

# Surviving a Perfect Storm: U.S. Navy Needs More Punch From Budget Dollar

Adam B. Siegel, *Defense News*, 22 Aug 05

The U.S. Navy's shipbuilding program is charting a course through a perfect storm characterized by strategic change, developing doctrinal concepts, changing managerial approaches, uncertainty over its future force size and mix, and increasing fiscal pressure.

Pressures on the Navy's shipbuilding account, which seems unable to support optimal force structures, give the storm its turbulence and potential for real damage. Thus, the Navy has explored new deployment approaches like Sea Swap and other ways to get more out of its capital investments in ship construction.

But Sea Swap and other initiatives like it are not adequate. Analysts both inside and outside the Navy believe that, owing to competing defense priorities, future shipbuilding account levels will be roughly \$10 billion per year. Yet the previous chief of naval operations (CNO), Adm. Vern Clark, asserted a requirement for \$13 billion to \$15 billion per year in sustained shipbuilding funding.

Given this 30 percent to 50 percent mismatch between stated Navy requirements and likely future shipbuilding budgets, some say the Navy should change its marketing strategy to better explain its requirements in hopes of securing more money. Others urge the Navy to scale down its appetite and pursue fewer, less complicated and less capable (less expensive) ship platforms.

But are the only viable options to either increase funding levels or slash acquisition and reduce future capabilities? Adm. Michael Mullen, the new CNO, evidently does not believe so. In a July 25 memo, "Alternative Shipbuilding Plans," he called for identification by Aug. 31 of statutory or regulatory barriers that impede efficiencies in our shipbuilding plan.

As suggested here, there is a third option — get \$13 billion worth of shipbuilding effects for \$10 billion in funding. Such an option would require changing the navigational rules of the road for what many refer to as a broken acquisition process. Here are five suggestions to change the shipbuilding rules to help the Navy and the nation get more bang for the shipbuilding buck:

- **Multiship buys.** Contracting for multiple ships at the same time enables a variety of efficiencies, such as bulk material purchases (steel) and equipment purchases. Based on past experience, such as when two Nimitz-class carriers were simultaneously contracted in the 1980s, these efficiencies could cut costs 5 percent to 10 percent.

- **Advanced appropriations.** The Navy operates under a full funding requirement. This means it must budget for the full price of acquiring a ship in the year it appears in the budget even though it will take years to build. Other major, multiyear infrastructure programs, like the Visitor Center for the U.S. Congress, are not funded in a single year's budget. Corporations do not fund multiyear construction efforts with money from just one fiscal year.

Attempting to deal with high-cost ships like aircraft carriers, which are allowed to be split between two years, and large-deck amphibious ships, which are built at less than one per year, creates industry inefficiencies. Advanced appropriations would require the Navy (and Congress) to lay out the appropriations required for a ship through its course of construction, but annual budget outlays would reflect only the required funds for that fiscal year. Estimated savings range from 5 percent to 15 percent.

- **Limited requirements growth and change orders.** Requirements growth during development, driven by a dynamic security environment, is a key factor in increased ship cost. Locking in a flexible design with the ability to make scheduled block changes would provide an affordable baseline design that could be upgraded as increased funding becomes available and requirements evolve.

Change orders are another major cost driver. Establishing processes for zero change orders in well-established production lines over several ships of a class could create tremendous efficiencies. Some predict that strict requirements-growth and change-

order controls could create efficiencies of anywhere from 5 percent to 15 percent.

- **Open-door government oversight.** With billions of dollars at stake, the government seeks to firmly control ship construction processes. However, the processes to prevent waste, fraud and abuse sometimes create more costs than benefits. Alternative approaches, including reducing reporting requirements in exchange for greater public-private openness, may achieve the same (if not greater) quality in government oversight while lowering system costs up to 10 percent.

- **Full life-cycle contracting.** Ironically, some of the factors driving increased ship-construction costs should be welcomed. For example, the Navy is taking seriously the importance of Total Ownership Cost (TOC) in its acquisition decisions. Because warships can be in the fleet more than 50 years, smarter procurement will lower long-term costs. But buying smart for TOC almost always means paying more up front.

Unfortunately, with an understandable focus on current-year expenditures, an added dollar cost today to save 10 tomorrow is unwelcome within the current budgetary system. Paths toward life-cycle contracting would allow future operations and maintenance savings to be used toward current ship acquisition.

While these five proposals would not completely solve the Navy's fiscal challenges, they do offer a navigable path between the stark choice of either increasing the budget or reducing force structure. With these changes, small increases in procurement budgets might help fully achieve Navy force structure objectives.

These proposals represent real options to change the shipbuilding rules of the road and provide a 30 percent solution — making \$10 billion perform like \$13 billion in shipbuilding accounts.

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