, including the Department, are transitioning to IPv6.

The Department instituted an aggressive multi-level network and has increased priority and funding for information assurance to build a robust combination of network defenses to meet today's cyber-threats. In addition, the Department initiated a significant research and development effort focused on defense and protection tools for information systems. The Department is also continuing efforts to reduce software assurance risk and is developing a software assurance strategy for use on major acquisition programs.

Defense Technology Objectives

Technological superiority is a cornerstone of military strategy. Technologies such as radar, jet engines, nuclear weapons, night vision, smart weapons, stealth, the Global Positioning System, and vastly more capable information management systems have changed warfare dramatically. Today's technological edge allows the Department to prevail decisively across a broad spectrum of conflicts and with relatively few casualties. Maintaining this technological edge has become even more important as the size of U.S. forces decreases and high-technology weapons are now readily available on the world market. Future warfighting capabilities will be determined substantially by today's investment in science and technology.

Science and technology investments are focused and guided through a series of Defense Technology Objectives developed by senior Department planners. Each objective highlights a specific technological advancement, the anticipated date the technology will be available, the specific benefits that should result from the technological advance, and the funding required (and funding sources) to achieve the new capability. These objectives specify milestones and approaches, quantitative metrics that will indicate progress, and the customers who will benefit when the new technology is fielded. This metric measures the percentage of Defense Technology Objectives that are progressing satisfactorily toward the established goals. In accordance with the Department's new review process that evaluates all objectives biennially, the FY 2006 assessments are in process. The table on the next page shows the results through the third quarter, FY 2006.



Status of Defense Technology Objectives					
Metric	FY 2002	FY 2003	FY 2004	FY 2005 Target/Actual ^A	FY 2006 Target/Actual ^{A,B}
Percentage of Defense Technology Objectives evaluated as progressing satisfactorily toward goals	97%	96%	94%	0	≥70% / 99%
Objectives evaluated in biannual review ^C	149 ^C	163 ^C	180	0	88
Total number of objectives ^{C,D}	401	386	404	392	404

^A The Department implemented a new comprehensive review process that evaluates all objectives biennially. The latest review and assessment of Defense Technology Objectives was conducted in FY 2006 (not all FY 2006 results have been reported).

^B FY 2006 data are as of the third quarter.

^C No targets are established for the objectives evaluated or total number of objectives.

^D The total number of objectives is the sum of all objectives contained in the Joint Warfighting Science and Technology Plan and the Defense Technology Area Plan, dated February of the calendar year prior to the fiscal year in which the reviews are conducted.

Net-centric Solutions

Military commanders need and use information of all kinds, not just intelligence data, to “see” the battle space and defeat adversaries. Data must be visible, available, and understandable when and where needed to accelerate decision-making. The net-centric enterprise architecture will enable commanders to engage the network at anytime from anywhere using a military version of the Internet search engine, without needing cumbersome base support. Data will be posted and ready for download and analysis as soon as they arrive, anywhere on the network. As an example, during recent operations in Afghanistan and Iraq, ground forces could reach remote Unmanned Aerial Vehicle pilots in Nevada to direct the vehicles in support of local operations in real time.

The Department’s net-centric solution will be completed no later than FY 2008, by which point all of the Department’s data will comply with standards to be accessible, discoverable, and usable. The Department is moving forward with a broad data strategy based on development of a common data structure and strengthening of standards, organizations, and categorization schemes. These changes allow for improved information sharing and information assurance across a multitude of domains from personnel to intelligence information systems. The data strategy is being implemented by developing and revising requirements, acquisition, and budgeting processes. The Department also is developing a strategy focused on information sharing with federal, state, local, and coalition partners.

**Performance Goal 4.2:
Define Skills and Competencies for the Future**

This goal focuses on the Department’s efforts to prepare for the future. History has shown that rapid and unexpected change can transform the geopolitical landscape. New technologies can revolutionize the character of armed conflicts in ways that render previous doctrine and capabilities obsolete.



Section 2: Performance Information

Intelligence Human Resources System

To accomplish its mission, the Department's intelligence components must have the best people available. The components need to recruit agile problem-solvers with broad and varied experiences who can operate in an environment which changes as the threat changes. A key first step is the development of the Defense Civilian Intelligence Personnel System, a common human resources system for the Department's intelligence components. When fully implemented, this system will provide a competitive, performance-driven compensation structure and significantly enhanced hiring flexibilities. In addition, increased value is placed on personnel with critical foreign language skills (native and heritage speakers) who play an especially important role in the collection of intelligence. The Department established standards for training, tradecraft, technology, architecture and operational tactics, techniques, and procedures across the Department to ensure all elements are working together to meet the needs of Combatant Commands, Military Departments, and senior-level decision-makers.

Strategic Transformation Appraisal

The Department's overall transformation roadmaps address activities, processes, resources, and incentives to foster and promote innovation and transformation activities, including concept-based experimentation processes, education and training programs, and the use of operational prototypes. Each Service and Defense Agency prepares an annual update of information and a roadmap on its transformation efforts. The roadmaps represent a shared future vision and complement the program and budget process, ensuring coherence between resource allocation decisions and future concept development and experimentation. Roadmaps also provide a baseline for managing transformational change within the force and articulate strategies for implementing and managing transformation risks.

Each year, the Department evaluates the progress and plans in the individual and joint transformation roadmaps, and assesses the gaps or adjustments requiring action. The Strategic Transformation Appraisal is the Department's only strategic-level risk assessment management tool. The transformation information packages from the Services were complete or nearly complete as of the end of July 2006. The package from the Defense Agencies is complete. The Department expects to complete the Strategic Transformation Appraisal of these packages by December 31, 2006.

Performance Goal 4.3: Develop More Effective Organizations

This goal focuses on the Department's efforts to structure, train, deploy, and manage joint forces and organizations. Transformation efforts are aimed at enabling joint operations that combine land, sea, air, and space forces, under the control of a single Combatant Commander, to use in ways that are most appropriate to achieving a specific objective. Successful cultural change requires not only wanting to fight jointly, but to think jointly.

Homeland Defense

The Department's highest priority is protecting the U.S. homeland from attack through the full range of activities associated with an active homeland defense, including military missions in the forward regions, approaches to



the U.S., the U.S. homeland, and global commons (i.e., international waters and airspace, space, cyberspace). Specifically, the Department must be able to:

- Conduct military missions to prevent, deter, defend, and defeat attacks on the U. S., the U.S. population, and defense critical infrastructure
- Support civil authorities directed by the President or Secretary of Defense as part of a comprehensive national response to prevent and protect against terrorist incidents or manage the consequences of attack or disaster
- Enhance contributions of domestic and foreign partners to homeland security and homeland defense

To meet the challenges of the post-9/11 threat environment, the Department developed a comprehensive strategy for homeland defense and civil support. This new strategy relies on an integrated threat assessment to define the Department's strategic goals, key objectives, and core capabilities for homeland defense and civil support. The strategy will describe associated force structure, technology, and resource implications. By aligning strategic goals with resource and technology plans, the Department will add coherence and direction to the disparate activities to deter and prevent attacks, protect critical defense and designated civilian infrastructure, provide situational understanding, and prepare for and respond to incidents.

The strategy for homeland defense and civil support was incorporated into the 2006 Quadrennial Defense Review. It addressed how the Department will: (1) protect defense-critical infrastructure, (2) provide for force protection; (3) maintain mission-essential functions and services; (4) communicate to federal, state, local, and international partners; and (5) support the federal effort to prepare for, prevent, and, if necessary, respond to the pandemic influenza and natural disasters.

Establish a Standing Joint Force Headquarters

In 2003, the Secretary of Defense directed Combatant Commanders to establish a Standing Joint Force Headquarters with a 58-person core team that serves as a planning staff during day-to-day operations. In the event of a crisis, a headquarters team—with the command structure and staff as well as functional and geographic expertise—is already in place for rapid reaction. The headquarters is prepared immediately to execute command and control functions for the integrated employment of air, land, sea, and information forces. The headquarters is made up of joint-trained personnel skilled in using computer-based analysis tools and joint information and processes. To operate in the field, each deployable headquarters must have a deployable joint command and control capability. All Combatant Commanders have recently established their headquarters.

Transform the Department's Training

Training Transformation is designed to provide dynamic, capabilities-based training in support of national security requirements across the full spectrum of the Department's operations. One of the leading indicators is the percentage of critical Combatant Command billets manned by Joint Specialty Officers. A higher percentage indicates increased performance in jobs that require knowledge of joint matters, such as Critical Joint Duty Assignments. To become a Joint Specialty Officer, an officer must successfully complete an appropriate program of Joint Professional Military Education, followed by a Joint Duty Assignment. These assignments are 2- to 3-year



Section 2: Performance Information

positions in a multi-Service or multi-national Command or activity involved in the integrated employment or support of the land, sea, and air forces of at least two of the three Military Departments. The Department tracks critical positions filled by Joint Specialty Officers.

The table below shows that only 68.8 percent of military officers filling critical positions were certified Joint Specialty Officers (or the certification requirement was waived by the Chairman of the Joint Chiefs of Staff). This was due to overall manpower shortfalls and conflicting operational priorities for the Global War on Terror. In response, the Department developed a strategic plan that will be the basis for proposed legislative and policy changes to update joint officer management for current needs of the Department.

Joint Specialty Officers in Combatant Commander Critical Positions					
Metric	FY 2002	FY 2003	FY 2004	FY 2005 Target/Actual	FY 2006 Target/Actual
Percentage of military officers in Combatant Commander critical positions certified as Joint Specialty Officers (or waived by the Chairman of the Joint Chiefs of Staff)	No historical data; new metric	No historical data; new metric	No historical data; new metric	90% / 68%	90% / 68.8%

**Performance Goal 4.4:
Drive Innovative Joint Operations**

This goal focuses on efforts to facilitate joint operations. Successful transformation requires fashioning joint concepts to guide the conduct of joint operations. The Department identified eight key operational capabilities where joint operations are critical for deterring conflict and conducting military operations:

- Strengthen intelligence
- Protect critical bases of operation
- Operate from the global commons
- Protect and sustain forces in remote locations
- Deny enemies sanctuary
- Conduct network-centric operations
- Improve proficiency against irregular challenges
- Increase capabilities of partners, both international and domestic

New Warfare Concepts

The Department’s Joint Concept Development and Experimentation Plan aims to rapidly convert innovative joint warfighting concepts into prototypes and fielded capabilities. New concepts put into practical use can provide America’s warfighters with an advantage to defeat adversaries. The plan follows two paths:

- The Joint Concept Development Program explores innovative concepts for improving future joint warfighting. These concepts can result from small-scale experiments conducted in a joint war-gaming environment. They can



Section 2: Performance Information

be developed and incorporated into large-scale experimentation programs. Experimentation with these concepts will lead to capabilities for the joint warfighter. The program provides recommendations for investments based on experimentation results.

- The Joint Prototype Program improves current warfighting capabilities and refines new capabilities through continuous experimentation. The program identifies capability proposals for rapid prototyping and provides recommendations for future resource investments based on experimentation results.

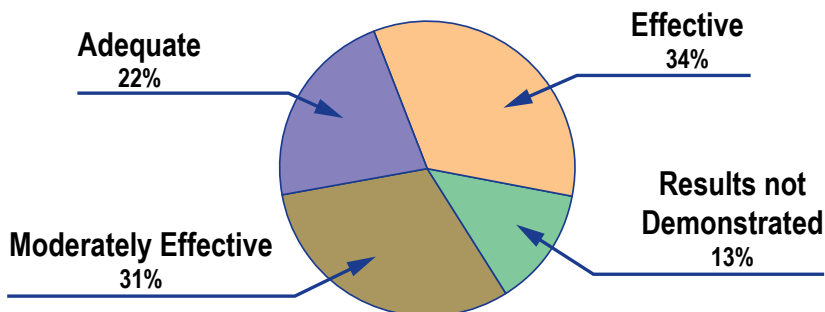
Joint Operations Concepts have been developed to guide the transformation of the joint force so that it is prepared to operate successfully 8 to 20 years in the future. The concepts present a detailed description of how future operations may be conducted and provide the basis for joint experimentation.

Program Assessment Rating Tool Summary

The Office of Management and Budget developed the Program Assessment Rating Tool (PART) to assess and improve program performance. The PART is used within the Department to provide a systematic approach for rating programs by analyzing whether a program has a clear definition of success, uses strong management practices, and produces results. A PART review helps identify program strengths and weaknesses to make informed funding and management decisions aimed at making the program more effective. It looks at all factors that affect and reflect program performance including program purpose and design; performance measurement, evaluations, and strategic planning; program management; and program results. The PART includes a series of analytical questions that enable programs to show improvements over time, and allow comparisons between similar programs.

A summary of the Department's PART ratings is included in budget submissions to help integrate budget and performance. The following figure provides a breakout of the overall ratings for the Department's PART programs. Approximately 60 percent of the Department's programs were rated for FY 2005.

The Department's Programs by PART Performance Rating Category





Section 2: Performance Information

In FY 2005, the Office of Management and Budget provided “favorable” PART ratings to 87 percent of the Department’s 32 programs assessed. Of the possible favorable ratings, 11 programs, 34 percent, were rated “effective.” An effective rating is the highest rating a program can receive; programs rated at this level are considered to have ambitious goals, achieved results and efficiencies, and implemented effective management practices. The Department’s programs rated at this level include the Military Force Management, Navy/Marine Corps Air Operations, and Defense Basic Research. Ten programs, 31 percent, were rated “moderately effective,” which is the second highest rating. Programs rated moderately effective include the Defense Housing, Air Combat Program, and the Department’s Unmanned Aircraft Systems Program. Seven programs were rated “adequate,” representing 22 percent of the favorable ratings.

In FY 2005, none of the Department’s programs were rated “ineffective” by the Office of Management and Budget. This is a significant improvement over the 13 percent of programs that were rated “ineffective” in FY 2004. In FY 2005, 13 percent of the Department’s programs were rated “results not demonstrated.” This rating concludes that additional performance goals and data collection procedures are required to provide further evidence of improved performance. In these cases, the Department has detailed improvement plans to correct program deficiencies that will increase program effectiveness. As examples, the Defense Communications Infrastructure program began taking action to develop common metrics to assess program performance across the Department. The Defense Small Business Innovation Research and Technology Transfer program is changing the way small companies’ past performance is assessed to match legislative intent. The Department of Defense Training and Education Programs for Other Training and Education is identifying specific program goals, developing performance measurements, and establishing ambitious targets.

The following tables show how PART programs align with the Department’s strategic goals and the budget for each program. Of the Department’s FY 2005 budget, \$286 billion or 59 percent is dedicated to programs that have been rated.

Strategic Goal 1: Balance Force Management Risk – Recruit, Retain, Train, and Equip a Ready Force and Sustain Readiness	Program	FY 2005 Funding (in Millions)	Score
	Air Force Aircraft Operations	\$6,455	Effective
	Army Land Forces Operations	\$2,495	Effective
	Defense Health Care	\$20,021	Adequate
	Navy Ship Operations	\$5,186	Effective
	Defense Housing	\$17,047	Moderately Effective
	Department of Defense Education Activity	\$1,776	Moderately Effective
	Department of Defense Recruiting	\$3,973	Moderately Effective
	Department of Defense Training and Education Programs - Accession Training	\$829	Moderately Effective
	Department of Defense Training and Education Programs - Basic Skills and Advanced Training	\$4,957	Effective
	Department of Defense Training and Education Programs - Other Training and Education	\$1,210	Results Not Demonstrated
	Military Force Management	\$113,649	Effective
	Subtotal	\$177,598	



Section 2: Performance Information

Strategic Goal 2: Balance Operational Risk – Achieve and Maintain Operational Superiority	Program	FY 2005 Funding (in Millions)	Score
	Air Combat Program	\$11,783	Moderately Effective
	Airlift Program	\$5,771	Moderately Effective
	Chemical Demilitarization	\$1,387	Adequate
	Defense Air Transportation System	\$7,482	Moderately Effective
	Defense Communications Infrastructure	\$3,820	Results Not Demonstrated
	The Department of Defense Unmanned Aircraft Systems	\$1,588	Moderately Effective
	Marine Corps Expeditionary Warfare	\$10,223	Results Not Demonstrated
	Navy/Marine Corps Air Operations	\$5,795	Effective
	Space Launch	\$1,175	Adequate
	Navy Shipbuilding	\$13,778	Adequate
	Subtotal	\$62,802	
Strategic Goal 3: Balance Institutional Risk – Align the Organization and its Resources to Support the Warfighter	Air Force Depot Maintenance	\$3,533	Effective
	Department of Defense Depot Maintenance: Ship	\$4,042	Effective
	Department of Defense Facilities Sustainment, Restoration, Modernization, and Demolition	\$11,366	Adequate
	Depot Maintenance - Naval Aviation	\$977	Effective
	Energy Conservation Investment	\$50	Effective
	Subtotal	\$19,968	
Strategic Goal 4: Balance Future Challenges Risk – Execute Future Missions Successfully Against an Array of Prospective Challengers	Defense Basic Research	\$1,476	Effective
	Defense Small Business Innovation Research/ Technology Transfer	\$1,264	Results Not Demonstrated
	Future Combat Systems/Modularity Land Warfare	\$9,623	Moderately Effective
	Missile Defense	\$7,695	Adequate
	National Security Space Weather Programs	\$394	Adequate
	Defense Applied Research Program	\$5,188	Moderately Effective
	Subtotal	\$25,640	
Grand Total	\$286,008		