

DEPARTMENT OF THE NAVY
NAVY WORKING CAPITAL FUND
FY 2005 PRESIDENT'S BUDGET
ACTIVITY GROUP: RESEARCH AND DEVELOPMENT
SUB-ACTIVITY GROUP: SPAWAR SYSTEMS CENTERS

Activity Group Function:

The Space and Naval Warfare Systems Centers (SSC's) are the Navy's full spectrum research, development, test and evaluation, engineering, and fleet support centers for command, control, and communication systems and ocean surveillance and the integration of those systems, which overarch multiplatforms. The SSC's support the Fleet by enabling knowledge superiority to the warfighter. The SSC's innovative scientific and technical expertise, facilities, and understanding of defense requirements ensure that the Navy can develop, acquire, and maintain the warfare systems needed to meet requirements at an acceptable price. The SSC's also provide engineering and fleet support for assigned systems to maintain the Fleet's warfighting capability. The SSC's:

1. Provide warfare systems analysis.
2. Plan and conduct effective technology programs.
3. Provide cost conscious systems engineering and technical support to program managers in all phases of systems development and acquisition.
4. Provide test and evaluation support including RDT&E and measurement facilities.
5. Provide technical input to the development of operational tactics.
6. Provide electronics material support (technical and management) for systems and equipment under SPAWAR's cognizance.
7. Provide specialized technical support to the Fleet for quick-reaction requirements.

Activity Group Composition:

The SSC's are Echelon III activities under the Space and Naval Warfare Systems Command (SPAWAR). This organizational structure facilitates the entire cycle of systems engineering from research and development through waterfront support. SSC San Diego has its headquarters in San Diego, CA with detachments in Philadelphia, PA; Pearl Harbor, HI; Guam; and Japan. SSC Charleston has its headquarters in Charleston, SC with detachments in Norfolk, VA; Washington, DC; Pensacola, FL; and Jacksonville, FL.

Workload:

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Reimbursable Orders (\$M)	2,325.1	2,078.7	2,065.0
Direct Labor Hours	7,195,710	6,899,395	6,909,106

Orders Received

Approximately 75% of the products and services provided by the SSC's are to Department of the Navy customers, with the balance provided almost totally to other DoD and Federal customers. By far the largest of the SSC's customers is SPAWAR. Other significant Navy customers include the Naval Sea Systems Command, Naval Air Systems Command, Office of the Chief of Naval Research, Commander – Pacific Fleet, and Commander – Atlantic Fleet. Significant other DoD customers include Defense Advance Research Projects Agency and Air Force and Army C4I organizations. The projected funding levels in FY 2004-2005 are based on SSC's program managers' discussions and planning efforts with major customers. FY 2004 and FY 2005 reductions are consistent with reductions in customer budgets, particularly in OPN and RDT&E,N. FY 2003 included a slight increase in funding associated with Operation Iraqi Freedom.

Direct Labor Hours

Direct Labor Hours remain stable from FY 2003 through FY 2005. This stability is the result of increases in direct labor workload in core business areas offsetting Navy/Marine Corps Intranet-like work being lost at the former Naval Computer and Telecommunications Command working capital fund activities.

Financial Profile:

	<i>\$ Millions</i>		
	Actual		
	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Revenue	2,190.0	2,147.1	2,110.7
Cost of Goods Sold	-2,189.1	-2,151.1	-2,121.3
Operating Results	0.9	-4.0	-10.5
Extraordinary Expense	-1.1	0.0	0.0
Net Operating Results	-0.2	-4.0	-10.5
Beginning AOR	14.7	14.5	10.5
Accumulated Operating Results	14.5	10.5	0.0

Revenue

FY 2003 and FY 2004 include a slight increase in revenue and cost of goods sold for Operation Iraqi Freedom. There are no other significant programmatic or operational changes included in the current estimates. The changes from year to year follow from the changes in new orders and pricing changes.

Cost of Goods Sold

Cost of Goods Sold estimates incorporate the impact of the factors effecting revenue.

Operating Results

The over-execution of direct labor hours in FY 2003 produced higher revenue and a more favorable estimate of Operating Results than was included in the FY 2004 President's budget.

Performance Indicators:

The SSC's outputs are scientific and engineering designs, developments, tests, evaluations, analyses, installations, and fleet support for systems in the SSC's assigned mission areas. The measure for these outputs is the direct labor hour worked for a customer. Customers are charged a predetermined stabilized billing rate per employee hour worked. The rate includes the salary and benefits costs of the performing employee (direct labor costs) and a share of the overhead costs of the SSC's, both general and administrative support and the unique production overhead costs of the performing employee's cost center. Non-labor, non-overhead costs, such as customer required material and equipment purchases, travel expenses, and contractual services, are charged to the customer on an actual cost reimbursable basis, and are excluded from the SSC's stabilized pricing structure. The SSC's use total stabilized cost per direct labor hour as their performance criterion. The composite stabilized rate and the average total stabilized cost per direct labor hour (DLH) (unit cost) for the SSC's are discussed below.

Customer Rate Changes:

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Stabilized Rate	\$79.94	\$82.02	\$83.26
Change from Prior Year			+1.51%
Composite Rate Change			+1.36%

Unit Costs:

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Total Stabilized Cost (\$M)	584.2	576.8	594.9
Workload (DLHRS)	7,195,710	6,899,395	6,909,106
Unit Cost (per DLHR)	\$81.19	\$83.60	\$86.11

Stabilized cost changes from year to year are primarily pricing changes and the impact of increase direct labor hours, net of reductions related to efficiency initiatives.

Staffing:

	Actual <u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Civilian End Strength	5,955	5,750	5,705
Civilian Work Years	5,820	5,649	5,629
Military End Strength	78	101	101
Military Work Years	80	79	79

Civilian Personnel

Civilian workyear levels are fairly consistent across FY's, and reflect changes in workload as well as efficiencies from Strategic Sourcing initiatives and savings from capital investments.

Military Personnel

Military End Strength is projected to be seven below the President's Budget for FY 2003 because necessary personnel were still unavailable at year-end. The increase in FY 2004 reflects a return to normal staffing levels. Military workyears are estimated at projected availability levels.

Capital Budget Authority:

	<i>\$Millions</i>		
	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Equipment, Non-ADP/Telecommunications	0.000	0.350	1.498
Equipment, ADPE/Telecommunications	1.755	1.916	2.499
Enterprise Resource Planning	5.157	2.540	0.000
Other Software Development	0.000	0.000	0.000
Minor Construction	3.715	3.832	3.148
Total	10.627	8.638	7.145

The SSC's modest investment in capital assets will maintain affordable and technically efficient capabilities to support Navy and Defense customer requirements. The only capital investment in software development is for the Enterprise Resource Planning (ERP) software system, which is intended to reduce the number of software applications and systems currently in use thus reducing the overall cost of operation and ownership. SPAWAR CPP authority for FY 2004 is focused on implementation of system interfaces to mandated common systems such as Wide Area Work Flow, Defense Travel System, and the Purchase Card Interface, CFO issue resolution capabilities, and SAP Software Enterprise functionality updates to implement further SAP web-based business.

Economies and Efficiencies:

Cost estimates include savings from Commercial Activities (CA) studies, Business Process re-engineering (BPR) effort, productivity improvements from CPP projects, and Workload Validation savings.

Cash

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Net Outlays			
Disbursements	2,285.3	2,127.6	2,120.4
Collections	2,346.3	2,129.1	2,118.8
Net Outlays	-61.0	-1.5	1.6