

STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON MILITARY READINESS
OF THE
HOUSE ARMED SERVICES COMMITTEE
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Chairman Hefley, Congressman Ortiz, and distinguished members of this subcommittee, I am extremely pleased to testify before you again, along with my Service counterparts, on the readiness of our military forces. Current readiness continues to be one of my CNO's top priorities and, with your enduring and generous support, we have built and organized a Navy that is truly ready, in every regard; more so today than ever before. Forward deployed with a significant surge capability poised to go, our forces are able to take credible, persistent combat power to the far corners of the earth.

In the fall, I testified before you that the CNO's goal for 2004 was to constitute and "reset the force." Later this year, the U.S. Navy will be fully ready to do it again. We will be able to provide combat forces on par with the OIF effort. A combat power that is ready around the world, around the clock; enabled by surge naval forces if called. This gives our President options. The exceptional support of this committee and Congress has enabled the Navy to wisely invest the taxpayer dollar; an unprecedented level of readiness now is the return on that important investment in the Navy. Before I go into more detail on current readiness and our FY05 budget request to support continued readiness of naval forces, I will review the remarkable events and circumstances of the past year.

Last Year in Review

At this time last year, 168 Navy ships and over 77,000 Sailors were deployed around the world supporting the Global War on Terrorism and in position to execute Operation Iraqi Freedom. In total, 221 of our then 306 ships--representing 73% of our force--were underway, including seven of 12 carrier strike groups, nine of 12 expeditionary strike groups, and 33 of 54 attack submarines. The Navy and Marine Corps alone had nearly 600 aircraft forward deployed in support of these operations. SEALs, construction battalions (SEABEES), Explosive Ordnance Disposal (EOD) teams, port operations support units, maritime patrol squadrons, medical teams, and naval coastal warfare units were also deployed overseas, all well-trained and ready for real

world combat operations. Twenty-one combat logistics and 76 sealift ships provided the movement and sustainment for this fighting force. It was a tremendous and superbly executed effort that projected decisive combat power across the globe in concert with our Joint partners.

Naval forces were integrated into Joint and coalition operations in support of Operation Enduring Freedom (OEF) and Operation Iraqi Freedom (OIF). In the case of OIF, our forces provided the Joint force commander a capability to strike deep inland from the sovereign operational sea bases provided by our aircraft carriers and other naval combatants. OEF and OIF were the most Joint operations in our history, providing valuable lessons learned that will enhance our power projection (Sea Strike), our defensive protection (Sea Shield) and the operational independence afforded by the freedom to maneuver on the sea (Sea Basing). The lessons learned thus far reaffirm that the capabilities-based investment strategy, new war fighting concepts and enabling technologies we are now pursuing in the Sea Power 21 vision are right on course. Just a few examples of our warfighting investments in light of these lessons include:

- Purchasing precision guided munitions at the maximum rate currently possible,
- Enhancing the proven capability of Tomahawk cruise missiles,
- Accelerating S&T programs that proved effective in mine clearance, and,
- Instituting new employment concepts to better utilize our existing forces.

The capabilities-based transformation of our individual platforms and new operating concepts for the force continue to accelerate our advantages as the appropriations provided by this Congress become reality in the fleet. We must stay ready as well as invest in the future.

Our Navy achieved many successes the past year, including some new high water marks in our priority areas:

Sea Strike:

Sea Strike was an important contributor to successful combat operations during OIF, particularly during the crucial opening hours and days. In 2003, Navy flew nearly 9,000 sorties, fired over 800 Tomahawk missiles and delivered over 15,000 Marines to the fight in support of the Joint Force. The Navy delivered combat power where it was needed, when it was needed; providing tactical surprise, persistence and deep reach to the combatant commander from flexible naval forces under his command. The Navy strongly demonstrated its ability to conduct strike operations deep inland in concert with ground forces – whether Marine Corps, Special Operations or Army -- to contribute to the decisive defeat of an armed adversary. We are also enhancing our power projection capabilities as we transform, providing flexible strike forces that are ready and immediately employable to the President.

This past year we deployed the Navy and Marine Corps' first Expeditionary Strike Group (ESG 1), pairing the deep striking power of USS PORT ROYAL (CG 72), USS DECATUR (DDG 73), and the submarine USS GREENVILLE (SSN 772) to the traditional forcible entry capabilities of our marines enabled by USS PELELIU (LHA 5), USS OGDEN (LPD 5), and USS GERMANTOWN (LSD 42). This ESG provides increased capability to the Joint combatant commander that is persistent and sovereign. The future addition of DD(X) and JSF STOVL to ESGs will greatly enhance these already tremendous combat forces. We also benefited this past year from the first fleet operations of the F/A-18E/F and over the next few years are fielding two new SEAL Teams and four SSGNs; which add unique capabilities to our portfolio of naval power.

Sea Shield:

We continue improving the deterrent value and the war fighting power of our Navy through new sea shield capabilities, including: Homeland Defense, Sea and Littoral Control, and Theater Air and Missile Defense. The ESG is also evidence of the shift in operational emphasis to providing the necessary sea shield capability required to operate in an anti-access environment.

- This year USS HIGGINS (DDG 76) provided early warning and tracking to Joint forces in Kuwait and southern Iraq during the war to help defend against the theater ballistic missile attacks. This capability demonstrated the initial potential of extending *Sea Shield* defenses to the Joint force, effectively projecting defensive power over the land battlespace.
- Three months ago, we advanced our theater missile defense capability with another successful flight test of our developmental sea-based defense against short-to-medium range ballistic missiles. USS LAKE ERIE (CG 70) and USS RUSSELL (DDG 59) combined to acquire, track and hit a ballistic test target in space with an SM-3 missile in support of the Ballistic Missile Defense program. An effective TBMD system is essential in the future to protect air and sea ports of debarkation in theater, enabling the flow of military power for successful Joint operations ashore.
- Our OIF mine warfare efforts cleared 913 nautical miles of water in the Khor Abd Allah and Umm Qasr waterways, opening 21 berths in the Umm Qasr port and clearing the way for the first coalition humanitarian aid shipments into Iraq onboard RFA SIR GALAHAD, a British logistics ship. Other operations in the littoral areas of the Northern Arabian Gulf prevented sea mines from being deployed and secured active oil platforms, assuring maritime access to Iraq, freedom of navigation in the entire Arabian Gulf and preventing a potential environmental disaster.

- Anti-Terrorism/Force Protection (AT/FP): Significant progress was made in security, and investments in AT/FP continue as our personnel and bases remain potential terrorist targets. We significantly increased AT/FP resources: expanding our military police forces, delivering AT/FP equipment to the end users and formalizing fleet training and certification requirements. We also tested new systems as well as existing systems in an AT/FP role with good success and aligned counter-terrorism functions into the Naval Criminal Investigative Service.

Sea Basing:

We are pursuing Sea Basing as an integral part of the Navy - Marine Corps Team's transformation, encompassing and integrating powerful extensions to current Joint capabilities. The inherent mobility, security, and flexibility of naval forces provide an effective counter to emerging military and political limitations to overseas access. Supporting OEF and OIF in 2003, an element of our emerging Sea Basing concept is exemplified by the Military Sealift Command, which delivered over 32 million square feet of combat cargo, over 34,000 tons of combat and support cargo, and more than one billion gallons of fuel to the nation's war fighters in OIF. Thus, within the Sea Basing construct, we were able to sustain the strategic and operational flexibility necessary to generate a three-axis attack in Iraq from our dispersed sea bases of aircraft carriers, surface combatants and submarines in the Red Sea, the Mediterranean Sea and the Arabian Gulf. This effort continues today in support of OIF II with 153 MSC-controlled ships activated on Full Operational Status, 85 of them forward deployed economically and securely delivering over 350,000 tons of cargo in support of Joint operations and the largest troop movement since World War II.

As we continue to develop and field additional elements of Joint Sea Basing with the U.S. Marine Corps and our other sister services, we will "accelerate our advantages" to assure access for Joint Operations wherever it is required. Sea Basing provides the dynamic access, speed of response, flexibility and persistent sustainment capabilities necessary to execute combat operations ashore, exploiting the maneuver space provided by the sea to enable and conduct Joint operations at a time and place of our choosing.

Sea Warrior:

The human resource investment through our Sea Warrior program remains one of our top priorities as we execute the CNO's Guidance to "expedite Sea Warrior" and "streamline and align the total manpower structure." Retention has never been better; for the third straight year we've seen record retention levels. In 2003 we retained 60.8% of our first term Sailors, a full four points above goal while attrition was driven down to 8.2%, three points lower than goal. Our officer corps chose to continue their naval careers in record numbers; our officer loss rate has decreased from 9.5% in 2000 to 7.1% in 2003. This great retention allowed us to lower our accession goal to just over 41,000, down from 56,700 in 2000, while dramatically improving the quality of people we brought into the Navy. More than 94% of our recruits held high school diplomas and some 3,200 of them had completed at least 12 semester hours of college credits. This success stands as testament to our commitment ... with your support ... to improve the quality of service in the Navy.

Sea Trial & Experimentation:

We kept our commitment to testing and experimentation by both formalizing the process into the Sea Trial program as well as conducting tests in support of real-world operations where it made sense. These operations supporting OIF included the use of the High Speed Vessel X1 (JOINT VENTURE), Navy patrol craft and six unmanned, autonomous underwater vehicles (AUV) directly from our Science and Technology (S&T) program. These successful field tests supported special operations and mine clearance in the littoral as well as delivering important insights into our vision for future littoral and mine warfare concepts and capabilities.

Where We are Today

When I addressed this committee last October, I indicated that the Navy had begun constituting the force. If called now, the Navy could rapidly surge six carrier strike groups within thirty days and two more soon after – what we call “Six plus Two” – as well as significant amphibious forces, providing flexible options and significant combat capability to the President and Secretary of Defense. We reached this point by instituting organizational changes; and in this case, an innovative new operational employment concept called Fleet Response Plan (FRP). I will go into some detail on this transformational concept later, but briefly, FRP fundamentally changes our approach to readiness at the unit level and provides maximum return for the taxpayers’ dollar, and is in place now. FRP ensures that fleet units achieve combat readiness sooner after completing a deployment and associated maintenance period. Units also maintain that high level of readiness longer than before. The net result is a period of extended readiness for a large portion of the force, a force that is ready to continue rotationally deploying or, if called, ready to surge quickly for combat or other operations. I urge your strong support of the readiness accounts in PB05 which will allow me to execute this vital new and better way to fund readiness.

Today, the Navy remains underway and forward deployed to all corners of the world. As I provide this testimony to you, 86 ships including two carrier strike groups, two expeditionary strike groups and one surface strike group are forward deployed. These forces are or have been operating in support of OEF, OIF and other operations worldwide, enhancing their coordination and value in Joint operations. In addition to this forward deployed posture, there are 66 ships and submarines underway conducting homeland security missions, counter-drug patrols, goodwill visits, multi-national exercises and pre-deployment training. Units not deployed overseas are achieving combat readiness earlier under FRP, ensuring that forces are available when called.

Also, in my fall statement, I made reference to several of the largest challenges to reset the force. In that testimony, I discussed spares, depot maintenance, precision-guided munitions, EA-6B wing panels and F/A-18 ancillary equipment. FY04 supplemental funding met our immediate needs for these critical capabilities and our FY05 budget request keeps us on track for the future -- we have used your support to achieve, and crafted our FY05 budget request to now maintain, the Navy's force constitution. We thank you for approving the supplemental last fall.

The Fleet Response Plan

In the CNO's Guidance for 2004, one of his major action items was to "deliver the right readiness." It was clear in responding to OIF that the Navy could not best meet the long-term GWOT force requirements using its traditional employment methods. As a result and to meet the challenges I mentioned, we undertook, and are well underway, in the Navy's organizational transformation. Foremost among these changes is the way we employ our forces. I made the point then of using the term "constitution" vice "re-constitution" to place emphasis on the fact that we are truly involved in a transformation in the way we develop ready forces.

The Fleet Response Plan (FRP) is among the most important of those transformations, and as discussed above, is the real reason we can provide such an immediate surge capability close on the heels of major combat operations. The Navy has been, is now, and will always be a rotationally deployed force. The FRP fundamentally changes the way we get the fleet ready. While continuing to rotationally deploy forces overseas, FRP institutionalizes a higher level of force employability and provides the surge capability necessitated by the global security environment. At the same time, we respond more flexibly by deploying for a purpose and add to the security of our forces by becoming less predictable to those that would do us harm.

The ramp-up to support OIF, permitting the extended arrival window of five Carrier Strike Groups at the outset, was impressive but we cannot count on a passive competitor in the future. The 21st century presents our nation with varied and deadly new threats, including regional adversaries armed with growing anti-access capabilities and international terrorist and criminal organizations. Countering such enemies and consistent with guidance espoused within our National Security Strategy, Navy reviewed the best way to transform its Fleet employment policy. Last May, the Chief of Naval Operations approved the Fleet Response Plan (FRP), redefining our readiness process, and in doing so, provided a more responsive force to meet our Defense and Military strategies, and presenting the President with more force employment options. A premium is placed on ready, flexible forces able to pulse rapidly either to augment forward-deployed forces or respond to crises in remote and widely separated locations.

FRP not only directly meets our defense strategy requirements but also provides the Combatant Commander with the tailored capabilities that will best meet their needs. Tailored packages beyond Carrier and Expeditionary Strike Groups include Surface Strike Groups or SSGNs in the near future. For example, the Navy is responding quickly to Haiti. The recent unplanned deployment and employment of USS BOXER (LHD 4) and USS BATAAN (LHD 5) supporting the current OIF II rotation is another example of providing tailored packages to meet the mission needs of the Combatant Commander. In these cases, full ESG capability was not required – the right force at the right time was ready and is performing with characteristic excellence. By refining our maintenance, training and manning schedules, we have institutionalized the capability to provide six Carrier Strike Groups (CSG) within 30-days and an additional two Carrier Strike Groups within 90-days, more commonly known as “Six plus Two.”

I discussed CSGs because they are the most complex components to prepare for deployment, but FRP applies to the entire fleet. With the implementation of FRP, half of Navy forces could be ready to provide homeland defense and be either forward deployed or ready to surge forward with overwhelming and decisive combat power.

We are now focusing our readiness efforts on achieving rapid deployability once a strike group has emerged from an extended maintenance period. This is a significant mind-shift change from the old way of achieving deployment readiness on the verge of the scheduled deployment date. The result is a period of extended readiness that nearly doubles former readiness windows. Though the time that platforms are available for employment will increase, the total time Sailors are deployed will not. The framework of FRP will allow enough structure for Sailors and their families to plan their lives, while also keeping our adversaries off balance.

The Fleet Response Plan (FRP) presents the Navy the opportunity to outline an operating pattern that is irregular to our adversaries, keeping them off guard by disrupting their calculus and ability to plan their hostile actions. While flexibility has advantages, FRP must also provide Combatant Commanders and allies the level of predictability needed to plan U.S. Navy participation in exercises, engagement with overseas partners and re-enforce assurances of our nation's commitment to the security of friends and allies.

Finally, during the additional months of readiness for surge, FRP will not increase the burden on our Sailors by keeping them in a constant alert status, uncertain when, if, and for how long they will be summoned to respond. Of course, for any major national crisis, the Navy will surge all the ships and aircraft with which we need to respond. Our Sailors understand that when the nation is threatened, their duty is to answer the call, as they have over the last three years. However, for those increasingly frequent situations that deserve a response, but do not imminently threaten the U.S. or its interests, a new employment concept is required.

The Navy developed the Flexible Deployment Concept (FDC) as a complement to FRP to ensure a proper balance between readiness to surge versus the practical need to place responsible limits on the OPTEMPO of our Sailors. To provide safeguards for our people, FDC proposes the establishment of two windows when ready ships could be available for employment, either on routine presence deployments in support of

Combatant Commander objectives, or on shorter “pulse” employment periods in response to emerging requirements. These windows provide predictability. Sailors will know when they might be expected to deploy, and Combatant Commanders will know which forces are ready to respond to emergent needs.

FRP and FDC provide ready forces able to defend the homeland, respond quickly to deter crises, defeat the intentions of an adversary, or win decisively against a major enemy. This is what we now call “Presence with a Purpose.” Together they implement the type of force employment transformation envisioned by national and military leaders and are the most significant change in the Navy’s operational construct in decades.

Of significance to this committee, FRP/FDC implementation will be accomplished within resources already planned. We will achieve resource efficiencies in maintenance and training. When considering the increased force availability gained through this transformational change, the taxpayer gets a larger return on investment with our current force structure.

Our FY05 Budget Request

The CNO is intent on “delivering the right readiness at the right cost”, as stated in his guidance for 2004, while we accelerate our advantages to meet the challenges of an uncertain world. Readiness is much more than a count of our end strength, our ordnance and spares and the number of hours and days spent training. It is the product of our ability, through all of these pieces, to deliver the required effects needed to accomplish the mission. We know, too, that readiness at any cost is unacceptable; as leaders we must achieve and deliver the right readiness at the right cost. We have taken significant steps forward in order to assess our readiness.

The Integrated Readiness Capability Assessment (IRCA) was developed for the FY05 budget and beyond to more carefully examine our readiness processes. Starting with our new FRP operating construct, we took a hard look at everything that we needed

to have on hand and what we needed to do to deliver the required combat readiness for the nation's needs.

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

Specific highlights from our FY05 budget request are as follows:

- Ship and Aircraft Operations:** We have requested funds for ship operations OPTEMPO of 51.0 days per quarter (down from 54.0 days per quarter) for our deployed forces and 24 days per quarter for our non-deployed forces (down from 28 days per quarter). Through a realignment of existing resources, we have properly funded the flying hour account to support the appropriate levels of readiness and longer employability requirements of the FRP. This level of steaming and flying hours, though lower than previous years in the aggregate, will enable our ships and air wings to achieve the required readiness over the longer periods and, as a result, will improve our ability to surge in crisis and sustain readiness during deployment.

*FY06-FY09 data in all tables is for planning purposes

(Dollars in Millions)		FY05	FY06	FY07	FY08	FY09	Totals
Ship Operations	Presbud-04	2,512	2,487	2,647	2,609	2,659	12,914
	Presbud-05	2,605	2,694	2,798	2,916	2,943	13,956
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Aircraft Operations	Presbud-04	4,103	4,187	4,061	4,165	4,084	20,600
	Presbud-05	4,069	3,937	3,806	3,822	3,881	19,515

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

reliability improvements. Our FY05 request continues to improve the availability of non-deployed aircraft and meets our 100 percent deployed airframe goals. We have also included funding to continue the procurement of EA-6B outer wing panels, for which you specifically provided much needed funding last fall. The EA-6B will continue to be a maintenance challenge as it is an old airframe – and my most expensive to operate – and in need of replacement as soon as possible.

Our ship maintenance request continues to ‘buy-down’ the annual deferred maintenance backlog and sustains our overall ship maintenance requirement. We are making great strides in improving the visibility and cost effectiveness of our ship depot maintenance program, reducing the number of changes in work package planning and using our continuous maintenance practices when changes must be made. We are very carefully managing and balancing the maintenance and FRP employment of our units in order to ensure that the Navy can surge with greater flexibility.

(Dollars in Millions)		FY05	FY06	FY07	FY08	FY09	Totals
Ship Maintenance	Presbud-04	3,706	3,522	3,415	3,397	3,488	17,527
	Presbud-05	3,917	3,323	3,421	2,760	3,788	17,208
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Aircraft Maintenance	Presbud-04	940	866	805	986	974	4,571
	Presbud-05	996	967	919	938	1,005	4,825

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

design-build improvements, and BRAC land sales via the GSA Internet.

Additionally, with the establishment of Commander, Navy Installations (CNI) this past year, we have improved our capability to manage our dispersed facility operations, conserve valuable resources, establish enterprise-wide standards and continue to improve our facility infrastructure.

(Dollars in Millions)		FY05	FY06	FY07	FY08	FY09	Totals
SRM	Presbud-04	1,446	1,449	1,425	1,928	2,085	8,333
	Presbud-05	1,536	1,403	1,441	1,405	1,611	7,396

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

(Procurement Quantities - Each)	FY05	FY06	FY07	FY08	FY09	Totals
JSOW	389	412	380	422	444	2047
AIM-9X	157	170	226	211	181	945
JDAM	6620	4250	3430	2850	4380	21530
AMRAAM	46	101	150	140	150	587
JASSM	0	0	0	28	106	134
Common Missile	0	0	0	22	88	110
Total	7212	4933	4186	3673	5349	25,353

- Training Readiness: We continue to make significant strides in this critical area. In FY04, the Congress supported two important programs to advance our training readiness. First, you endorsed the Training Resource Strategy (TRS), to provide more complex threat scenarios and to improve the overall realism and value of our training. Additionally, you funded the Tactical Training Theater Assessment and Planning Program to provide for a comprehensive training range sustainment plan. Our FY05 budget continues this work. We are working to make the Joint National Training Capability a reality. We have established a single office to direct policy and management oversight for all Navy ranges as well as serve as the resource sponsor for all training ranges, target development and procurement, and the Navy portion of the Major Range Test Facility Base.
- Environmental Readiness: We remain committed to good stewardship of the environment and have the resources and policies in place to do so. Congress has provided significant and reasonable legislative relief from many of the elements that impact readiness. These reasonable amendments help to balance nurturing the environment with the realistic military training required to keep forces ready. We will continue to focus the use of our ranges on military training, and remain committed to our environmental obligations through Integrated Natural Resource Management Plans. We have procedures in place and will continue to exert every effort to protect marine mammals while ensuring our Sailors are properly trained and our transformational systems are properly tested. Encroachment impacts readiness and is an area of particular concern, inseparable from the readiness of our naval forces and, I believe, our military forces in general. As we continue addressing complex environmental issues from a balanced perspective with fact-based analysis, the Navy is committed to maintaining our ongoing environmental stewardship.

In the end, we have a carefully balanced and well-defined readiness requirement. We have identified areas where we can streamline or cease activities that do not add to

readiness, and we have requested the funds our commanders need to create the right readiness for FY05. I ask for your support of this year's current readiness request as we've redefined many of these processes and already taken acceptable risks. We will deliver the right readiness at the right cost to the nation. Any significant reduction in my readiness accounts poses high risk to my combat capability.

We have taken some risk as it is imperative that we accelerate our investment in our Sea Power 21 vision. We must recapitalize and transform our force to reduce the burden on our operating accounts and improve our ability to operate as an effective component of the Joint war fighting team. To this end, our Navy budget request for FY05 and the future also includes:

- Nine (9) new construction ships in FY05, including construction of the first transformational destroyer (DD(X)) and the Littoral Combat Ship (LCS), the acceleration of a SAN ANTONIO Class Amphibious Transport Dock Class ship from FY06 to FY05, and one SSBN conversion and refueling. Our request this year includes the following ships:
 - 3 ARLEIGH BURKE Class Guided Missile Destroyers (DDG)
 - 1 VIRGINIA Class submarine (SSN)
 - 1 SAN ANTONIO Class Amphibious Transport Dock (LPD)
 - 2 Lewis and Clark Class Dry Cargo and Ammunition ships (T-AKE)
 - 1 21st Century Destroyer (DD(X))
 - 1 Littoral Combat Ship (LCS)
 - 1 SSBN conversion/refueling
 - Three (3) Maritime Prepositioned Force (Future) (MPF (F)) ships and advanced procurement for an MPF (F) aviation variant.

We are shifting focus to the next generation surface combatants and sea basing capabilities. We have also assessed the risks and divested several assets that have high operating costs and limited technological growth capacity for our transformational future;

this includes decommissioning two coastal mine hunter ships, and the accelerated decommissioning of the remaining SPRUANCE-class destroyers, SACRAMENTO Class Fast Combat Store Ships and the first five TICONDEROGA-class guided missile cruisers in the future year's plan.

- Procurement of 104 new aircraft in FY05, including the F/A-18 E/F Super Hornet, the MH-60 R/S Seahawk and Knighthawk Multi-mission Combat Helicopter, the T-45 Goshawk training aircraft and the Marine Corps MV-22 Osprey among others. We continue to maximize the return on procurement dollars through the use of multi-year procurement (MYP) contracts for established aircraft programs like the Super Hornet. We have increased our research and development investment this year in the Joint Strike Fighter (JSF), the EA-18G Airborne Electronic Attack (AEA) aircraft and the broad area anti-submarine, anti-surface, maritime and littoral intelligence, surveillance and reconnaissance (ISR) capable Multi-mission Maritime Aircraft (MMA).

Ship Procurement

PB04 to PB05

	FY04	FY05	FY06	FY07	FY08	FY09	Total
CVN 21	0	0	0	1	0	0	1
SSN 774	1	1	1	2	1	2	8
DDG 51	3	3	0	0	0	0	3
DD(X)*	0	1	1	2	2	3	8
LPD 17	1	0	1	1	1	1	5
LHA R	0	0	0	1	0	0	1
LCS**	0	1	2	0	1	3	6
T-AOE(X)	0	0	0	0	0	2	2
T-AKE	2	2	2	1	0	0	5
MPP(F)	0	0	0	0	1	2	3
LMSR (A)	0	0	0	0	0	0	0
MLP	0	0	0	0	0	1	1
New Const.	7	8	7	7	9	15	46
SSN ERO	2	1	1	2	1	0	5
RCOH	0	1	0	0	0	0	1
Sea Base Connector	0	0	0	0	0	0	0

*FY05 DD(X) RDTEK Funded
**First Two Flight zero ships RDTEK Funded

Aircraft Procurement

PB04 to PB05

	FY04	FY05	FY06	FY07	FY08	FY09	Total
JSF	0	0	4	0	2	28	58
F/A-18E/F	42	42	38	30	22	24	196
EA-18G	0	0	4	12	20	18	56
E-2C	2	2	2	2	0	4	12
MMA	0	0	0	0	0	8	8
UC-35	2	0	0	0	0	0	2
T-45	15	8	5	0	0	0	28
T-48	0	2	1	3	3	7	14
C-40	1	1	1	3	3	0	8
C-37	0	1	0	0	0	0	3
JPATS	0	0	0	24	48	48	120
KC-130J	0	4	4	4	4	5	21
VXX (Exec helo)	0	0	0	0	0	4	4
MV-22	9	8	17	15	29	30	126
CH-53E	0	0	0	0	3	5	8
AH-1Z/UH-1Y	9	7	9	14	12	23	91
MH-60S	13	15	26	30	30	21	154
MH-60R	6	10	15	21	31	31	112
J-UCAS	0	0	0	0	0	0	0
VTUAV (Firescout)	0	0	0	3	0	0	6
BAMS UAV	0	0	0	2	4	4	10
ACS	0	0	0	0	0	2	2
TOTAL	99	100	99	130	194	184	1037

* APN only; Does not include 5 VXX FY05 & 4 E-2 AHE FY08 funded via RDTEK

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

Where We're Headed ... Sea Enterprise

As I've already testified above, your Navy today is the most capable and most ready Navy in our history—in the world's history—and clearly thanks to the support of this Congress and of the American people. But, I believe that we can still do better—that, in fact, we must do better—as stewards of the public trust in determining not just how much we should spend on programs, but how those defense dollars are spent. This is especially true today because of the strategic challenges posed by the ongoing global war on terrorism, because of our need to recapitalize aging infrastructure and capability, and because of the burgeoning technological and operational changes that will dramatically alter the way we fight. Revolutionizing the way in which our defense dollars are spent presents further opportunities to increase our effectiveness, both now and in the future. Our Sea Enterprise initiative is focusing headquarters leadership on outputs and execution, and is creating ideas that will improve our productivity and reduce our overhead costs. Its key objectives are to:

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

Senior Navy leaders, civilian and uniformed, are actively engaged, as a board of directors, in tracking the execution of ongoing Sea Enterprise initiatives totaling approximately \$40B, and identifying \$12.4B in cost savings and requirements mitigation

across the Future Years Defense Program (FYDP). We are committed to efficiency and productivity improvements that will generate the savings necessary to augment our investment stream and implement our Sea Power 21 vision of delivering the right force, with the right readiness, at the right cost. Specific highlights of these fiscal transformation initiatives to date include:

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

- Right Cost. We've taken a hard look at our "level of effort" programs to maximize return on taxpayer investment, these programs lack performance-based metrics in force structure, readiness or cost benefit. This year's effort reduced the requirements for these accounts by nearly \$2B across the FYDP, allowing us to reallocate these funds toward higher Navy priorities. In addition, we focused on streamlining our organizations and processes as a means to further improve efficiencies and control costs. Innovative programs like SHIPMAIN and the Naval Aviation Readiness Integrated Improvement Program are aiding in developing and sharing best practices, streamlining maintenance planning and improving performance goals in shipyards, aviation depots, and intermediate maintenance activities. We also reorganized the Navy Supply Systems Command, including the establishment of the Naval Operational Logistics Support Center to consolidate transportation, ammunition and petroleum management. We

will continue to look for additional opportunities in this area while leveraging the gains already made.

- Right Force. We believe transformation to our future force must include improving our buying power. To improve upon our force structure, we're divesting non-core, redundant, under-performing, and outdated products and services. We are using multi-year procurement contracts and focusing where possible on economic order quantity purchase practices to optimize our investments. An excellent example lies in the F/A-18E/F multi-year procurement contract that anticipates procurement of 210 aircraft while saving us in excess of \$1.1B across the FYDP. We also recognize the need to transform our single greatest asymmetric advantage, our people. The upcoming year will focus on ensuring we not only have the right number, but the right mix of military, civilian, and contractor personnel to accomplish the mission at the lowest possible cost. You've given us a tremendous tool to enhance our flexibility in this area, the National Security Personnel System, and we plan to take full advantage of it.

In 2005, the Navy will continue to pursue product and process efficiencies and the opportunities to be more effective while improving our war fighting capability. Harvesting the savings for recapitalization is a vital part of that effort, and we will continue to balance the benefits of new productivity initiatives against operational risks. Our intent is to foster a culture of continuous process improvement, reduce overhead, and deliver the right force structure both now and in the future. I want you to be confident that the budget you write into law is the best estimate possible of what the Navy needs to be ready to serve America both now and in the future.

Where We're Headed ... Sea Warrior

It is important to note that the improvements to our operational availability of forces and our demand for increased efficiency in maintaining readiness will not be made on the backs of our people. We have a smart, talented force of professionals who have chosen a lifestyle of service. Our ability to challenge them with meaningful, satisfying work that lets them make a difference is part of our covenant with them as leaders.

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

As our Navy becomes more high tech, so must our workforce. Our people will be a more educated and experienced group of professionals in the coming years, and we must properly employ their talents. We will spend what is necessary to equip and enable these outstanding young Americans, but we do not want to spend one extra penny for manpower that we do not need. As part of that effort, we continue to pursue the kind of new technologies and competitive personnel policies that will streamline both combat and non-combat personnel positions, improve the two-way integration of active and reserve missions, and reduce the Navy's total manpower structure. To that end, we are proposing a FY05 Navy end strength reduction of 7,900 personnel.

We will use existing authorities and our Perform to Serve program to preserve the specialties, skill sets and expertise needed to continue properly balancing the force. We intend to build on the positive growth and momentum of retention and attrition metrics achieved over the last three record-breaking years. And we are fully committed to

ensuring every Sailor has the opportunity and resources available to succeed. Our goal remains attracting, developing, and retaining the most highly skilled and educated workforce of warriors we have ever had to lead the 21st century Navy.

Sea Warrior is designed to enhance the assessment, assignment, training and educating of our Sailors. Our FY05 budget request includes the following tools that we require to enhance mission accomplishment and provide professional growth within our Sea Warrior program.

- Optimal Manning: Optimal manning is one of the innovative personnel employment practices being implemented throughout the fleet. Experiments in USS BOXER (LHD 4), USS MILIUS (DDG 69) and USS MOBILE BAY (CG 53) produced revolutionary shipboard watch standing practices, while reducing overall manning requirements and allowing Sailors to focus on their core responsibilities. The fleet is implementing best practices from these experiments to change Ship Manning Documents in their respective classes. Optimal manning means optimal employment of our Sailors.
- Sea Swap: We have our fourth crew aboard USS FLETCHER (DD 992) and our third crew aboard USS HIGGINS (DDG 76) in our ongoing Sea Swap initiative. This has saved millions of dollars in transit fuel costs and increased our forward presence without lengthening deployment times for our Sailors. FLETCHER and HIGGINS will return to San Diego later this year after a period of forward deployed operations of 22 months and 17 months respectively. We will continue to assess their condition and deep maintenance needs to develop and apply lessons learned to future Sea Swap initiatives.
- Selective Reenlistment Bonus (SRB): Targeted bonuses such as SRB are critical to our ability to compete for highly trained and talented workforce both within the Navy and with employers across the nation. Proper funding, adequate room for growth and flexible authority needed to target the right skills against the right market forces are important to accurately shape the workforce. This program

specifically targets retention bonuses against the most critical skills we need for our future. We ask for your continued support and full funding of this program.

- Perform to Serve (PTS): Last year, we introduced PTS to align our Navy personnel inventory and skill sets through a centrally managed reenlistment program and instill competition in the retention process. The pilot program has proven so successful in steering Sailors in over-manned ratings into skill areas where they are most needed that the program has been expanded. More than 2,400 Sailors have been steered to undermanned ratings and approved for reenlistment since the program began last February and we will continue this effort in 2005.
- Assignment Incentive Pay (AIP) is a financial incentive designed to attract qualified Sailors to a select group of difficult to fill duty stations. AIP allows Sailors to bid for additional monetary compensation in return for service in these locations. An integral part of our Sea Warrior effort, AIP will enhance combat readiness by permitting market forces to efficiently distribute Sailors where they are most needed. Since the pilot program began last June, more than 1,100 AIP bids have been processed resulting in 238 Sailors receiving bonuses for duty in these demanding billets that previously were difficult to keep fully manned with the highest quality Sailors. We ask for continued support of this unique initiative.
- Professional Military Education (PME): We are taking a more comprehensive approach to the continuing education of our people than we have in the past. We are in the process of developing a PME continuum that integrates general education, traditional Navy-specific Professional Military Education (NPME), and Joint Professional Military Education (JPME) curricula. This will allow us to develop a program that fully incorporates all aspects of our professional and personal growth and improve individual readiness through providing a complete set of training needs. Advances thus far include establishing networks with

civilian educational institutions, developing new degree programs, and establishing partnerships with other services' institutions. We are also expanding opportunity through distance learning and the Internet. Specifically, the Naval Postgraduate School in Monterey has embraced partnerships and developed distance learning programs that more than doubled its enrollment to nearly 10,000 degree and short course students throughout the world, including the first national Homeland Security curriculum, expansion of enrollment to include enlisted personnel, as well as advanced education opportunities in nearly 140 countries. This is just one example of how we are committed to broadening the professional and intellectual horizons of both our officers and our enlisted men and women to prepare them to operate tomorrow's fleet and assume key naval and Joint leadership roles.

- Human Performance Center (HPC) has been established to apply Human Performance and Human System Integration principles in the research, development and acquisition processes. In short, the HPS will help us understand the science of learning. The center will ensure training is driven by Fleet requirements and they will focus requirements on the performance needed to carry out our missions. This will eliminate potential performance and training deficiencies, save money and help us improve our readiness.
- The Integrated Learning Environment (ILE) is at the heart of our Revolution in Training. ILE is a family of systems that, when linked, will provide our Sailors with the ability to develop their own learning plans, diagnose their strengths and weaknesses, and tailor their education to support both personal and professional growth. They will manage their career requirements, training and education records. It will match content to career requirements so training is delivered at the right time. Most importantly, these services will be provided anytime, anywhere via the Internet and the Navy-Marine Corps Intranet (NMCI).

We are taking advantage of every opportunity to accelerate incorporating the best tools available to develop the 21st Century workforce. The improvements and pilot programs that this Congress has supported—including bonuses, pay table adjustments, retirement reforms, better medical benefits, and our Sea Warrior initiatives—are having the desired impact.

Your support of our FY05 request for a 3.5 percent basic pay raise, for our efforts to transform our manpower structure in some fundamental ways, and for a reduction in average out-of-pocket housing costs from 3.5 percent to zero will have a direct effect on our ability to properly size and shape the 21st century workforce that is our future.

Conclusion

I would like to express my deep appreciation to the members of this committee for your lasting support in sustaining this nation's Navy. It is today the most capable Navy we have ever put to sea, maintaining persistent, flexible forces forward and the ability to surge significant combat power quickly, wherever required. And it needs to be given the uncertainty of the future. We firmly believe that we made the right choices for fiscal year 2005, choices that will allow the Navy to control the world's oceans—and hence, our global economic and political interests—and deliver credible, persistent combat power from the sovereign expanse of the sea around the globe.

Again, I wish to thank the Committee for this opportunity to appear before you today. I am very happy to answer any questions you may have.