

**FY 2005 PRESIDENT'S BUDGET
DEPARTMENT OF THE NAVY
NAVY WORKING CAPITAL FUND
DEPOT MAINTENANCE - NAVAL SHIPYARDS**

ACTIVITY GROUP FUNCTION:

Naval Shipyards provide logistics support for assigned ships and service craft; perform authorized work in connection with construction, overhaul, repair, alteration, drydocking and outfitting of ships and craft as assigned; perform design, manufacturing, refit and restoration, research, development and test work, and provide services and material to other activities and units as directed by competent authority.

ACTIVITY GROUP COMPOSITION:

This budget reflects three naval shipyards operating under the Navy Working Capital Fund (NWCF) in FY 2003. Portsmouth NSY and Norfolk NSY will continue to operate in the NWCF in FY 2004 and FY 2005. On 1 October 2003, Puget Sound NSY transferred to mission funding as a Pacific Fleet activity as a two year pilot. These activities and their locations are:

Portsmouth Naval Shipyard	Kittery, ME
Norfolk Naval Shipyard	Portsmouth, VA
Puget Sound Naval Shipyard	Bremerton, WA

OVERVIEW FOR NAVAL SHIPYARDS:

The Naval Shipyards demonstrate a strong commitment to productivity improvement and cost. Estimated costs and operating results are:

Financial Profile:	(\$ Millions)		
	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY2005</u>
Cost of Goods Sold	\$2,664.7	\$1,800.9	\$1,535.1
Net Operating Results	86.0	-67.4	-2.8
Accumulated Operating Results	52.8	-14.5	0

The changes for the costs of goods sold each year are in line with the changes in workload and also reflect efforts to improve work processes to accomplish planned levels of performance and productivity. The FY 2004 and FY 2005 budget estimates include residual NWCF costs of \$325.2M and \$40.5M, respectively, for work that was funded and inducted into Puget Sound NSY prior to FY 2004. The budget estimates and the stabilized rates include AOR recoupment surcharges in all years.

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY2005</u>
<u>Workload:</u>			
Direct Labor Hours	26,336,224	15,011,828	14,874,716

Workload changes are consistent with fleet requirements and also reflect shipyard process improvements. FY 2003 actual workload reflects a 2.0% increase above the levels projected in the FY 2004 President's Budget. All of the FY 2003 increase is on the highly complex submarine and carrier workload on CNO scheduled availabilities. The FY 2004 current estimate for workload at Norfolk and Portsmouth NSYs increases 4.5% above the FY 2004 President's Budget. The submarine and carrier availabilities are significant and now represents almost 2/3 of our total workload in each fiscal year. This highly complex work requires skilled resources to be available to accomplish the work efficiently. Shipyards need additional machinists, pipefitters, and electricians for critical work, e.g. Torpedo Tubes, Sail and Shaft Seals. These shortages are across both public and private sectors. In order to have a skilled workforce ready to accomplish that workload, the shipyards are undertaking appropriate personnel initiatives. In addition, shipyards are hiring and training engineers to support this workload.

Workforce Revitalization:

Workforce revitalization is driven by several factors, principally mission and workload requirements, workforce demographics, and labor markets.

The Apprentice Program is the key element of the production trades workforce revitalization effort. The average age of the shipyard workforce is over 45 and the current attrition rate is 4 percent. About 32 percent of the workforce will be eligible to retire in the next five years. Other Navy activities in the ship maintenance business have similar problems with the age of their workforce and the shipyards are a prime source of expertise from which they may hire. Given the demanding nature of ship maintenance and repair work, workforce revitalization also contributes to increased productivity.

Overtime Reduction:

In FY 2002, direct overtime was 25.0%. In FY 2003, direct overtime was 21.1%. The FY 2004 and FY 2005 goal is to significantly reduce overtime to about 12%, approximately 10% for on-yard work and 25%-30% for off-yard.

Performance Indicators

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY2005</u>
Unit Costs	\$71.72	\$72.44	\$74.26
Composite Customer Rate Change	-0.3%	-3.6%	12.7%
Number of Major Availabilities	19	18	15
Total Months Early (Late)	(0.13)	0	0

Primary performance indicators are unit cost, composite rate change, total number of major availabilities completed, and total months early or late. Unit costs increase due to inflation changes and fluctuations in direct labor hours. The FY 2005 customer rate increase is substantially the result of a change in Annual Operating Results recovery factors, as well as the increase in unit cost. Schedule adherence is expressed in cumulative months for all CNO availabilities that are complete or expected to complete in the respective FY. Schedule adherence is determined by subtracting the sum of the estimated durations at the start from the sum of the actual durations.

<u>Staffing:</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY2005</u>
Civilian End Strength	19,881	11,435	11,691
Civilian Work Years-ST	19,247	11,474	11,396
Military End Strength	111	89	89
Military Work Years	110	80	73

Civilian end strength and workyear estimates are matched to workload and reflect continued streamlining of shipyard processes and increased productivity.

Capital Budget Authority (Dollars in Millions)

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY2005</u>
Equipment-Non-ADPE/TELECOM	\$31.246	\$14.275	\$21.451
ADPE/Telecommunications Equip	3.600	2.508	1.462
Software Development	2.100	2.700	3.947
Minor Construction	<u>4.561</u>	<u>1.000</u>	<u>.510</u>
TOTAL	\$41.507	\$20.483	\$27.370

The Capital Budget Authority reflects the financing of essential fleet support equipment and other capital improvements critical to sustaining shipyard operations, improving productivity, meeting health, safety and environmental requirements and lowering production costs.

Strategic Sourcing Program

The Strategic Sourcing Program continues to review processes and functions to provide cost efficiencies in the Naval Shipyards. The program is divided into three parts: (1) A-76 studies under the Commercial Activities Program; (2) Functional Assessment using business process reengineering (BPR) techniques; and (3) initiatives to reduce contract or other non-labor costs.

Lean Manufacturing Initiatives

Lean manufacturing /repair is a set of process improvement tools and techniques focused on eliminating waste and maximizing value added activity. The Naval Shipyards are actively engaged in lean implementation of ship maintenance, working with the private sector shipyards on the initiative in the National Shipbuilding Research Program.

The Naval Shipyards have initiated several specific corporate Lean Initiatives in the year to improve processes and lower the cost of ship maintenance. These processes include material management, incentive/reward systems, avoiding work stoppages, more efficient management of resources (people), having the correct technical work documents in place, and developing work strategies that allow for better sequenced work evolutions. A production process strategy has also been implemented to evaluate and improve the production used by the mechanics performing the maintenance work.

<u>Cash:</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY2005</u>
Disbursements	2,743.2	1,845.6	1,554.4
Collections	2,756.6	1,733.6	1,533.7
Net Outlays	-13.4	112.0	20.7