Annual Report
to the President and the Congress

Donald H. Rumsfeld
Secretary of Defense

2004

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Introduction

When this Administration took office, the President charged us with a mission - to challenge the status quo, and prepare the Department of Defense to meet the new threats our nation will face as the 21st century unfolds.

This transformation mission has been seized against a backdrop of a global war on terrorism. The need to transform to face a new century was highlighted by the enemy that attacked us on September 11, 2001.

We have worked hard to meet that charge. Consider just some of what has been accomplished:

- We have fashioned a new defense strategy, a new force sizing construct, and a new approach to balancing risks - one that takes into account not just the risks in immediate war plans, but also the risks to people and transformation.

- We have moved from a "threat-based" to a "capabilities-based" approach to defense planning, focusing not only on who might threaten us, or where, or when - but more on *how* we might be threatened, and what portfolio of capabilities we will need to deter.

- We have taken critical steps to attract and retain talent in our Armed Forces -- including targeted pay raises and quality of life improvements for the troops and their families.

- With Congressional approval, we've begun implementing a new National Security Personnel System that will modernize our personnel management system while continuing to preserve merit principles, respect Veterans' Preference, and maintain union involvement.

- We have instituted realistic budgeting, so the Department now looks to emergency supplementals for the unknown costs of fighting wars, not to sustain readiness.

- We have pursued a new approach to developing military capabilities. Instead of developing a picture of the perfect system, and then building the system to meet that vision of perfection - however long it takes or costs - the new approach is to start with the basics, roll out early models faster, and then add capabilities to the basic system as they become available.

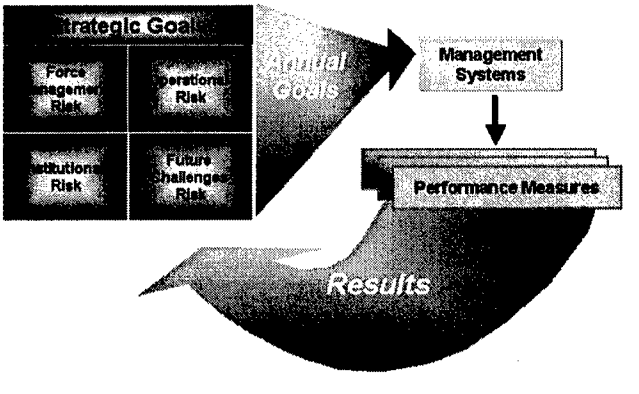
- We have transformed the way the Department prepares its war plans - reducing the time it takes to develop those plans, increasing the frequency with which they are updated, and structuring our plans to be flexible and adaptable to changes in the security environment.

- We adopted a new "Lessons Learned" approach during Operation Iraqi Freedom, embedding a team with U.S. Central Command that not only studied lessons for future military campaigns, but provided real-time feedback that had an immediate impact on our success in Iraq.

- We have also undertaken a comprehensive review of our global force posture, so we can transform U.S. global capabilities from a structure driven by where the wars of the 20th century ended, to one that positions us to deal with the new threats of the 21st century security environment.

- Using authority granted us last year, we have established a new Joint National Training Capability, that will help us push joint operational concepts throughout the Department, so our forces train and prepare for war the way they will fight it - jointly.

The Department's risk management framework creates a continual feedback loop from the operators in the field to the managers making policy and resource decisions, improving the transparency of our decision-making process.



The report describes in detail what we are doing - and planning to do - to define, measure, and monitor our ability to deliver the performance outcomes needed to achieve the strategic goals set for us by the President and Congress to provide for the defense of the nation.

FITTING THE FORCE TO THE MISSION

The leading military missions given to U.S. military forces under our transformed defense strategy are:

- Defend the United States;
- Assure friends and allies;
- Deter aggression and coercion forward in critical regions;
- Swiftly defeat aggression in two overlapping major conflicts while preserving for the President the option to pursue a decisive victory in one of those conflicts including the possibility of regime change or occupation; and
- Conduct a limited number of smaller-scale contingency operations

The force structure outlined in table 1-1 represents the forces we will have in place by the end of the fiscal year.

These forces are considered to represent moderate operational risk for the near term. However, certain combinations of warfighting, crisis response, and smaller-scale contingency scenarios could present higher risk.

The make-up of this force structure was determined by examining the warfighting capabilities we need to defeat aggression or coercion in a variety of potential scenarios, and thus meet our operational demands over time.

Tables 1-2 through 1-6 describe the capability attributes of each element of the force structure outlined in table 1-1.

Table 1-1. Conventional Force Structure

ARMY	
Divisions (Active/National Guard)	10/8
Heavy Armored Cavalry/Light Cavalry Regiments	2/1
Enhanced Separate Brigades (National Guard)	15

NAVY	
Surface Combatants (Active/Reserve)	98/8
Maritime Patrol & Reconnaissance Air Wings (Active/Reserve)	4/1
Helicopter Anti-submarine Light Wings	2
Aircraft Carriers	12
Carrier Air Wings (Active/Reserve)	10/1
Amphibious Ships	37
Attack Submarines	54

MARINE CORPS	
Divisions (Active/Reserve)	3/1
Air Wings (Active/Reserve)*	3/1
Force Service Support Groups (Active/Reserve)	3/1

AIR FORCE	
Air and Space Expeditionary Forces*	10

**Composition of specific units employed will depend upon circumstances and timing of need.*

Table 1-2. Land Forces

Army (Active, National Guard, and Reserve)
LIGHT FORCES: airborne, air assault, and light infantry divisions tailored for forcible-entry operations and for operations on restricted terrain, such as jungles, mountains, and urban areas; can operate independently or in combination with heavy forces. HEAVY FORCES: trained and equipped for operations against armies employing modern tanks and armored fighting vehicles; can operate independently or in combination with light forces. COMBAT, COMBAT SUPPORT, AND COMBAT SERVICE SUPPORT FORCES: provide capabilities critical to the mobilization, deployment, and sustainment of Army and joint forces. STRYKER BRIGADE COMBAT TEAM: supports joint-force battalion- and company-level operations; optimized for combat in complex and urban terrain; provide reconnaissance, surveillance, and target acquisition via the use of unmanned aerial vehicles and organic human intelligence. CIVIL SUPPORT TEAM: identifies chemical, biological, radiological, nuclear, and explosive agents and substances; assesses current and projected consequences; advises incident commanders and civil authorities on response measures.

Marine Corps (Active and Reserve)
MARINE AIR-GROUND TASK FORCES: provide expeditionary and forcible-entry capability; deployable by sea or air; employed in a variety of configurations, from smaller, amphibious Marine Expeditionary Units to large Marine Expeditionary Forces; forward deployed on amphibious ships; can remain on station for extended periods. 4th Marine Expeditionary Brigade/Anti-Terrorism: consolidates selected Marine Corps capabilities that are critical to combating terrorism at home and abroad, including rapid initial response to chemical/biological incidents.

Table 1-3. Naval Forces

Navy and Marine Corps (Active and Reserve)

CARRIER STRIKE GROUPS: provide a wide range of options from simply showing the flag to attacks on airborne, afloat and ashore targets; operate in international waters, so carrier-based aircraft do not need to secure landing rights on foreign soil; can engage in sustained operations in support of other forces.

EXPEDITIONARY STRIKE GROUPS: amphibious ready groups augmented with surface combatant ships, an attack submarine, and maritime patrol aircraft to provide an independent strike group capability; can deploy a landing force of up to 2,500 Marines supported by dedicated aircraft, to include tactical fixed-wing, attack helicopters, and heavy- and medium-lift helicopters; can be configured and deployed to operate at various levels of conflict and in multiple theaters simultaneously to support joint and combined operations.

SUBMARINES: pursue or attack enemy submarines and surface ships using torpedoes, or carry cruise missiles with conventional high-explosive warheads to attack enemy shore facilities; can also conduct intelligence, surveillance and reconnaissance missions, mine laying and support special operations. Fleet ballistic missile submarines carry long-range nuclear warhead missiles and can survive a nuclear attack against the United States, providing an effective deterrent to nuclear missile attacks on the United States.

SURFACE COMBATANTS: configured for multiple missions, including long-range strike (using Tomahawk missiles), anti-air warfare, anti-surface warfare, intelligence and command and control; generally deployed as part of a Carrier Strike Group or Expeditionary Strike Group, but can also deploy as Surface Action Groups (SAGs).

MARITIME PATROL AND RECONNAISSANCE AIRCRAFT: provide intelligence, surveillance and reconnaissance (ISR) and command, control and communications (C3) missions in support of blue water, littoral, land, and amphibious operations.

Table 1-4. Aviation Forces

Army, Navy, Air Force, and Marine Corps (Active, Reserve, and National Guard)

AIR AND SPACE EXPEDITIONARY TASK FORCE (AETF): scalable, quick-reacting, capabilities-based, task-organized Air Force units that deploy as numbered expeditionary air forces, expeditionary wings, and expeditionary groups that are tailored to meet combatant commanders requirements during a crisis or contingency.

FIGHTER/ATTACK AIRCRAFT: employed against air, ground or naval targets; can operate from land bases as part of an AETF and from sea bases as part of Carrier Battle/Strike Groups or Expeditionary Strike Groups.

CONVENTIONAL BOMBERS: provide the capability to strike targets over long ranges with large payloads of precision, standoff weapons; can operate as part of an AETF or from bases in the continental United States; can employ stealth capabilities to strike heavily defended targets.

SPECIALIZED AIRCRAFT: support air, land, and sea operations functions such as surveillance, airborne warning and control, air battle management, suppression of enemy air defenses, reconnaissance, antisubmarine operations, aerial refueling, special operations, and combat search and rescue.

Table 1-5. Special Operations Forces

Army, Navy, and Air Force (Active and Reserve)

Special Operations Forces (SOF)—both Active and Reserve—comprise land, air, and maritime elements with specialized tactics, equipment, and training; foreign language skills; and flexible unit deployment options that are tailored to a wide range of tasks.

SOF can coordinate humanitarian assistance operations, conduct psychological operations (such as leaflet drops and radio broadcasts), perform combat search and rescue missions, and help find targets for coalition aircraft.

Given their linguistic, cultural, and political training, SOF are well suited for establishing integration with coalition forces.

Table 1-6. Mobility Forces

Army, Navy, Marine Corps, Air Force (Active, National Guard, and Reserve)

AIRLIFT: rapidly moves military personnel and equipment needed in the critical early days of a crisis or conflict to operating locations; sometimes employed in conjunction with prepositioned equipment; able to land at austere or unimproved airfields, air drop cargo and personnel, unload cargo rapidly, and carry outsize loads like Patriot missile systems, tanks, or helicopters.

SEALIFT: carries the full range of equipment and supplies needed for operations abroad; includes roll-on/roll-off (RO/RO) Fast Sealift Ships (FSS), Large Medium-Speed RO/ROs (LMSRs), and Ready Reserve Force (RRF) ships which provide expeditionary and surge response capabilities.

PREPOSITIONED MATERIEL AND EQUIPMENT STOCKS: shore-based stocks include equipment for Army brigades, Air Force units, and Marine Expeditionary Forces in Europe, as well as for Air Force and Army forces in Korea and Southwest Asia; sea-based stocks, including Army combat and support materiel, Marine Corps equipment and supplies, and Air Force munitions.

COMMERCIAL TRANSPORT: avoids the cost of maintaining military systems that duplicate capability readily available in the civil-sector. Both the Maritime Security Program and the Voluntary Intermodal Sealift Agreement program provide the Department of Defense access to U.S. flagged commercial carriers and to their intermodal infrastructure (e.g., rail, truck, and pier facilities). In addition, many aviation carriers participate in the Civil Reserve Air Fleet program, which makes civilian aircraft available for military missions during times of crisis or war.

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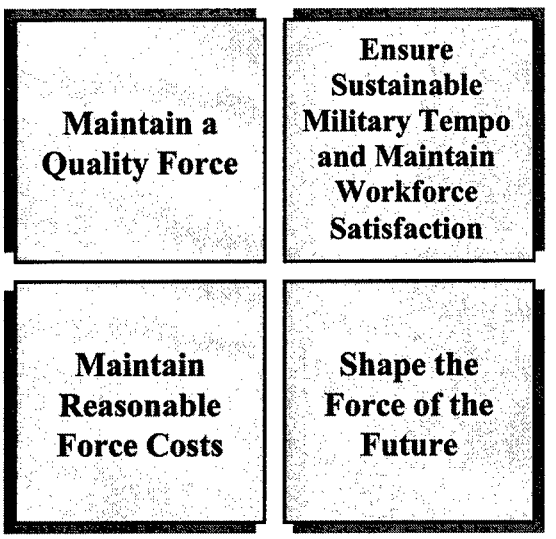
Force Management Risk

Our forces are steadfast and determined. We value their service and sacrifice, and the sacrifice of their families, who also serve . . . we have the finest Armed Forces on the face of the Earth.

Secretary of Defense Donald H. Rumsfeld
February 4, 2004



Our challenge today is to support our troops and to make sure they have what they will need to defend the nation in the years ahead. We will do this by:

- Giving them the weapon systems, intelligence, information, flexibility, and organizational support they need to win the global war on terrorism,
- Transforming for the 21st century, so they will have the training and concepts they need to prevail in the next wars our nation may have to fight – wars which could be notably different from today's challenges, and
- Working to ensure that we manage the force properly – so we can continue to attract and retain the best and brightest, and sustain the quality of the all-volunteer force.

The Secretary's performance priority for overall force management risk in FY 2005 is *Manning the Force.*

MAINTAIN A QUALITY WORKFORCE

The global war on terrorism has put great pressure on our military forces – both in terms of the overall numbers of forces we have called upon to deploy and in the demands placed on some service members with special, highly sought-after skills and training. To manage risk, we must balance among forces and skills that are in high demand (but short supply) and those that are under-used.

We recognize the traditional measure of "end strength" - that is, how many men and women are on active or reserve component duty- is not a leading performance indicator of force *capability*. Thus, to match the right skills to each mission, we need to understand and specifically manage the factors that shape *capabilities*.

One effect of the global war on terror has been a significant increase in operational tempo, which is likely a "spike" driven by the deployment of nearly 125,000 troops in Iraq as of Summer 2004. Congress provided the emergency authorities to manage this increased operating tempo in the short term. We are operating with nearly 33,000 additional people in the active duty force than authorized by Congress. Congress also supported the mobilization of National Guard and Reserve forces and provided the supplemental funding needed to support our expanded, wartime missions.

However, increasing end strength and funding is not a permanent solution to continuing operational pressures. Instead, we must use other force management tools to manage future risk, such as improved operational jointness, rebalancing the mix of active and reserve components of the overall force, and adjusting our recruiting and retention programs to re-direct resources from under-utilized to highly-demanded skill areas.

Maintain Manning Levels of Military Forces

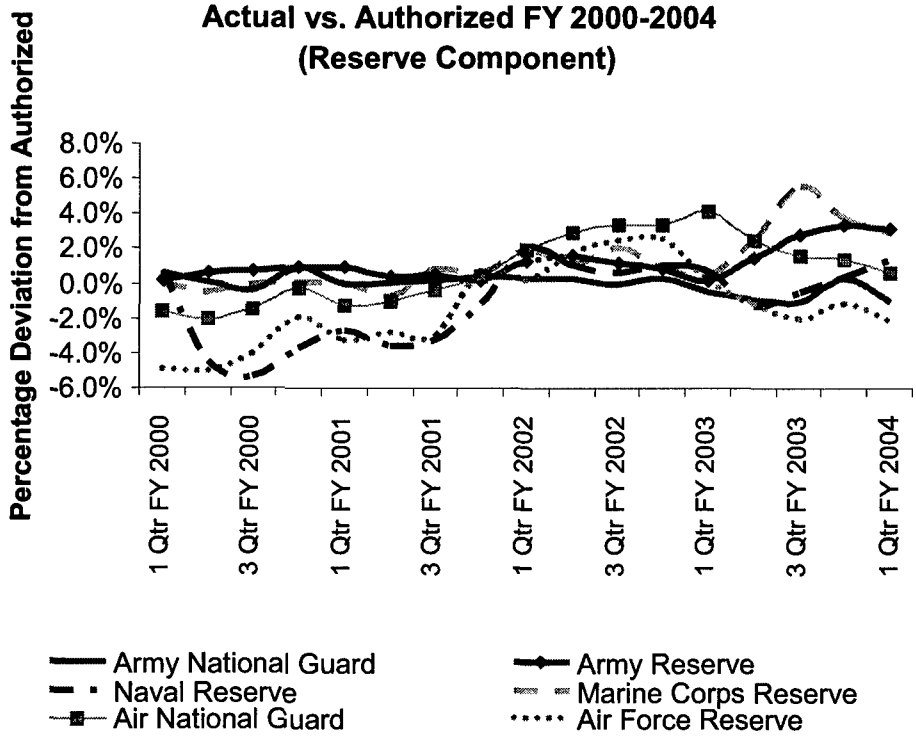
Each year, Congress authorizes funds to maintain specific numbers of skilled service members, called "end strength." Services are compelled to budget and recruit, retain, or release members to match those authorized end strength numbers by the end of the fiscal year. By law, the secretaries of the military departments may authorize operating up to 2 percent above the authorized end strength. If he determines it to be in the national interest, the Secretary of Defense may authorize the Services to operate above their authorized end strength by 3 percent for the fiscal year.

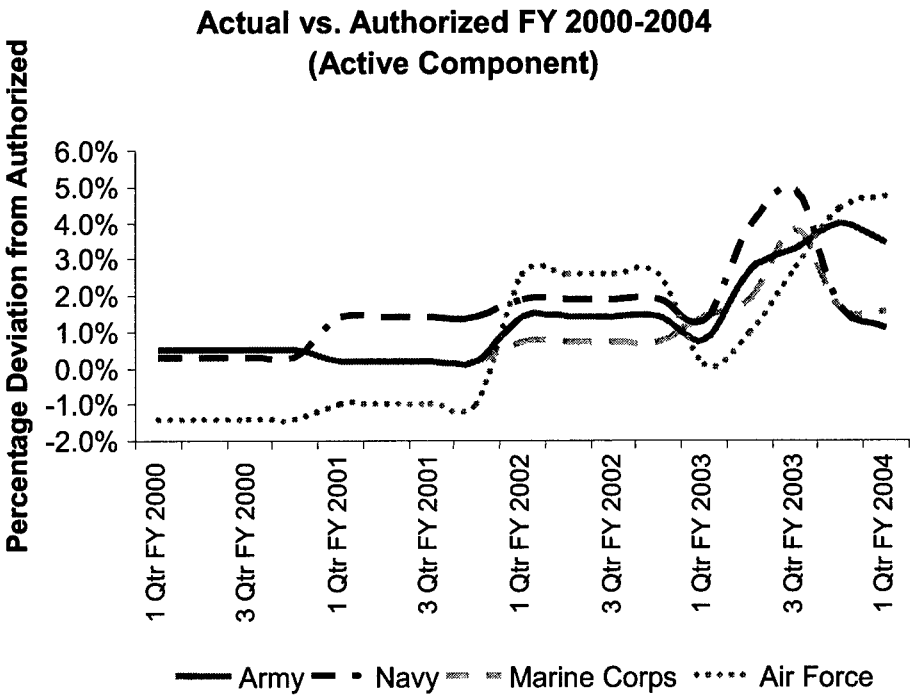
In the past, the military departments reported on whether they met their authorized end strength only once a year, on September 30. Therefore, it was possible that at other times during the year, force levels were higher or lower than authorized. A higher end strength means funds intended for other activities, like training, might be

used instead for personnel expenses. Too few people could mean that some military units may not have enough skilled personnel for their missions, or must draw personnel from other sources, negatively affecting other unit's missions.

Beginning in 2003, the Under Secretary of Defense for Personnel and Readiness instituted quarterly reviews of authorized versus actual strength levels with the Assistant Secretaries of Defense for Manpower and Reserve Affairs from each military department. The military departments continue to be measured against the 2 percent criterion. This allows us to closely monitor actual strength levels versus authorized strength levels, the combined effects of recruiting, retention, and "stop loss," and weigh risks of increasing or decreasing end strength levels.

During FY 2003, all four of the active components, and all of the six reserve components except the Air Force Reserve, exceeded their legislative strength ceilings so they could mobilize and deploy the forces needed to support the global war on terrorism, Operation Iraqi Freedom, and the war in Afghanistan. During FY 2005, we will further evolve this strength measure.





Meet Military Recruiting Goals

We always watch the numbers of individuals being recruited so that we fill the force to the size and structure our strategic planning process has determined is needed to meet the military tasks assigned to the Department by the President in his national security strategy. Research has demonstrated that two critical components should be monitored when recruiting new enlistees: (1) education levels and aptitudes, which predict an individual's probability of succeeding in his or her military career; and (2) critical skills, which indicate if we are providing the overall capabilities needed to perform our mission.

QUALITY BENCHMARKS

The Department has discovered two reliable predictors that distinguish applicants who will be able to perform to expected standards of the military: (1) high school diplomas and (2) aptitude scores as measured by the Armed Forces Qualification Test (AFQT). The AFQT is a subset of the Armed Service Vocational Aptitude Battery

(ASVAB), which reflects math and verbal ability.[1] Recruits with a high school diploma are more likely to complete the initial term of service than either non-graduates or recruits with alternative high school credentials. Individuals who score at or above average on the AFQT are easier to train and have superior job performance relative to recruits with lower AFQT scores.

Our quality benchmarks are based upon a study completed with the National Academy of Science, which produced a model linking recruit quality and recruiting resources to the job performance of enlistees. It is most cost effective to recruit at least 90 percent of non-prior service recruits with high school diplomas, and at least 60 percent with AFQT scores at or above 50, with no more that 4 percent scoring between 10 and 30 on the AFQT.

Armed Forces Qualification Test (AFQT) Categories and Corresponding Percentile Score Ranges

AFQT Category	Percentile Score Range
I	93–99
II	65–92
IIIA	50–64
IIIB	31–49
IV	10–30
V	1–9

• *Individuals are classified into categories according to AFQT scores. Those scoring 50 or above are in AFQT Score Categories I, II, and IIIA (Cat I-IIIA).*

During FY 2003, all active components exceeded the standard for recruit quality. Each of the reserve components also met or exceeded the recruit quality goal by accessing at least 60 percent of all non-prior service applicants from those scoring in the AFQT categories of I-IIIA (top 50 percentile). The Army and Air Force National Guard and Navy Reserve fell slightly short of the goal of accessing recruits with at least 90 percent with high school diplomas. To improve its

[1] This year, we updated ASVAB to reflect more current norms based on the most recent Profile of American Youth, a national probability sample of 18 to 23 year olds. This will allow us to compare the cognitive ability levels of today's military applicants and recruits with those of contemporary youth.

recruiting success in FY 2004 and FY 2005, the Army National Guard is refocusing recruiting on recent high school graduates and college-bound students.

CRITICAL SKILLS

Although the Department has met overall numeric and quality recruiting goals in the past few years, complete success involves another variable: *maintaining a sufficient and balanced level of critical skills when placing new recruits into military specialties.*

Each military service uses its own definition of "priority ratings" or "critical skills" to denote military specialties requiring particular emphasis by the recruiting command. They then use a variety of factors to decide which military specialties become recruiting priorities. For example, is the specialty essential to completing certain operational tasks? Is the current manning level in that career field too high (or too low)? How many entry-level vacancies are available? Are there any other special recruiting barriers, such as stringent educational or physical standards, that make the specialty unusually popular (or unpopular) with recruits?

However, the Department as a whole must identify critical skills based on military capabilities we need now and or will need in the future. That means that a shortage of a particular military skill area is not necessarily "critical." For example, if we are short military administrative or personnel specialists, we may work more slowly

or less efficiently, but we will get the job done. But if we are short linguists or communications specialists, we may be unable to deliver the intelligence analysis vital to maintain situational awareness on the battlefield, thus degrading a vital military capability. The military services collaborated to develop a common definition for critical skills for enlisted service members. To be included in the common list of critical skills, a military specialty must meet one or more of the following criteria:

- Crucial to combat readiness
- Undermanned in the force
- Unfilled slots in individual or specialty training classes
- High volume required to fill force
- High entrance standards
- "Undesirable" duty (specialties that are mundane, dangerous, or not transferable to the civilian sector).

During FY 2004, each service will use these criteria to identify the top 10 percent of military specialties that are most critical for their recruiting force. They will then monitor recruiting performance in that 10 percent. During FY 2005, we will refine the common definitions of critical skills based on FY 2004 results data.

Meet Military Retention and Attrition Goals

To successfully manage the overall force, we must balance the accession of new members with the retention of already trained and skilled personnel. For many skill categories, retention provides the best return on our investment in training and experience.

The military services have some latitude for establishing and tracking numeric retention goals. The Army and the Marine Corps report the number of people retained as an absolute value. By contrast, the Air Force and Navy monitor the percentage of eligible people retained. In either case, the annual goals are dynamic and can change during the year of execution as results are reported quarterly. This

allows the Department to fine-tune its retention program throughout the year.

There was an improved active-duty retention trend in FY 2002 and FY 2003, but we view this with caution because the full effects of lifting a majority of the "stop loss" programs are yet to be felt. For FY 2003, the Army and Navy met or exceeded all their retention goals; the Marine Corps barely missed its first-term goal. Although the Air Force missed its mid-career goal for FY 2003, results from early FY 2004 indicate this downward turn is correcting.

We expect some pressure to meet the FY 2005 retention targets. The improving economy is a significant competitor for experienced military personnel. In addition, some service members who experienced family separations as a result of deployments in support of Operation Enduring Freedom or Operation Iraqi Freedom may elect not to continue their military careers. We will be watching these numbers closely.

The implementation of "stop loss" programs has affected reserve component attrition rates by not allowing some members to leave the selected reserve. This, coupled with many reserve component service members who elected to extend their enlistments to support the war on terrorism, kept enlisted attrition rates near or below the ceilings across all reserve components. Only the Army National Guard and Air National Guard exceeded their ceilings, but not by much. The overall reserve component attrition rate of 18.4 percent is the lowest since 1991, when "stop loss" was instituted for Operation Desert Storm.

Like the active component, our ability to stay within the targeted attrition ceiling for FY 2005 will depend on how aggressively the economy competes for our experienced personnel and the number of service members who may choose to leave service to avoid extended family separations. We will monitor attrition rates closely throughout the year, because a pool of experienced reserve service members is critical to our ability to respond to emergencies and contingency operations.

ENSURE SUSTAINABLE MILITARY TEMPO AND MAINTAIN WORKFORCE SATISFACTION

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 every day. The Secretary is committed to providing a high quality of life for those who serve and for their families. The Department's Social Compact (http://mfrc.calib.com/socialcompact) confirms our commitment to the highest standards for health care, housing, and support during family separations, as well as our commitment to meet the changing expectations of a new generation of military service members, such as increased spouse employment and career opportunity.

Of particular concern is how the time a service member must spend away from home station affects his or her family. Accordingly, we monitor where, why, and how frequently our military units deploy. This information is helping us build force management tools to more evenly distribute workload among those occupational skill groups called upon most often in times of crisis.

Ensure Sustainable Military TEMPO

Operational tempo is the number of days a military unit or individual service member operates away from home station. Traditionally, each military service used different methods to measure tempo rates for training, professional military education, peacekeeping missions, humanitarian relief efforts, planned force rotations, and other military missions. For example, some did not count time spent in school as deployment; others tracked only the movement of entire units, not individuals. However it is clear—whatever the reason for the absence—time away from home station affects families (who must endure separations) and the unit members left behind (who must pick up the slack).

In October 2001, lawmakers clearly stated their view—*a day away is a day away*. In response, each of the military services developed or en-

hanced existing data collection systems to support the legislative requirements.

In the National Defense Authorization Act for FY 2000 as amended by the National Defense Authorization Act of 2001, personnel with high military personnel tempo (PERSTEMPO) were to be paid a premium after more than 400 days away from home station over the last two years. The same standard applied to all services, even though each has different methods of training and deploying. Subsequently, in the National Defense Authorization Act for FY 2004, Congress allowed us to update the high-PERSTEMPO metric to take into account the frequency as well as duration of deployments. This more refined approach will enable us to develop optimal military PERSTEMPO profiles tailored to each military service's tradition and policy - maximizing readiness, retention, and quality of life, while minimizing time away and dissatisfaction. This connection of PERSTEMPO, quality of life, readiness, and other factors is an important benefit of viewing force management across the entire risk management framework.

We will begin tracking actual frequency and duration PERSTEMPO trends during FY 2004. We will further refine the measure and targets in FY 2005.

PERSTEMPO BY OCCUPATIONAL GROUP

In concert with the new PERSTEMPO standards, we are developing an approach to measuring PERSTEMPO across occupational groups. This new metric will portray the percentage of an occupational group, by military service, that has exceeded the 400 PERSTEMPO day constraint within the last 730 days or the 191-day consecutive PERSTEMPO day constraint. By monitoring these trends, we will gain valuable insight into what military specialties are "high deploying" and thus relate them to skill sets already identified with high-deploying/low-density units. This information will also inform and refine our emerging definitions of "critical skills."

Like the PERSTEMPO standard, this measure will be reported beginning in the third quarter FY 2004 and continue to evolve during FY 2005.

Monitor Commitment to Military Lifestyle

Perhaps the best predictor of whether service members will chose to continue their military career is their commitment—and that of their spouses—to the military lifestyle. To better understand this phenomenon, we have begun work on a measurable index modeled after research routinely used by the private sector to monitor employee commitment. Our effort includes both military members and their spouses. In 2003, we analyzed data collected during spouse and service member focus groups at military installations, and reviewed measurement models used in private industry. A survey was fielded in July 2003 to refine and validate the index and examine "life events" that service members and their spouses reported had the largest influence on their levels of commitment. The final commitment index, and a complementary spousal index, will be fielded for the first time in FY 2004. This index will demonstrate its value over time by providing commitment trends and we expect to be able to set specific targets in future fiscal years.

Quality of Life Social Compact Improvement Index

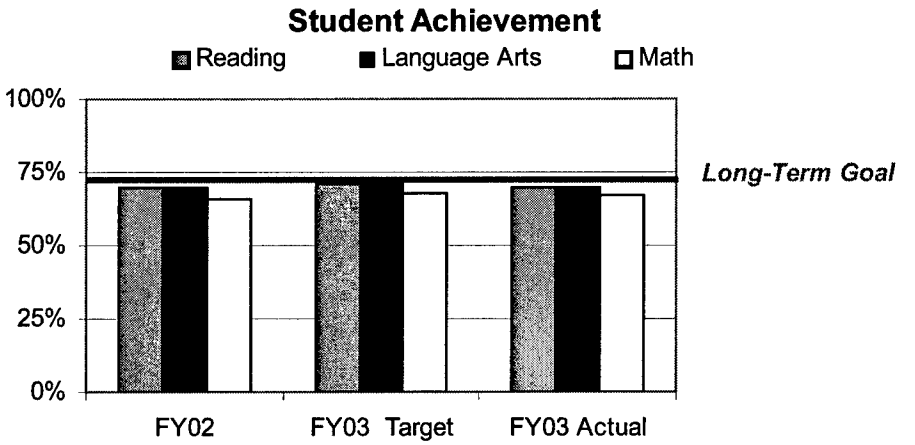
In keeping with the American standard of living, the new generation of military recruits has aspirations and expectations for quality of life services and access to health care, education, and living conditions that are very different from the conscript force of the past. Sixty percent of the force has family responsibilities and, like their civilian counterparts, rely on two incomes to maintain their desired standard of living.

Last year, we developed the first pieces of an index derived from a series of programs included in the Social Compact that will track improvements in QoL Programs. This initial framework addresses five program areas:

- Housing assignment
- 24/7 toll free family assistance
- Voluntary education/tuition assistance

- Financial readiness
- Dependent education - the Department of Defense Education Activity (DoDEA).

As an example, one performance measure for DoDEA will monitor student performance in reading, language arts, and math with the goal of 75 percent of all students scoring at or above standards on the national test by 2006.



During FY 2004, baselines and performance targets will be established for each of these five programs. Continued research will add other programs to the index, with the goal of completing the index by the end of FY 2005.

Satisfaction with Military Health Care

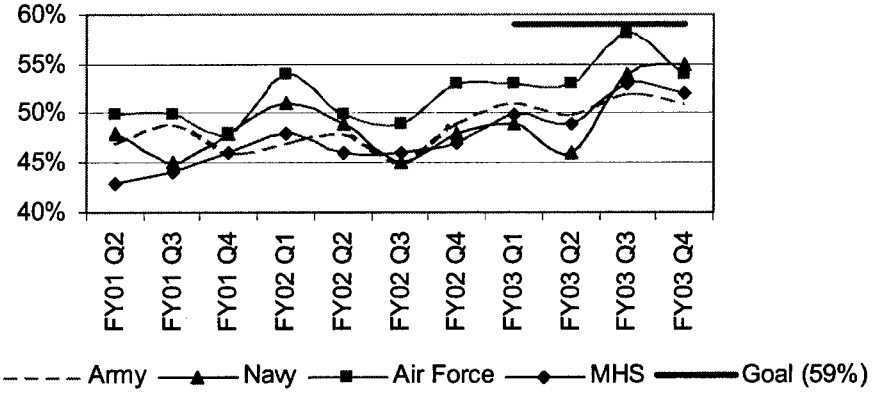
SATISFACTION WITH HEALTH CARE PLAN

Each year, we ask a sample of our 8 million eligible beneficiaries to rate their experiences with the Military Health Care (MHS) system by answering the following question:

> *Use any number from 0 to 10 where zero is the worst health plan possible, and 10 is the best health plan possible. How would you rate your health plan now?*

We consider beneficiaries who rate our health plan as 8, 9, or 10 to be "satisfied." In FY 2002, 46 percent of those surveyed indicated they were satisfied with their care, exceeding our performance target for FY 2002. In FY 2003, we set a "stretch" goal that would drive the organization forward. Although our actual results of 51.2 percent satisfied was below the civilian average of 59 percent satisfied (based upon a representative population from the national Consumer Assessment of Health Plans Survey Database for the same time period), we did show a significant improvement of 4.7 percent over FY 2002 results. We have set more achievable goals of 56 percent and 58 percent for FY 2004 and 2005, respectively. These targets are on track to close the gap with the civilian sector within three years.

Satisfaction with Health Care Plan



We also monitor the component parts contributing to overall satisfaction with health care, so as to better manage discrete services provided across the military health care system. Accordingly, we monitor two components of service delivery that beneficiaries rate as very important: (1) how easy it is to make an appointment, and (2) overall satisfaction with appointment. We monitor beneficiary impressions via a monthly Customer Satisfaction Survey of beneficiaries who had an outpatient medical visit at a military hospital or clinic during the previous month. Since the end of FY 2002, we have initiated two improvement programs intended to directly effect improvements:

- *TRICARE Online* allows prime enrollees to schedule a visit with their primary care manager via the Internet, instead of having to call for an appointment.

- *Open Access* allows prime enrollees to call military treatment facilities directly for same-day appointments.

ACCESS TO APPOINTMENT

Our efforts seem to be having an effect. In FY 2003 the military health care scored 83 percent satisfaction among those surveyed – just under the target of 84 percent, but well above the FY 2002 score of 80.8 percent. Our target for FY 2005 is greater than 84 percent of customers will be satisfied with access.

As we move into the next generation of purchased care contracts, this performance measure will provide additional insight on the Medical Treatment Facilities' management of telephone access and triage.

SATISFACTION WITH MEDICAL APPOINTMENT

In FY 2003 the beneficiaries reported that they were satisfied with their outpatient medical appointments 88.4 percent of the time. Although this fell short of our goal of 90 percent, it was an improvement over the FY 2002 score of 87.1 percent.

Our performance target for FY 2004 remains equal to or greater than 90 percent of customers are satisfied. This target will remain at this level until achieved.

MAINTAIN REASONABLE FORCE COSTS

The term "force cost" typically refers to military pay and allowances. However, a much broader pricing strategy is needed to fully capture all the force-related activities that combine to drive overall labor costs in the Department of Defense.

Cost per Enlisted Service Member through Basic Training

Each year, we enlist about 340,000 new recruits (195,000 for the Active Component and 145,000 for the Reserve Component). Most of these young men and women are destined to fill entry-level billets: enlisted soldiers, sailors, airmen, and Marines who will serve in those jobs for a few years, then return to civilian life or advance to positions in the military that require more skill and experience. This cycle of recruit, train, and replace is a major cost driver for force management.

Two factors combine to provide a rudimentary indicator of the price of replenishing the total force over time: (1) the average annual cost to recruit one new service member and (2) the cost to complete basic training per service member.

Recruiting expenses include pay and other personnel compensation for the recruiting staff, enlistment bonuses offered to new members, college fund programs, advertising, and general support. Training covers the costs of the supporting infrastructure (manpower, equipment, facilities) needed to indoctrinate recruits into military culture, raise their standards of physical conditioning, and instruct them in basic military skills.

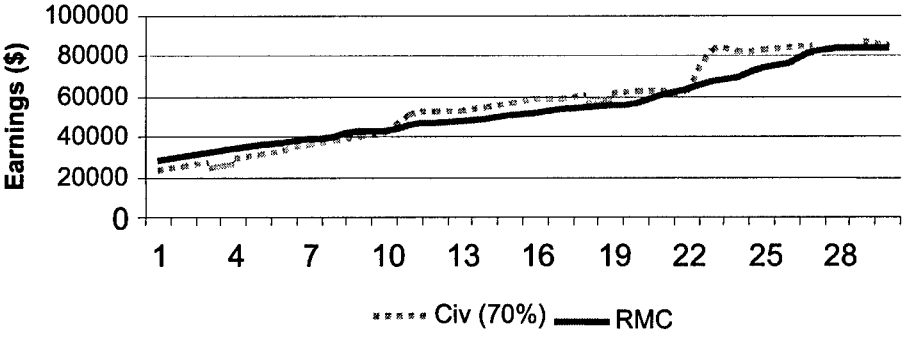
Historically, we have found that the cost-per-recruit has increased annually, while the cost of basic training has remained relatively stable. Unlike training costs, recruiting costs vary with economic conditions, national or local unemployment rates, or the level of interest among young people in serving their country.

Military and Civilian Personnel Costs

For years we have debated how to compare military compensation with the civilian sector. Though a seemingly straightforward task, such comparisons are complicated and can be misleading.

After extended study, the 9th Quadrennial Review of Military Compensation recommended that the pay of enlisted service members in their first 10 years of military service be compared with 70th percentile of earnings of all high school graduates. When enlisted compensation fell below the 70th percentile, recruiting and retention problems appeared. (It is generally very costly, both in terms of dollars and experience mix, to correct recruiting and retention shortfalls after the fact.) After 10 years of service, the compensation of midgrade enlisted members is compared to civilians with some college education. After 20 years of service, the compensation of senior enlisted members is compared to civilians with a college degree.

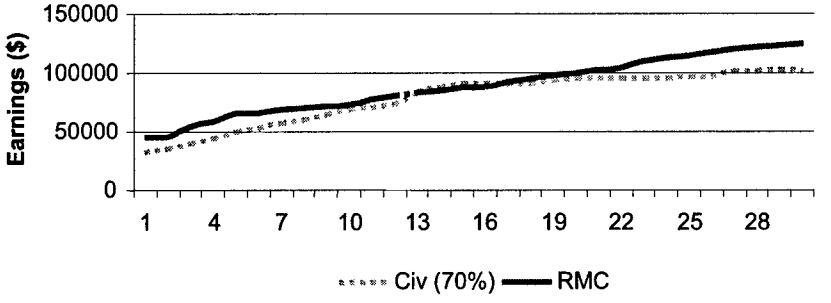
Civilian Pay (70th Percentile) in Comparison to 2004 Enlisted Regular Compensation (RMC)



Note: Regular military compensation (RMC) is the total of basic pay, the housing and subsistence allowances, and the resulting tax advantages (allowances are not subject to Federal income tax).

For officers in their first 12 years of service, the commission recommended that military pay be compared to civilians with college degrees. After 12 years of service, officer compensation is compared to the pay of civilians with college and advanced degrees in managerial and professional occupations.

Civilian Pay (70th Percentile) in Comparison to 2004 Officer Regular Compensation (RMC)



Although somewhat complicated, these metrics provide meaningful insights into the relationship between military and civilian sector compensation. Over the past years, we have made progress closing this gap in compensation. We will continue to monitor the relationship of military to civilian pay and the effects of pay adjustments on recruiting and retention.

Civilian force costs	FY 2001 Actual	FY 2002 Actual	FY 2003 Preliminary	FY 2004 Projected	FY 2005 Projected
Total	42,258,733	44,867,063	46,167,420	46,851,293	48,042,988
Basic pay	31,887,999	33,376,576	34,409,122	34,853,540	35,762,897
Premium pay	1,985,502	2,347,501	2,144,505	2,148,222	2,185,517
Benefit pay	8,066,742	8,822,937	9,245,600	9,515,435	9,844,081
Separation pay	318,490	320,049	368,193	334,096	250,493

Cost of Community Quality of Life (QoL) Per Capita

Other performance measures tell us that QoL factors—the "unpaid" compensation we provide our military members and their families—is a strong contributor to overall workforce satisfaction. Consequently, we are researching new metrics that will help us isolate and evaluate investments in QoL services. The QoL per capita cost measure is the third leg of the three-pronged approach that combines it with the QoL Social Compact Improvement and the Commitment to Military Life indices to measure the health of QOL programs and services supporting military members and families. Per capita expenditures must remain stable to prevent a widespread

diminishment of levels of QoL and morale. This is especially true as we embark on a global basing review during FY 2005.

The measure will calculate per capita costs by using active-duty end strength of a FY 2002 baseline established using execution data. That baseline includes funding provided by the military services for child care, family centers, voluntary education and tuition assistance, exchanges, school-age and youth programs, and morale, welfare, and recreation (MWR) activities, such as fitness centers. In FY 2004, we will gauge the progress of each military service towards sustaining or improving funding for QoL activities. Expenditures planned for future years will also be tracked to ensure resources are adequate to respond to deployments and requirements of the military lifestyle. The table below reflects "unpaid compensation" funding provided in the FY 2004 defense budget.

Community Quality of Life Per Capita Cost Metric	FY 2002 Actual	FY 2003 Budget	FY 2004 Budget	FY 2005 Budget
Army	$1,180	$1,291	$1,106	$1,295
Navy	$1,269	$1,341	$1,242	$1,145
USMC	$ 940	$ 910	$ 975	$1.025
Air Force	$1,580	$1,607	$1,684	$1,728

Military Health System Performance

We have persisted on our ambitious plan to change how we manage medical benefits. Core to these efforts is the Defense Health Program performance plan, which codifies our commitments to providing excellent health-care benefits to our active-duty members, retirees, and their families, while at the same time managing the military health care system more efficiently and effectively. In the last year we have developed the indicators described below to track medical costs per enrollee per month, revamped our initial outpatient market share measure to narrow our focus, and modified our primary care provider productivity measure targets to make them more realistic. We expect more improvements in the future years as we migrate to a Prospective Payment System, which will fund medical facilities based on performance. Under this system, earnings will be based on

production, instead of the traditional inflation-based commodity pricing.

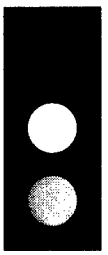
Several years ago, we consolidated our health care delivery under our TRICARE management activity, and began reforming how we purchased care from the private sector.

To gauge the progress of those initiatives, we developed an indicator that will track how well the Military Health System manages care for those individuals who have chosen to enroll in a benefit similar to that provided by a private-sector health maintenance organization. The "medical cost per enrollee per month" measure will capture three major management issues:

- How efficiently care is provided.
- How effectively enrollee demand is managed.
- How well the Military Treatment Facility determines which care should be directly provided by the MTF facility versus being purchased from a Managed Care Support Contractor.

While the top level measure is used to track overall performance, the detailed measures allow for review and better management at the local level. FY 2003 results show that the increase in medical cost per enrollee per month is below the rate being experienced in the private sector for premium increases as reported by the Kaiser Family Foundation. For the Military Health System, the cost for FY 2002 was $174 per enrollee per month. Our FY 2004 goal is for our medical cost per enrollee per month to increase less than 14 percent, the projected private sector premium increase for the next twelve months. Because this is a lagging indicator, our FY 2005 goal will be established after FY 2004 execution data have been collected and analyzed.

SHAPE THE FORCE OF THE FUTURE



The global war on terrorism has demonstrated that we need a force that is trained and prepared to meet future asymmetric threats and international challenges. Clearly, *status quo* personnel management will not suffice.

This year, Congress approved our landmark proposal for a new National Security Personnel System that will make sweeping changes to the way we manage civilian personnel. NSPS gives us the flexibility to modernize our personnel management system while continuing to preserve merit principles, respect Veterans' Preference, and maintain union involvement.

The design of the NSPS is based on over 20 years of experience in operating personnel demonstration projects and alternative personnel systems. Key features include:

- Shifting civilian employees from the general schedule pay system to a pay-band system.
- Replacing automatic annual pay increases with a pay-for-performance system.
- Streamlined hiring authority.
- Special pay authorities to bring specialists and retirees on board for special projects.

As we have done for the civilian workforce, we have also created a Military Human Resource Strategic Plan, which sets achievable goals for near-, mid-, and long-term implementation.

Meet Civilian Workforce Management Objectives

Our Human Resource Strategic Plan (www.dod.mil/prhome) lays out the way ahead for recruiting and managing an excellent modern workforce. The Strategic Plan encompasses efforts to meet the goals of the Human Capital Initiative of the President's Management Agenda as well as moves us toward efficiency measures like time to fill civilian vacancies and success in filling positions defined as critical skills.

Although measures will be refined as we phase-in the new National Security Personnel System, we are committed to the research and intense developmental activities required by the Strategic Plan. For both FY 2004 and FY 2005, success requires us to fund and complete at least 80 percent of our scheduled tasks.

Meet Military Personnel Requirements of a Transformed Force

One of the most exciting innovations is a new approach to military force management called "Continuum of Service." Under this approach, a reservist who normally trains 38 days a year could volunteer to move to full-time service for a period of time - or some increased level of service between full-time and his normal reserve commitment, without abandoning civilian life. Similarly, an active 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 to the service on a flexible basis - and create opportunities for others with specialized skills to serve.

We hope the Continuum of Service and other innovations will improve our ability to manage the military workforce with options that currently exist only in the private sector. For example, coalition forces in Iraq need skilled linguists, so we have recruited Iraqi-Americans into a special Individual Ready Reserve program associated with our new Continuum of Service program.

In addition to the Continuum of Service initiatives, some 45 research efforts have been or are being undertaken to support the Military Human Resource Strategic Plan. Over the long term, we intend to use the data collected from these many research efforts to design and implement optimal human resource planning - that is, the most advantageous career patterns and service obligations for the force as a whole. Future critical skills, such as information operations, language and foreign area expertise, and space operations will be defined, and progress toward meeting the resulting need will be monitored.

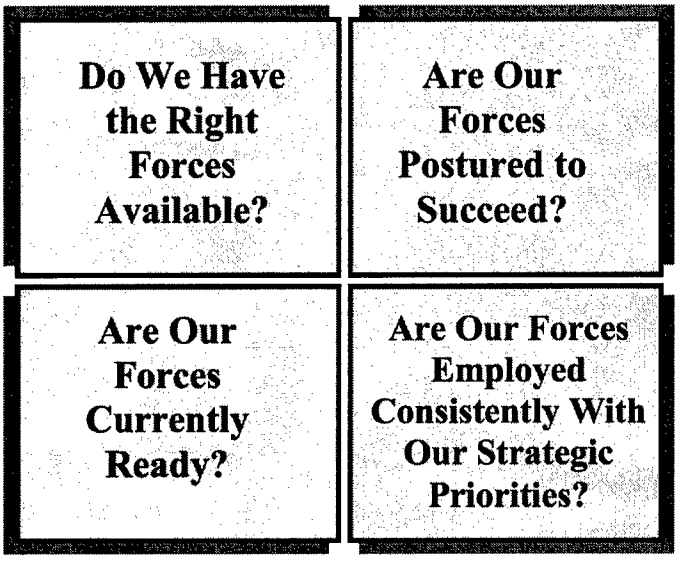
Define and Meet Core Divestiture Requirements

The 2001 Quadrennial Defense Review first raised the issue of whether we were managing our workforce efficiently and effectively – and specifically whether we were using our military personnel in jobs that took full advantage of their experience and training. This activity measure has accomplished its goal by bringing the issue of balance and alignment to the senior management. The result has been a series of initiatives to examine the right mix of the force, both military and civilian. These measures and activities are now codified in the Department's human capital management plans for both civilian and military personnel (described above). Accordingly, this activity measure is retired.

Operational Risk

In the 21st century, what is critical to success in military conflict is not necessarily mass as much as capability.

Secretary of Defense Donald H. Rumsfeld
January 13, 2004



What is operational risk?

In simplest terms, it is about whether we can overcome today's threats—about our ability to create plans that can be adapted quickly as events unfold, train for the next real-time mission, and supply the warfighters with what they need *now*. It is about achieving near-term objectives, not long-term outcomes—thus, it is an important dimension of the defense strategy, but not the entire strategy.

We assess the degree of operational risk from three perspectives:

- *Likelihood of failure* (of a military action or other operational activity to accomplish its stated objective)
- *Consequences of failure* (on the Department's ability to achieve its overall strategic goals)
- *Time* (as it relates to how conditions defining the likelihood of failure and its consequences may change over several years).

The Secretary's performance priorities for operational risk in FY 2005 are *Successfully Pursue the Global War on Terrorism, Strengthen Joint and Combined Warfighting, Combat the Proliferation of Weapons of Mass Destruction, Implement New Concepts for Global Engagement,* and *Improve Homeland Defense.*

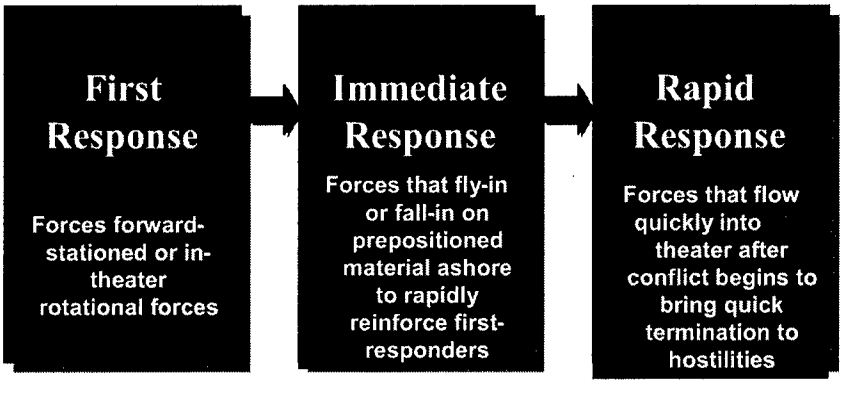
DO WE HAVE THE RIGHT FORCES AVAILABLE?

Experience thus far in the global war on terror, particularly in Iraq and Afghanistan, has shown that we have a somewhat of a Cold War mix of active and reserve forces remaining, and we really do need to adjust it to reflect the circumstances of this new century . . . Second, we will be adjusting our global posture . . . Third, we're in the process of implementing our new National Security Personnel System as an important step in better managing the civilian and military work forces.

Secretary of Defense Donald H. Rumsfeld
January 6, 2004

Today we increasingly rely on forces that are capable of both symmetric and asymmetric responses to current and potential threats. We must prevent terrorists from doing harm to our people, our country, and our friends and allies. We must be able to rapidly transition our military forces to post-hostilities operations, and identify and deter threats to the United States while standing ready to assist civil authorities in mitigating the consequences of a terrorist attack or other catastrophic event. These diverse requirements will demand that we integrate and leverage other elements of national power, such as strengthened international alliances and partnerships.

To meet these new missions, and to hedge against an uncertain future, we are developing a broader portfolio of capabilities, and realigning our forces using a building-block approach to match those capability portfolios with mission goals.



Sample Operational Availability Building Blocks

We have used this building-block approach to operational availability assessments to investigate how an alternative mix of active and reserve forces and their capabilities can be aligned to a range of missions, including homeland defense, and to begin developing the mid- to long-term scenarios being developed alongside emerging warfighting concepts (see the discussion of the "Joint Operations Concepts" and "Analytic Baseline," below). During FY 2004 and the first part of FY 2005, we will more closely examine capabilities needed for homeland defense, strategic deterrence, joint force capabilities and equivalencies, mobility, and the force structure needed to support overseas rotations (called "rotation base").

ARE OUR FORCES POSTURED TO SUCCEED?

Before we deploy forces to deter or fight an adversary, we must first decide whether we have the right capabilities in the right place to achieve the desired effect—and understand how deploying forces from one region to another may impede or enhance our ability to accomplish our strategic goals in another region, or at home.

Global Force Management

We are aiming to increase our ability to fulfill our international commitments more effectively...to ensure that our alliances are capable, affordable, sustainable and relevant . . . We are not focused narrowly on force levels, but are addressing force capabilities. We are not talking about fighting in place, but moving to the fight. We are not talking only about basing, we are talking about the ability to move forces when and where needed.

Under Secretary of Defense for Policy Douglas Feith
December 3, 2003

We are committed to building an analytically based, interactive management approach to deciding which forces will bring the best mix of capabilities to bear on the mission at hand. The Global Force Management (GFM) process, now being developed, will provide insights into the global availability of forces, allowing military planners to do quick-turn, accurate assessments of how force changes will affect our ability to execute plans and evaluate associated risk. These assessments, in turn, will help us match the right force capa-

bilities to emerging missions while providing visibility to stress on the force caused by frequent deployments away from home station.

During FY 2003, we took two major steps toward establishing a global force management process. First, we began integrating the previously stand-alone decision systems that we use to assign and deploy forces. Second, to support this new approach, we established a "community of interest" comprising active joint force planners worldwide to help us decide how to better organize joint force management data so it can be made more timely, reliable, and authoritative.

In FY 2004, we will formally assign roles and responsibilities for the new Global Force Management process, and will stand up an oversight board of senior military managers to assess how best to apply joint capabilities to military missions. This board will set priorities among competing demands for forces. At the same time, we are establishing timelines (and associated costs) for improving existing force structure data and developing new cross-functional data tools.

A prototype of the improved force structure organization using the Army will be completed in FY 2005. Also by FY 2005, we will integrate the new Global Force Management process in the update to our "Forces For Unified Commands" document, which formally assigns forces to combatant commanders.

The Global Force Management Process subsumes two developmental measures reported in our last performance plan: the "Global Force Presence and Basing Study" and the "Joint Presence Policy." The former study will continue through FY 2005 and will be a key input to the Global Force Management baseline. An initial version of a Joint Presence Policy initiative was used to allocate rotational forces during FY 2004; the final version of the policy will be integral to the Global Force Management process.

Theater Security Cooperation

Theater security cooperation plans set specific, by-region goals for how the activities of combatant commanders, the military services, and defense agencies should contribute to building relationships with foreign defense establishments that promote specific U.S. secu-

rity interests and develop allied military capabilities for self-defense and coalition operations. These plans describe how the U.S. and its defense partners will share information and intelligence, and provide peacetime and contingency access (including en-route infrastructure) for U.S. forces that must traverse international boundaries during crisis operations.

During FY 2003, each of the theater plans were updated to specifically address six major defense policy themes: combating terrorism, transforming alliances, influencing direction of key powers, cooperating with parties to regional disputes, combating weapons of mass destruction, and realigning the global defense posture. Throughout FY 2004, combatant commanders are adapting their theater strategies to define the outputs necessary for achieving these six goals in their regions of interest. As the plans mature during FY 2005 and come on line as an active allocation tool thereafter, specific performance measures will be assigned to each theater plan. Combatant commanders then will be required to annually compare actual results to these performance targets.

ARE OUR FORCES CURRENTLY READY?

Defense Readiness Reporting System

DRRS will transform our readiness assessment . . . Not only will the combatant commanders be able to immediately assess the readiness of assigned and allocated forces, but they will also be able to assess the ability of the supporting commands, agencies, and the other services in executing the war plan.

Deputy Under Secretary of Defense for Readiness Paul W. Mayberry
April 9, 2003

For many years, we have relied primarily on the classified Status of Resources and Training System (SORTS) reports maintained by all the military services to track actual personnel levels, equipment stocks, and training performance against standard benchmarks. The Joint Chiefs of Staff and senior civilian leaders then assess these data against a range of operational scenarios during the Joint Quarterly Readiness Review and Senior Readiness Oversight Council meet-

ings. The resulting evaluations are summarized along with key readiness trends in the Department's classified Quarterly Readiness Report to Congress.

The SORTS system, however, does not capture performance information for joint missions or for the full range of missions beyond a major regional contingency, such as those required to prosecute a successful war on terrorism. Accordingly, we have undertaken a fundamental overhaul of our readiness reporting process. DoD Directive 7730.65, *Department of Defense Readiness Reporting System,* orders three fundamental changes to how we evaluate force readiness:

- Unit readiness will be measured against missions assigned to combatant commanders, rather than against doctrinal tasks unique to a military service.
- Real-time status reporting and scenario modeling will be used for assessments, not only during peacetime, but as a crisis unfolds and while operations are ongoing.
- Tighter linkages will be established between readiness planning and budgets.

The Defense Readiness Reporting System successfully completed a proof-of-concept assessment in the fall of 2002. With the awarding of the prime development contract, we are working toward an initial operating capability in FY 2004 with full fielding planned during FY 2007. This year, we will begin fielding DRRS network architecture and plans assessment tools to selected units in one combatant theater, giving those units an initial joint readiness assessment capability. By the end of FY 2005, we will transition from the current Global SORTS to the Enhanced SORTS, or ESORTS. This will expand the number of theaters reporting and assessing readiness to execute select OPLANS via a robust and secure DRRS network.

Analytic Baseline

We have replaced our previous measure under this goal - Current Force Assessment - with a new developmental effort. The old metric took a lagged approach, focusing primarily on "hot wash" reviews of how existing plans succeeded in responding to emerging crises. In

contrast, the new process is intended to provide leading indicators by providing a common set of scenarios that can be used to refine crisis plans for both the near- and mid-term via quick-response, comparative analysis. Supporting data will be reviewed and validated by the military departments and combatant commanders, and reflect actual war plans and the regional outcomes goals approved by the President and Secretary of Defense. Future-year baselines will reflect the response options and results of the ongoing operational availability reviews as they are approved (see the discussion of "Operational Availability," above). Two future-year baselines were finished in FY 2003. The goal for FY 2005 is to complete the initial set of current- and future-year baselines.

Adaptive Planning

We are most ready when we can adapt our plans to emerging conditions. Accordingly, our plans now encompass the full range of missions—from homeland defense and the war on terrorism to major conflicts. They are becoming modular, so we can mix-and-match capabilities to respond to surprise or take advantage of opportunities. During FY 2003, the U.S. Pacific Command tested a new planning tool, Collaborative Force Analysis Sustainment and Transportation (CFAST), which uses networked information to dramatically reduce the time needed to develop operational plans. During FY 2004 and FY 2005, we will test other innovative planning tools like CFAST and begin producing "living" plans that can be integrated into the joint command-and control system, where they will be continuously and immediately available for reference, review, or change. The long-term goal is to replace our existing operational and contingency planning system with one that can quickly adjust to unfolding events—and thus better able to provide relevant, real-time options to the President and Secretary of Defense.

Operational Lessons Learned

When you do not see an enemy being organized, that you take advantage of that opportunity and basically, you know, drive to the heart of this issue . . . which I think is really, again, to the point of adaptiveness of U.S. forces in terms of having done the intellectual preparation to understand an opportunity and then to seize that opportunity and follow it through.

Brigadier General Robert W. Cone, Director, Joint Center for Lessons Learned
October 2, 2003

The key tenet of good performance planning is a strong feedback loop. The *Strategic Plan for Transforming Department of Defense Training* (www.t2net.org) directs that lessons learned are integrated into the development of new training processes and systems. In their annual updates to strategic planning guidance, both the Secretary of Defense and the Chairman of the Joint Chiefs of Staff mandate that lessons learned from operational missions be systematically captured and reflected in joint operational concept development and experiments.

During FY 2003, the Chairman's training staff began analyzing available tools for collecting and assessing existing lessons learned; subsequently, they were able to develop alternative courses of action in concert with the on-going lessons-learned activities associated with Operation Iraqi Freedom. Also during FY 2003, the U.S. Joint Forces Command began to evaluate lessons emerging from operations for the global war on terrorism. Joint lessons-learned specialists were placed in selected Combatant Command staffs. We also established lessons learned centers with each of the military services to assist with collection, analysis, and distribution processes.

Our long-term goal is to maintain a fully distributed and networked program that captures, analyzes, and implements all significant lessons learned. This future system will include quantitative performance measures linked directly to the capabilities given priority under the defense strategy. During this year and in FY 2005, lessons-learned will be integrated into training and readiness systems, as those activities mature.

ARE OUR FORCES EMPLOYED CONSISTENTLY WITH OUR STRATEGIC PRIORITIES?

It is not enough to plan effectively—we also must manage how forces are allocated and employed so that we may act in a manner consistent with the overarching objectives of the defense strategy.

In practice, this can be hard to do as the press of day-to-day business favors a singular focus on immediate events. However, if we are ever to effectively "buy down" operational risk for the Department, we must learn to analytically evaluate each individual, near-term task within the wider context of our strategic priorities over the long term.

Accordingly, we are enhancing our strategic planning process by developing specific analytic tools to better articulate the balance between the deployment and employment of forces and the needs of non-combat activities, such as training, exercises, and contingencies supporting enduring security missions. We are also continuing to build a strong and effective interagency process for analyses and policy development that allows the Department to leverage the talent and capabilities of other elements of national power.

Enhanced Planning Process

By institutionalizing such capabilities-based planning, we can make better choices as we position to face a wider range of future challenges. This approach will employ tailored, quantitative, and qualitative measures that help the Secretary and his senior advisors decide, "How much is enough?" The analytic tool set required to do this involves developing:

- Alternative courses of action and joint operating concepts for our operational and contingency plans.
- Common, comparable operational risk metrics for strategic priorities, individual events, and operations and contingency plans.
- Models and simulations to refine near-term options, supported by a data process that keeps information on U.S.

and aggressor capabilities up-to-date and in a form readily available for analysis.

Joint Operations Concepts

Joint Operations Concepts describe how Army, Navy, Air Force, and Marines coordinate military operations with other U.S. government and international agencies and military forces across the range of military operations 15 to 20 years from now. As such, they guide decisions we make today on what investments we should make to ensure capabilities tomorrow - and affect programmatic decisions across the force, encompassing doctrine, organizations, training, materiel, leadership and education, personnel (military and civilian), and facilities.

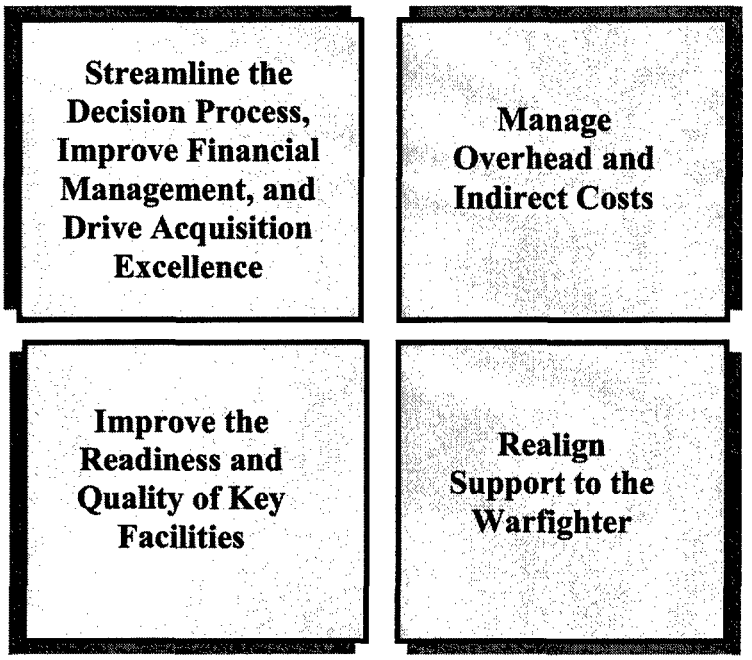
The long-term goal is to integrate these new concepts into the Department's formal planning process (to include contingency and operational planning). As a first step, during FY 2003 the Secretary and the Chairman of the Joint Chiefs of Staff directed that work begin on four new *operating* concepts (major combat operations, stability operations, homeland security, and strategic deterrence) and five *functional* concepts (force application, command and control, battlespace awareness, focused logistics, and protection). As the initial concepts are developed during FY 2004 and FY 2005, a mix of peer and stakeholder reviews and "red team" assessments will critique the proposals. As the concepts mature and are approved for fielding, performance-based metrics will be established that are more quantitative and tied to the defense strategy.

Institutional Risk

Our agenda is clear. The global war on terror is continuing, and it will for the foreseeable future. As we prosecute the war, we'll need to continue to strengthen, improve and transform our forces; modernize and restructure programs and commands . . . streamline DOD processes and procedures.

Secretary of Defense Donald H. Rumsfeld
January 6, 2004

Just as we must transform America's military capability to meet changing threats, we must transform the way the Department works and on what it works.



Our leaders cannot act wisely unless they can get the information they need, at the right time. We must drive a better understanding of how overhead and indirect costs relate to military capability—we must build a base of facilities that are ready and able to meet the highest standards for quality and readiness.

Finally, we continue to transform our military and civilian forces to embrace new ways of working, and to pursue creative technology solutions.

The Secretary's performance priorities for institutional risk in FY 2005 are *Streamline DoD Processes* and *Reorganize DoD to Deal With Pre-War Opportunities and Post-War Responsibilities.*

STREAMLINE THE DECISION PROCESS, IMPROVE FINANCIAL MANAGEMENT, AND DRIVE ACQUISITION EXCELLENCE

Waste drains resources from training and tanks, from infrastructure and intelligence, from helicopters and housing. Outdated systems crush ideas that could save a life. Redundant processes prevent us from adapting to evolving threats with the speed and agility that today's world demands.

Secretary of Defense Donald H. Rumsfeld
September 10, 2001

After Secretary Rumsfeld announced his intention to transform how the Department does business, we have fundamentally redesigned the way in which we think and act as a management team:

- The acquisition process is benchmarking itself against the private sector,
- Our financial systems are being entirely overhauled both to address long-standing deficiencies and to leverage new technology, and
- Internal decision processes are undergoing the first major reform since the introduction of the planning, programming, and budgeting system in the 1960's.

Of course, such change does not matter unless it produces results – unless it makes us better able to support the warfighter and provide for national security. That is why across the Department – from our underlying financial systems to our military departments and defense agencies– we are committing to specific, measurable performance goals to track our progress toward achieving the transformation challenge set out by Secretary Rumsfeld the day before September 11th.

Streamline the Decision Process

THE PRESIDENT'S MANAGEMENT AGENDA (PMA)

Perhaps no other Department has been more directly affected by the events of September 11th, than Defense . . . we have responded to and continue to prosecute a war against our enemies half a world away . . . we are undergoing transformational changes on a scale unprecedented in the history of this Department . . .

Under Secretary of Defense for Personnel and Readiness David S. C. Chu
September 1, 2002

The President's Management Agenda highlights five government-wide initiatives to improve management and service to our citizens. They are: Strategic Management of Human Capital, Improved Financial Performance, Competitive Sourcing, E-Government, and Budget and Performance Integration. When the PMA was first announced in 2001, the Department was rated "red" in all five initiative areas. Within two years, we have improved our rating to "yellow" for three initiatives, and are rated "green" for progress in all five areas.

Strategic Management of Human Capital. We are continuing to refine and manage by our comprehensive civilian human resource strategic plan, which directly correlates to the government-wide PMA goals. During FY 2003, we completed development of 43 (out of 44 planned) performance measures for human resource management. We also became the first federal agency to offer "live" advice for finding a job in the Department of Defense via a toll-free number (1-888-DoD-4USA), TTY number (703-696-5436), and a dedicated website at www.GoDefense.com. This year, Congress approved the National Security Personnel System, an historic transformational initiative to introduce 21st century, information-age best practices to the Department. Chief among these is the alignment of the human resource system with defense mission objectives, the agility to respond to new business and strategic needs, and simplification of administrative processes. Implementation has begun and will continue through FY 2005.

- ***Improved Financial Management.*** Last year, we made greater progress in addressing the challenge of improving financial management than in any other year since passage of the Chief Financial Officers Act. Senior defense managers are collaborating with their counterparts at the Office of Management and Budget, the General Accounting Office, and the Inspector General to resolve the 11 material control weaknesses that most affect our ability to obtain a clean audit opinion.

  Competitive Sourcing. By the end of FY 2003, we completed initiatives on approximately 78,000 FTEs are continuing competition on an additional 18,000 positions. The FY 2005 budget will set incremental targets for each military service and defense agency toward achieving the Business Initiative Council management initiative goal of competing 226,000 defense positions by FY 2009.

- ***E-Government.*** Of the 25 initiatives identified by the President's Management Council for e-Government improvements, 18 involve defense. Accordingly, we have taken an active, leading role in many of those initiatives. During FY 2003, all 162 defense business cases for information technology submitted for review to the Office of Management and Budget were rated "acceptable." The National Archives and Records Administration endorsed our records management standard and the Defense Financial Accounting System was selected as one of the government-wide federal payroll providers.

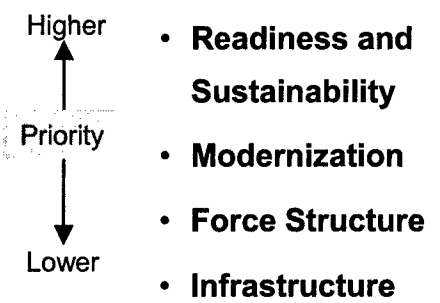
  Budget and Performance Integration. We are in the midst of a defense-wide effort to identify and use meaningful performance metrics to better manage and justify program resources. In FY 2003, the Department's annual report to the President and Congress described the leading performance goals (and associated performance measures) used to evaluate risk (www.defenselink.mil/execsec/2003adr). The FY 2005 defense budget will include some performance-based metrics - and we are actively integrating performance information and metrics into all phases of the Department's revised program and budget process. During the development of both the FY 2004 and FY 2005 President's Budget, the Department participated in the program evaluations

conducted by the Office of Management and Budget via the Program Assessment Rating Tool.

Details and summary discussions for each PMA initiative are available at: www.results.gov.

INCREASE THE VISIBILITY OF TRADE SPACE

Section 113 of Title 10, U.S. Code, requires the Secretary of Defense to give military departments and defense agencies written policy guidance on how to prepare their programs and budgets. This guidance must include *"... national security objectives and policies; the priorities of military missions; and the resource levels projected to be available for the period of time for which such recommendations and proposals are to be effective."*



Too often in the past, the program priorities highlighted in the Secretary's guidance were unaffordable when taken together. Two years ago, Secretary Rumsfeld directed his senior aides to completely rethink how defense guidance was drafted. He asked them to use the document to define "trade space" that would help him balance investment—and risk—across the entire defense program.

This year's Strategic Planning Guidance dramatically improves the Secretary's ability to shape the investment choices made by the military departments and defense agencies by assigning specific priorities that have to be achieved within fiscal constraints and identifying areas for accepting increased risk or divesture, as required to stay within those constraints. It also directs several analytic efforts be undertaken during the remainder of FY 2004 and in FY 2005 to gain insight into how programs must be structured to achieve synergy in joint operations, and how performance metrics can be better defined to help evaluate programs in a joint context. Many of these analyses are continuations or redirections of on-going work. Others are new and robust, quick-turn studies that are underway to help make ear-

lier decisions on programmatic matters apply to a joint, capabilities-based approach. The Joint Programming Guidance, published this Spring, reported the findings of these studies and described specific program changes and priorities to guide the FY 2006 President's Budget and FY 2006-FY 2011 Future Years Defense Program.

Improve the Transparency of Component Submissions

Accurate information is the keystone of good decisions. Accordingly, we are committed to integrating the program and budget databases maintained by the military departments and defense agencies. This would allow "transactional" updates to the common defense program or budget position. This will speed processing and streamline workload associated with developing the defense program and budget. It also will make timely, accurate data more readily available to decision makers for review and analysis.

We are on track to converting to a completely transactional data collection process by FY 2007. This year, we streamlined and combined both the program and budget review process, cutting individual decision documents that had to be reviewed by almost a third over FY 2003. The FY 2005 defense budget is the first that reflects our commitment to a 2-year budgeting process in the Department of Defense– so that the hundreds of people who invest time and energy to rebuild major programs every year can be freed up to focus more effectively on implementation. Because the FY 2005 defense budget is, in effect, the second installment of funding for the priorities set out in the President's 2004 request, we made changes to just 5 percent of the Department's high-interest and must-fix issues - and *then* only when the costs of the changes could be offset by savings elsewhere in the budget.

Provide Explicit Guidance for Program and Budget Development

Section 113 of Title 10, U.S. Code, requires the Secretary of Defense to give the heads of the components the resource levels projected to be available for the period of time for which national security objectives and policies and military missions established as priorities under the defense strategy are to be effective. In the past, the assumptions used to set these resource controls were not shared with component organizations. Beginning with the first Strategic

Planning Guidance, we established shared assumptions about key resource planning factors with all of the Department's resource and budget planners. We then defined those program areas where planners should either accept or decrease risk, as defined under the Department's risk management framework.

This approach will provide continuity and give us an opportunity to collect and evaluate lessons-learned from actual performance results. For example, military departments and defense agencies could not make major changes from the approved FY 2004 defense baseline for FY 2005 absent an explicit rationale that considered actual performance results. During FY 2005, program plans (and budget proposals) will be closely scrutinized to ensure they directly align with the strategic outcomes directed in the Secretary's Strategic Planning Guidance, and conform to the specific program performance goals outlined in the Joint Program Guidance.

Improve Financial Management

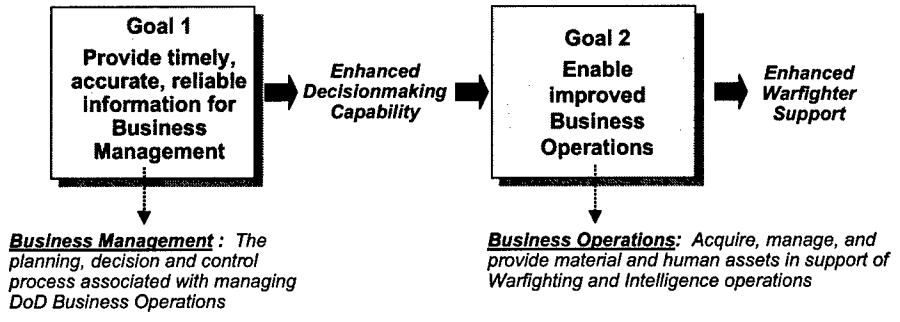
Last year, we began to define and use a balanced scorecard for financial management to track progress toward achieving a variety of defense business and financial management reforms and enhancements. Similar to the force management scorecard used by the Under Secretary of Defense for Personnel and Readiness, the Department's Chief Financial Officer will use the financial management scorecard to realign financial activities of the military departments and defense agencies. Accordingly, we have retired the "Implement Realignment Recommendations Approved by the Senior Executive Counsel" measure and replaced it with the new measures described below.

Modernize Current Financial Operations

During FY 2003, we completed work on the Department's business enterprise architecture. This new architecture, which incorporates best practices from both the public and private sector, covers both business processes directly associated with financial management and the hundreds of associated processes that support budget formulation, acquisition, inventory management, logistics, personnel, and property management. It is one of the most ambitious enterprise architectures ever attempted to date, building end-to-end business

process models that define capabilities, data ownership, information flows, and unique responsibilities within the business domains of the Department.

Throughout FY 2004, we will update the architecture, releasing versions 2.0 through 2.2. Each version will further enhance our capability to achieve unqualified audit opinions by adding more explicit business rules and processes. Version 3.0 is scheduled for release in the third quarter of FY 2005, and will address integrated planning, programming, budgeting and execution; expanded human resources management improvements; and integrated life-cycle materiel management.



ADDRESS FINANCIAL MANAGEMENT CHALLENGES

In January 2003, the General Accounting Office cited the need to find and fix decades-old financial management problems as one of the Department's top 10 management challenges. We agree that we have taken on a huge challenge to control costs, ensure basic accountability, maintain funds control, and prevent fraud. Our first step has been to identify and act to resolve financial material weaknesses highlighted by the Inspector General in their review of our annual financial statements.

Our long-term goal is to improve reporting enough each year so that by FY 2007 we are able to obtain a favorable audit opinion. Two years ago, in FY 2002, defense auditors highlighted 13 financial statement weaknesses. Two of these weaknesses were corrected in fiscal year 2003. We expect to resolve an additional weakness by completing a full inventory of ranges and other activities that con-

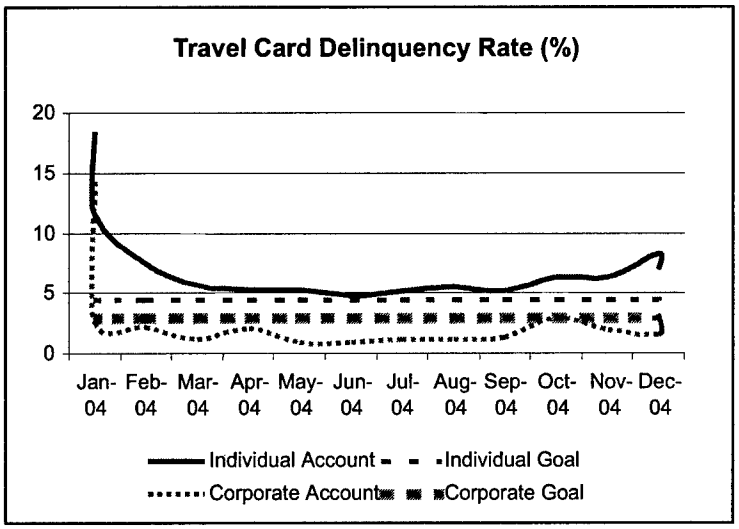
tribute to environmental liabilities during FY 2004. By the end of FY 2005, we expect to retire five more weaknesses, to include clearing up differences between our records and the Department of Treasury regarding cash accounts.

For a complete description of remaining financial weaknesses and the status of proposed resolutions, see our FY 2003 Performance and Accountability Report at www.defenselink.mil/comptroller/par.

IMPROVE PERFORMANCE FOR RECURRING FINANCIAL TASKS

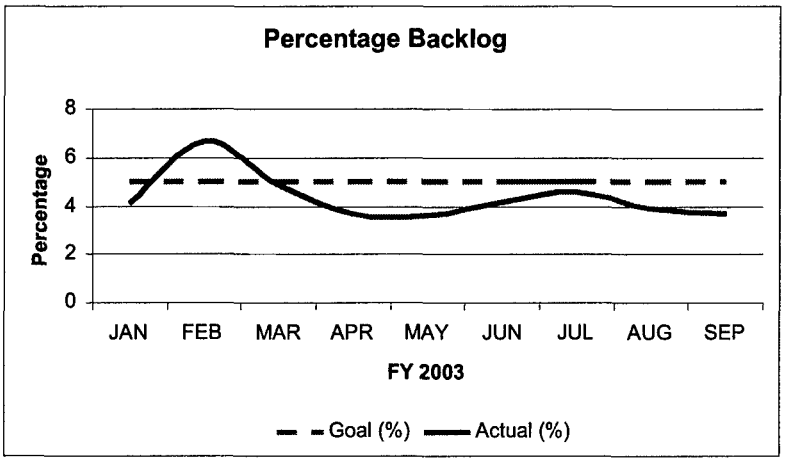
Even as we re-engineer our overall technology and management practices, there are many routine accounting or financial tracking tasks that can be improved by increased oversight. Accordingly, we are developing specific performance measures for four activities that directly contribute to existing material weaknesses identified by the Inspector General (see discussion, above):

- ***Travel Charge Card Delinquencies.*** In January 2001, delinquency rates (more than 60 days past due) for government credit cards issued individually to military and civilian workers were reported as high as 18 percent, and as much as 14 percent for cards issued to organizations. Subsequently we undertook a major initiative to cut abuses, and by the end of October 2003, delinquency rates for individual credit card holders fell to 6.3 percent, and to 3 percent for organizational cardholders. During the same time period, we recovered approximately $42M in debts, and cancelled more than 500,000 cards that had been inactive for 12 months or more. Reports for March through September 2003 indicate that less than 2 percent of all government cardholders are delinquent. During FY 2005, we will use data mining to identify patterns of credit card abuse, strive to reduce the delinquency rate to less than 4.5 percent of dollars and less than 2 percent of all cardholders.



- ***Erroneous Payments.*** The Improper Payments Information Act requires federal agencies to report payments that should not have been made or that were made in an amount different than that required by law, regulation, or contract. During FY 2003, the Department identified $53.5 million of improper payments related to the military health program - this represents an error rate of 1.36 percent of the $3.9 billion in benefit program payments made that year. For military retirement, we identified $33.1 million of improper payments - an error rate of 0.10 percent of the $32.7 billion program. During FY 2005, we will attempt to identify which programs and activities are most susceptible to significant improper payments, and subsequently establish goals to reduce or eliminate their frequency.

- ***Late Payments of Commercial Invoices.*** It is important the government pay its bills on time. In turn, the military services and defense agencies must pay all invoices on or before their due date. Accordingly, the Comptroller has entered into partnerships with the military services and defense agencies so that electronic commerce can be leveraged to more quickly process invoices and receive reports. By the end of FY 2003, the backlog of commercial invoices declined by 28 percent. Our goal for FY 2005 is for not more than 2 percent of all commercial invoices on hand will be paid late.



- ***Fund Balance with the Department of Treasury.*** Each month, the Department reconciles monies to be spent against the transactions authorized in the defense appropriation and authorization acts for that fiscal year. We must research and resolve all differences between our accounts and those held by Treasury. Differences that are not cleared during the next accounting month are carried forward to subsequent months until cleared. Our goal is to be able to reconcile 95 percent of all general ledger account appropriations and accounts (current, expired, and no-year) by fiscal year 2007. During FY 2003, the Department reconciled 92 percent of selected agency ledger account balances. During FY 2005, we will research ways to measure our progress toward reconciling the remainder of the accounts.

Drive Acquisition Excellence

For acquisition [transformation] this translates to things like reducing cycle times to accelerate technology to the warfighter, demanding modular system architecture and open system software to provide for rapid insertion of evolving technology, specifying tough logistics requirements to limit footprint and a focus on thorough contracting . . .

Acting Under Secretary of Defense Michael W. Wynne
July 22, 2002

The Department's seven goals for acquisition transformation are: (1) acquisition excellence with integrity; (2) logistics: integrated and efficient; (3) systems integration & engineering for mission success; (4) technology dominance; (5) resources rationalized; (5) industrial base strengthened, and (6) motivated, agile workforce.

Performance goals for FY 2004 and FY 2005 are listed in the following table, along with a short description of ongoing activities:

Acquisition Excellence Goals: Activity Indicators

Goal	FY 2003	FY 2004	FY 2005
Acquisition Excellence with Integrity	Revised the complex and long-standing DoDD 5000.1 (The Defense Acquisition System) and DoDI 5000.2 (Operation of the Defense Acquisition System). Both were approved for implementation on May 12, 2003. Funded Major Defense Acquisition Programs (MDAPs) to the estimates provided by the Department's Cost Analysis Improvement Group (CAIG).	Continue efforts to shorten the acquisition cycle time, with an ultimate goal of <99 months, using evolutionary acquisition and spiral development, and maximizing use of mature and commercial technology. Continue direction to fund MDAPs at the CAIG estimate. Transition from "systems-focused" to capabilities-based Defense Acquisition Executive Summary Reviews (DAES).	MDAP acquisition cycle time goal is still <99 months, MDAP acquisition cost growth goal is 0%. Conduct quarterly capabilities-based DAES reviews. Continue evolutionary acquisition and spiral development efforts to push systems to the warfighter faster.
Logistics: Integrated and Efficient	The goal of 16 days was not met. Customer Wait Time averaged 19 days, primarily due to increase in demand for critical items and delays in closing out Operation Iraqi Freedom transactions.	Customer Wait Time goal of 15 days. Continue initiatives in enterprise integration business systems and processes, end-to-end management of logistics, support strategies based on performance based logistics.	Customer Wait Time goal of 15 days. Continue FY 2004 initiatives. Develop budget to support performance based logistics.
Systems Integration & Engineering for Mission Success	New Acquisition, Technology and Logistics goal - not measured in FY 2003.	Conduct various activities to reenergize the systems view of integrated architectures, including the following: Focus our systems integration and engineering activities on mission success: lead development of system views of integrated architectures, integrated plans/roadmaps, and establish mission context for Defense Acquisition Board reviews; foster interoperability, jointness, and coalition capabilities; improve the systems engineering environment; provide professional systems engineering workforce, policies, and tools; and conduct system assessments, assess readiness for Operational Test & Evaluation, and reduce life cycle costs.	
Technology Dominance	Goal was to initiate 15 ACTDs. 14 ACTDs actually initiated.	For FYs 2004 and 2005, initiate 15 ACTDs each fiscal year. Continue activities to closely link high payoff science and technology efforts to enhance joint warfighting capabilities and aligning S&T with DoD strategic initiatives.	
Resources Rationalized	2005 BRAC process established by SECDEF memorandum.	Publish BRAC selection criteria; submit report on the 20 year force structure, necessary infrastructure, excess capacity, and certification of the need for a BRAC.	Revise the FY 2004 report, if appropriate; submit closure and realignment recommendations to Commission and Defense Committees.
Industrial Base Strengthened	Increased competition by stressing that the government no longer expects contractors to invest their own funds for defense research and development to cover shortfalls in government funding. This past practice hurt the ability of contractors to make reasonable profits and discouraged smaller companies from bidding for defense work.	Continue activities to ensure a defense industrial base focused on, and capable of supporting 21st century warfighting. Activities include: establishing organizational cross-feed mechanisms for major industrial base assessments; evaluating industrial sufficiency for key capabilities; developing industrial policy that creates and retains surge capacity for essential materials; and accessing emerging suppliers for innovative solutions.	
Motivated, Agile Workforce	During FY 2003, continued the Congressionally mandated DoD Civilian Acquisition Workforce Personnel Demonstration (AcqDemo) Project. AcqDemo is designed to give employees a flexible, responsive personnel system that rewards contributions and provides line managers with greater authority over personnel actions. Key features on the demonstration project include streamlined hiring, broad banding, a simplified classification system, and a personnel system that links compensation to employees' contributions to the mission through annual performance appraisals. The Department will be transitioning from the AcqDemo Project to the National Security Personnel System during FY 2004. Additional information on the AcqDemo initiatives is at www.acq.osd.mil/acqdemo.		

MANAGE OVERHEAD AND INDIRECT COSTS

The Defense Department still remains bogged down by bureaucratic processes of the industrial age, not the information age. We are working to change that.

Secretary of Defense Donald H. Rumsfeld
February 4, 2004

Link Defense Resources to Key Performance Goals

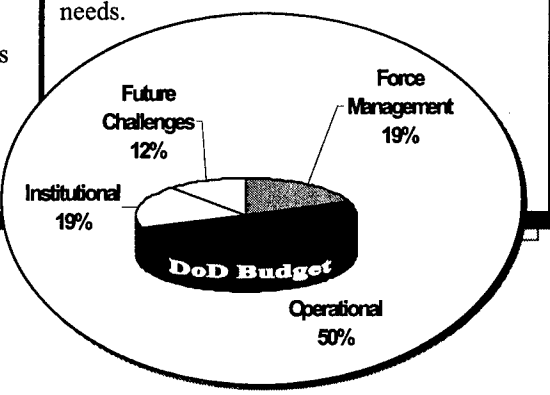
In FY 2003 we opened a program office dedicated to combining and aligning program and budget databases that had been previously managed separately. We are now engaged in a major review of the Department's program and budget data structure. This review, to be completed during FY 2005, will ensure our common resource management database:

- More directly aligns with Congressional and other external reporting requirements,
- Better support internal business and policy decisions by allowing an overlay of issue taxonomies that support strategy development and reviews, and
- More easily manages data structures and improves our ability to validate data.

This review covers almost 4,000 areas. We will modernize or replace outdated activity definitions, and consolidate or create others. Already we are seeing that today's new strategic approach is merging and blurring the traditional lines between tooth (deployable operational units) and tail (non-deploying units and central support). When the study is complete, we will have a more flexible analysis interface with defense data, allowing us to build alternative ways of mapping our programming data structure and making it easier to

crosswalk performance results to resource investments (see table below for an example):

FORCE MANAGEMENT	OPERATIONAL
• **Defense health program:** Medical infrastructure & systems. • **Central personnel administration:** Acquire & administer the workforce • **Central personnel benefit programs:** Family housing programs, commissaries & military exchanges, etc. • **Central training:** Non-unit training from officer training to flight training to military professional & skill training.	• **Expeditionary forces:** Non-nuclear combat units (& organic support) such as divisions, tactical aircraft squadrons, and carriers. • **Deterrence and protection forces:** Operating forces to deter or defeat direct attacks on the United States. • **Communications & information infrastructure:** Secure information distribution, processing, storage & display. •**Other infrastructure:** Management & program support for special-use activities, ranging from navigation to war-gaming to joint exercises.
INSTITUTIONAL	**FUTURE CHALLENGES**
•**Acquisition:** Infrastructure to develop, test, evaluate and manage equipment & systems •**Central logistics**: Supplies, depot-level maintenance, transportation, etc. •**Force installations**: Sustain, restore & modernize facilities at which combat units are based & protect the environment •**Departmental management**: Defense-wide support activities.	•**Other forces:** Intelligence, space & combat-related command, control & communications programs. • **Science & technology program:** Fundamental science relevant to military needs.



Reduce Percentage of Budget Spent on Infrastructure

The Department tracks the share of the defense budget devoted to infrastructure as a way to gauge progress toward achieving our infrastructure reduction goals. A downward trend in this metric indicates that the balance is shifting toward less infrastructure and more mission programs. In tracking annual resource allocations, we use mission and infrastructure definitions that support macro-level comparisons of DoD resources.

Although a lagged indicator, this measure offers insights on how to best manage overhead and indirect costs. For example, we estimate that about 44 percent of total obligational authority was devoted to infrastructure activities in FY 2002, down from about 46 percent in the preceding year. The efficiencies reflect results achieved in savings from previous base realignment and closure rounds, strategic and competitive sourcing initiatives, and privatization and reengineering efforts. As we restructure our program and budget databases (see discussion of "Improve the Transparency of Component Submissions," above), we will gain a clearer understanding of the relationship between overhead and direct cost activities to specific capabilities, and thus will be better able to develop mitigation strategies to limit unnecessary growth in overhead.

IMPROVE THE READINESS AND QUALITY OF KEY FACILITIES

For too long, we neglected our facilities, postponing all but the most urgent repairs and upgrades until the long-term health of our entire support infrastructure was in jeopardy. Therefore, we are investing substantial sums to sustain, restore, and modernize defense facilities worldwide.

Fund to a 67-Year Recapitalization Rate

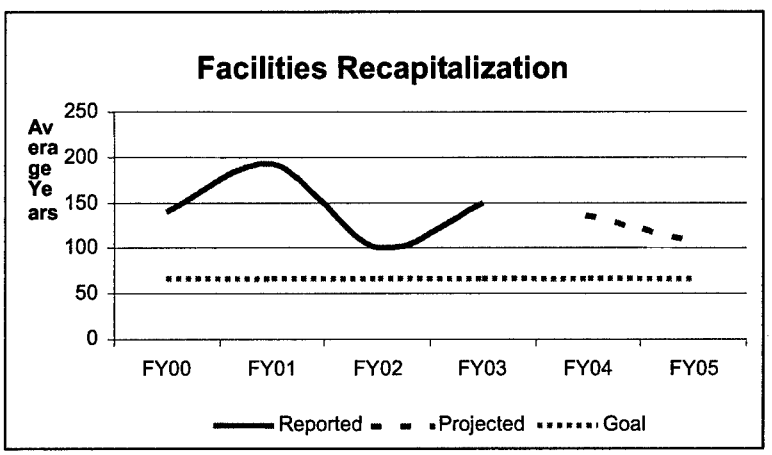
Sustainment covers the basic maintenance or repairs needed to prevent deterioration of facilities, and is the first step in our long-term facilities strategy. The Facilities Sustainment Model (FSM) uses common per-square-foot commercial benchmarks for 400 facility categories, adjusted for local area costs. The Department's goal is to fully sustain (100 percent) of all facilities according to standard benchmarks produced by the FSM. For FY 2003, we budgeted a rate of 93 percent. In FY 2004, we reached 94 percent and our FY 2005 budget improves the rate to 95 percent, an improvement for the fourth consecutive year.

Recapitalization is the restoration and modernization of existing facilities and is the second step in our long-term facilities strategy. The Facilities Recapitalization Metric (FRM) measures the rate at which an inventory of facilities is being "recapitalized"—that is, modern-

ized or restored. Recapitalization may mean a facility has been totally replaced—or incrementally improved over time to meet acceptable standards.

Our recapitalization performance goal is a benchmarked or "normal" average expected service life (ESL) of the overall facilities inventory, estimated to be 67 years in DoD. Actual ESL is a function of how well a facility is sustained, including routine repairs. A "normal" ESL assumes full sustainment that is benchmarked to a commercial per unit cost. (For example, it costs $1.94 per square foot annually to properly sustain a typical aircraft maintenance hanger for a 50-year life cycle.) If a facility is not funded to levels needed to keep it repaired and maintained, its ESL is reduced. Thus, the metrics for sustainment and recapitalization are linked.

We are on a sharp downward slope from our 200+ year FRM average in 1999. Yet, despite the improvements made since 1999, many facilities still report deficiencies serious enough to affect mission performance. During FY 2003, the Department's FRM was 149 years. In FY 2005, the average rate is 107 years. The 2005 budget requests $4.3 billion for facilities recapitalization which, when applied to the currently forecasted facilities inventory, causes us to adjust our estimate of when we can achieve a 67-year rate to FY 2008.



Restore Readiness of Key Facilities

Rundown facilities are not just uncomfortable places to work, they can generate real military risk if their deficiencies prevent the delivery of important operational services, such as unit training, logistics support, or medical care. The Secretary had directed that all key facilities across the Department be restored to a high state of military readiness. But how do we define and then measure facility readiness?

In the past, we've used the Installation Readiness Report (IRR) as an indicator of general conditions. But the current IRR cannot be crosswalked to real property inventories, thus it cannot be used to target investments needed to sustain improvements over the long term.

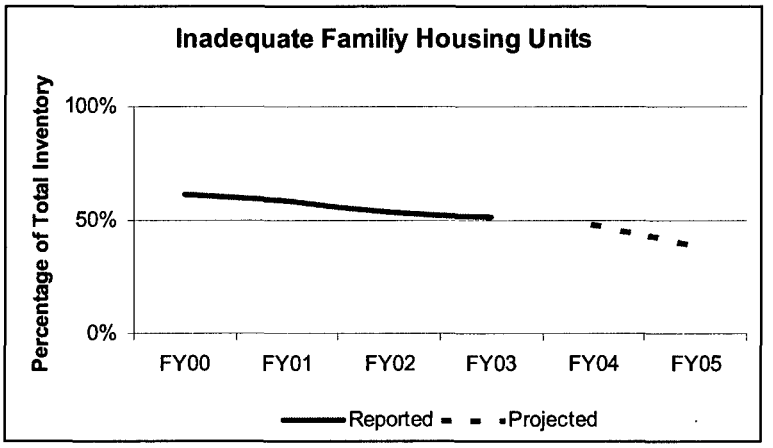
We need a better set of measures for facility readiness, and have chartered a Department-wide effort under the auspices of the Installations Policy Board to standardize individual facility records in real property inventories, and improve the quality of data underpinning IRR summaries. The first round of improved data is scheduled for receipt in early FY 2005. In the longer term, an enterprise wide real property inventory system is being studied. When implemented, it will replace or improve the three disparate inventory systems with one modern, integrated system.

Eliminate Inadequate Family Housing

A family housing units is considered "inadequate" if it needs a significant dollar investment to repair (for example, a new plumbing system, new roof or electrical wiring), or is so substandard it needs complete renovation. By the end of FY 2003, over 20 percent of the Department's military housing in the United States had been revitalized and turned over to private developers and property managers to own, maintain, and operate. An additional 20 percent of the housing inventory will be privatized during FY 2004. The Department's goal is to eliminate all inadequate housing by the end of FY 2007. During FY 2005, the Department's performance target is to reduce the number of inadequate family housing units to around 61,000, and reduce the percentage of housing units rated "inadequate" to 38 percent, keeping us on track to eliminate nearly all inadequate fam-

ily housing in the continental United States by FY 2007 (and FY 2009 for some Air Force installations and overseas bases).

Furthermore, each military department is responsible for developing a Family Housing Master Plan which outlines, by year, how much family housing they currently own, their proposed privatization candidates - and their existing MILCON and Privatization plans to eliminate 90 percent of inadequate military family housing units by FY 2007, and 100 percent by FY 2009.



Base Realignment and Closure (BRAC)

We need BRAC to rationalize our infrastructure with the new defense strategy, and to eliminate unneeded bases and facilities that are costing the taxpayers billions of dollars to support.

Secretary of Defense Donald H. Rumsfeld
February 4, 2004

In November 2002, we began to plan for the next round of Base Realignment and Closure (BRAC), as authorized by Congress. Last year, we established the organizational structure that will manage the overall process, and established seven groups to review these common, business-oriented functions across defense: education and training, headquarters and support activities, industrial, intelligence, medical, supply and storage, and technical activities. The military departments will conduct similar reviews of service-unique missions.

This year, we began collecting and certifying the data necessary to compare like defense installations and facilities across a variety of functions. The statute authorizing the BRAC round in 2005 requires that the Department's closure or realignment recommendations be based on a set of selection criteria, a 20-year force structure plan, and an infrastructure inventory. Accordingly, we published the final selection criteria on February 12, 2004 in the Federal Register; the FY 2005 defense budget certified the need for a new BRAC round, and the accompanying justification materials reported the 20-year force structure plan and infrastructure inventory, as well as other BRAC-related information of interest to Congress. By May 16, 2005, we will present to Congress a final set of transformational closure and realignment recommendations.

At the same time, we are proceeding with a global posture review to help us reposition our forces around the world - so they are stationed not simply where the wars of the 20th century ended, but rather are arranged in a way that will allow them to deter, and as necessary, defeat potential adversaries who might threaten our security, or that of our friends and allies, in the 21st century.

REALIGN SUPPORT TO THE WARFIGHTER

Transformation of our military forces hinges on being able to reduce redundancy, focus organizations on executive goals, flatten hierarchies, and cut cycle times in the decision and execution processes. If we can find ways to make real progress in these areas, small changes will yield huge gains in technology transfer, which in turn will help drive more effective operational performance.

Major Defense Acquisition Program (MDAP) Cycle Time

Acquisition cycle time is the elapsed time, in months, from program initiation until a system attains initial operational capability—that is, when the product works as designed and is fielded to operational units. A number of years ago, we began measuring the average cycle time across all major defense acquisition programs, or MDAPs (new equipment or material systems that cost more than $365 million in FY 2000 constant dollars to research and develop, and more than $2 billion to procure and field). We wanted to understand how quickly

new technologies were moving from the drawing board to the field. This performance measure is a leading indicator of technology transfer—typically, the faster a program moves toward fielding, the quicker associated operational improvements can be introduced to the force, and the easier it is to control overall program costs.

During the 1960s, a typical acquisition took 7 years (84 months) from initiating program research and development activities to achieving initial operating capability. By 1996 a similar acquisition required 11 years (132 months) from program start to initial operating capability. To reverse this trend, the Department set a goal for reducing the average acquisition cycle time for major defense acquisition programs started since 1992 by 25 percent—to less than 99 months or about 8 years. For those MDAPs started after FY 2001, the Department set a goal of reducing the average cycle time by 50 percent, or to less than 5-1/2 years (66 months). To achieve that objective, the Department is introducing improvements to development and production schedules similar to those initiated for managing system performance and cost.

Preliminary data indicates that the Department achieved an average acquisition cycle time in FY 2003 of about 104 months and 93 months for MDAPs started after FY 1992 and FY 2001, respectively. Actual results will not be available until April 2004. Several programs, including the Black Hawk Upgrade, Land Warrior, and Wideband Gapfiller, were examined and then restructured with more realistic schedule estimates. Although few programs have been restructured, the extensions have affected the average acquisition cycle time. The target for FY 2005 remains fewer than 99 months and fewer than 66 months for MDAPs started after FY 1992 and FY 2001, respectively.

MDAP Acquisition Cost Growth

Like cycle times, the pace at which acquisition cost increases over time is an indicator of program performance. Acquisition cost growth measures the difference, in percentage, between total acquisition costs estimated in the current-year President's Budget and those estimated in the past-year's President's Budget. The population of programs included in this comparison is all MDAPs common to both budgets—common programs are dollar-weighted.

Although costs can grow for various reasons, including technical changes, schedule slips, programmatic changes, or overly optimistic cost estimates, a steady or downward trend line is a solid indicator of how efficiently acquisition activities are being managed across the Department. We will maintain an annual target of zero percent acquisition cost growth. While this may not be attainable every year, it is the ultimate goal. In the near term, to demonstrate improvement, the Department is aiming for downward trends from year to year. Our actual experience demonstrates a favorable (downward) trend; however, the projected FY 2003 result of 4 percent is based on preliminary data. This is a lagging indicator; actual results will not be available until later in 2004.

MDAP Operating and Support (O&S) Cost Growth

We are developing a measure similar to the one above to monitor O&S cost growth. This new measure will monitor the growth in O&S costs—that is, the projected costs of people and material required to operate and maintain systems. It will compare the difference, in percentage, between estimates of O&S costs associated with the current-year President's Budget and those estimates done for the past-year's budget. This measure will be an indicator of how effective our efforts are at designing systems that cost less to support and operate. This indicator, when combined with the performance indicator for acquisition cost growth, will represent the entire lifecycle cost of a typical new defense acquisition, like a new tactical jet fighter.

Our goal is to effect a downward trend for O&S cost growth, toward an ultimate goal of zero cost growth. This is a developmental, lagging performance indicator. The first data point was developed in April 2003; the second data point will be available later in 2004.

Logistics Balanced Scorecard

Response time is a commonly used business measure for evaluating whether an organization's logistics operations are organized to deliver effective, efficient performance. DoD adapted this best-practice to military logistics in FY 2001, when we began measuring the elapsed time from a customer's order to receipt. At that time, we developed the Customer Wait Time metric, or CWT, to track orders

filled from assets on hand at the customer's military installation or naval vessel or through the DoD wholesale logistics system. Military services and the Defense Logistics Agency agreed, through the DoD Customer Wait Time Committee, to implement initiatives that would reduce DoD-wide CWT by one day per year from the FY 2001 baseline of 18 days.

Preliminary data indicates that during FY 2003, the average DoD-wide CWT was 19 days—the goal was 16 days. Indications are that the DoD goal was not met due to the increase in demand for critical items and delays in closing out transactions associated with the execution of Operation Iraqi Freedom. The CWT target for FY 2005 will remain at the FY 2004 target of 15 days as long as operations in Iraq continue.

CWT is a transformational approach to evaluating performance. In the past, good logistics meant holding large inventories—today, all the military services have agreed on a common set of business rules for monitoring the performance of the entire logistics enterprise. Therefore, we are in the process of developing a Logistics Balanced Scorecard to define key parameters of the responsiveness of the logistics supply chain, and to measure and monitor actual performance. This scorecard will be completed in FY 2005, and will focus on the full range of logistics activity, and measure performance in terms of specific operational missions. Eventually, measures developed in support of this scorecard can be used to inform the operational and contingency planning process.

We are exploring ways logistics supports the warfighter, by developing measures of our ability to support current operations, such as the percentage of material or services provided in theater by a specified date. By reviewing how orders are filled (right product to the right place, correct condition and packaging, etc.), we can gauge how accurately we are meeting meet customer needs for products and services.

During FY 2003 we identified an initial set of candidate metrics and data sources. This year we will develop a baseline and targets for some metrics, and begin results through the Joint Logistics Board. During FY 2005, we begin verifying and expanding the use of scorecard metrics, and move to an automated tracking system.

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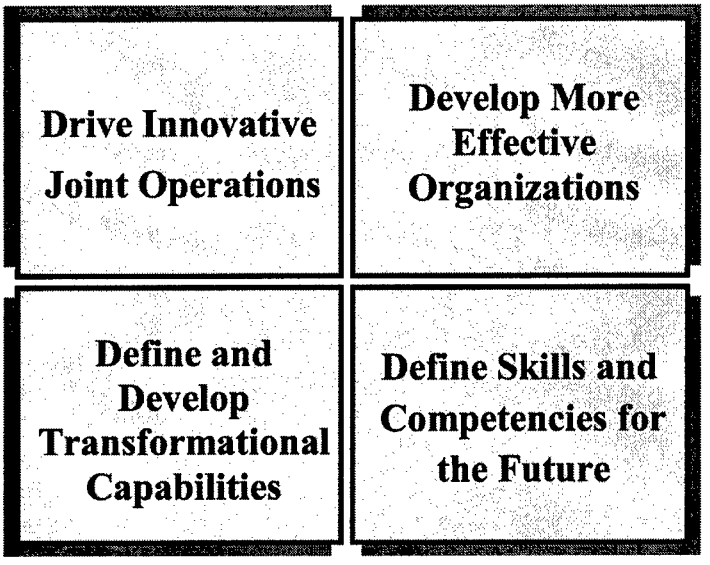
Future Challenges Risk

We are working to promote a culture that rewards unconventional thinking – a climate where people have freedom and flexibility to take risks and try new things...one that does not wait for threats to emerge and be "validated," but rather anticipates them before they emerge – and develops and deploys new capabilities quickly, to dissuade and deter those threats.

Secretary of Defense Donald H. Rumsfeld
February 5, 2003



The most reliable barometer of transformation in the defense community is to observe how the culture is changing. How and why are things done differently than in the past? How are those changes redefining what we believe we need to accomplish next? For that reason, the Department's progress toward transformation is best measured by observing the number and character of activities that lead the defense community to fundamentally new relationships, and thus to "transformed" capabilities.

The Secretary's performance priorities for future challenges risk in FY 2005 are *Transform the Joint Force* and *Optimize Intelligence Capabilities.*

DRIVE INNOVATIVE JOINT OPERATIONS

Fashioning joint operating concepts to guide the conduct of joint operations is our leading priority for transformation. We continue to support the six transformational goals identified in our 2001 defense review:

- Defend the U.S. homeland and bases of operation overseas;
- Project and sustain forces in distant theaters;

- Deny enemies sanctuary;
- Improve our space capabilities and maintain unhindered access to space;
- Harness our advantages in information technology to link up different kinds of U.S. forces, so they can fight jointly; and
- Protect U.S. information networks from attack -- and to disable the information networks of our adversaries.

During FY 2005, we plan to spend approximately $30 billion on transforming military capabilities that will support each of these critical objectives.

Maintained Balanced and Focused Science and Technology

We intend to increase spending for research and development by 50 percent above the 2002 baseline budget by FY 2008. During FY 2005, we proposed spending $68.9 billion on research and development, an increase of about 45 percent from the FY 2002 President's Budget baseline of $47.4 billion. Within the total research and development account, science and technology funds are those defense dollars spent on basic research, applied research, and advanced technology development. To make sure key priorities are supported by these funds, the Director of Defense Research and Engineering has set individual targets for each component of the Department's overall science and technology program:

- ***Basic Research: 15 percent.*** Often called the "seed corn" of military technology, basic research is the systematic study of fundamental aspects of science without any specific application, such as a weapon system, in mind.
- ***Applied Research: 35 percent.*** Applied research translates promising basic research into solutions for broadly defined military needs by exploring ways to design, develop, or improve prototype devices, materials, or systems.
- ***Advanced Technology Development: 50 percent.*** Advanced technology is the last steps in the process, demonstrating how a new idea can increase military capabilities or reduce costs

when applied to different types of military equipment or techniques.

Experiment With New Warfare Concepts

The Commander of the Joint Forces Command in Norfolk, VA is responsible for driving major change in how we think about fighting and winning on the battlefield, in harmony with the joint concepts identified in the Secretary's annual update to the Transformation Planning Guidance. He oversees more than 800 military and government workers, contractors and consultants who constitute a massive "transformation laboratory."

During FY 2003, the Joint Forces Command hosted three major wargames (Unified Quest, Unified Course, and Pinnacle Impact 03) and many other smaller experiments to test new concepts of joint command and control. During FY 2004, events like Unified Quest 04, a "discovery" experiment focused on applying new joint operations concepts to major combat operations, stability operations, transition to post-conflict, and the network battle-centric command in the year 2015, will build on emerging lessons learned from these earlier events.

Although this experimentation program is highly decentralized – relying on many smaller-scale experiments conducted by all players in the military and interagency community – Joint Forces Command tracks the expected manpower and funding to be invested each year, and lists the deliverables (exercises event, concept document); the command then issues periodic after-action and prototype development reports. For more discussion of ongoing and planned joint experiments and concept development, visit the Joint Forces Command website at www.jfcom.mil.

Over the past year, the experimentation program overseen by the Commander, U.S. Joint Forces Command has been aligned with the emerging joint operations concepts. Accordingly, this measure has been combined with "Joint Force Experimentation," since both activities conform to the same guidance and share management oversight.

DEVELOP MORE EFFECTIVE ORGANIZATIONS

As our culture changes, our focus shifts to enabling what we call joint operations—the ability of our land, sea, air, and space forces to be combined under the control of a single combatant commander and used in ways that are most appropriate to achieving the objectives of the campaign that he has laid out.

Strengthen Joint Operations

It is not enough to say we want to *fight* joint—we have to *think* joint, too. Accordingly, we are dedicating a substantial amount of funding to bring a joint perspective to how we structure, train, deploy, and manage forces and organizations.

TRANSFORM JOINT TRAINING

To win militarily in the new global operational environment, our forces must be trained effectively to decisively overcome asymmetric adversaries and deal with surprise. The training system of the 1990's was designed assuming a well-defined and stable opponent. However, the challenges of today demand we replace this requirements-driven training system with one that is dynamic, collaborative, and capabilities-based.

Our training transformation initiative takes a top-down approach, inviting stakeholders (combatant commanders) to participate in setting goals and defining success. The Training Transformation implementation plan (www.t2net.org), which was signed by Deputy Secretary of Defense Paul Wolfowitz on June 10, 2003, is a road map to developing and fielding dynamic, capabilities-based training for military, federal, and international partners worldwide. Much of this training will be "virtual," leveraging the most modern modeling and simulation tools.

By FY 2007, our goal is to ensure that all forces arriving for combatant command duty have been joint-trained in an innovative atmosphere that promotes the creation of new joint operational capabilities, and provides direct experience with dynamic mission planning and rehearsal tools. During FY 2004, we will develop

overarching performance architecture via a mini-symposium hosted by the Military Operations Research Society. During FY 2005 , based on this new architecture, we will introduce new courseware and content to the training syllabi used by the joint community. We also will refine the performance standards of joint training events to meet the emerging needs of the combatant commanders..

ESTABLISH A STANDING JOINT FORCE HEADQUARTERS (SJFHQ)

Three years ago we took steps to create permanent joint headquarters for each of our combatant commanders worldwide. These headquarters are being equipped with the most capable command, control, computers, communications, intelligence and surveillance asses we have available. During FY 2003, we published Joint Chiefs of Staff Instruction 3170.01C (available at www.dtic.mil) to establish performance standards and management criteria for these new organizations. Fifty-eight billets were identified that could be shifted from other assets to fill out the core of the new staff. This year, we are training regional command staffs and will conduct three exercises to test proposed operating procedures and tactics. We have already stood up a prototype SJFHQ at the Joint Forces Command, and approved SJFHQ billets for the Pacific, Central, Southern, and European Commands. The goal is to have an operational SJFHQ at all regional combatant commands by the end of 2005.

ESTABLISH A GLOBAL JOINT PRESENCE POLICY

This initiative is among several similar developmental efforts that are being combined during FY 2005 into a single, integrated protocol for global joint force management.

Enhance Homeland Defense and Consequence Management

The Department has the lead in providing for the defense of the United States and is an important government partner in providing for homeland security. Defense responsibilities range from overseas military missions to planning for homeland defense under the auspices of the U.S. Northern Command, a new combatant command, and the U.S. Pacific Command. At the direction of the President or the Secretary of Defense, the Department will

undertake military missions at home to defend the United States, its population, and its infrastructure from external attack.

We are also engaged in important activities to ensure the continuity of government in case of an attack or other crisis, and provide quick-response, vital support to civil authorities in an emergency, when required by circumstances or when the need surpasses the capacities of civilian responders. Such assistance to civilian agencies could include consequence management in the event of an attack involving the use of weapons of mass destruction.

In 2004, we will complete the first comprehensive, defense-wide strategy for the Department's contribution to the national homeland defense. This new strategy will rely on an integrated threat assessment to support definition of strategic goals for the Department's role in homeland security and defense. Then during FY 2005 - and taking risk into consideration - we will describe the associated resource and technology roadmap to achieve those goals in the next defense budget. By providing an overarching suite of strategic goals aligned with resource and technology plans, we will add coherence and direction to the disparate activities across the Department now charged with deterring and preventing attacks, protecting critical defense and designated civilian infrastructure, providing situational understanding, and preparing for and responding to incidents.

DEFINE AND DEVELOP TRANSFORMATIONAL CAPABILITIES

When this Administration took office three years ago, the President charged us with a mission – to challenge the status quo, and prepare the Department of Defense to meet the new threats our nation will face as the 21st century unfolds . . . We have done a good deal to meet that charge.

Secretary of Defense Donald H. Rumsfeld
February 4, 2004

We have fashioned a new defense strategy, a new force sizing construct, and a new approach to balancing risks – one that takes into account not just the risks in immediate war plans, but also the risks to people and transformation. We have moved from a "threat-based" to a "capabilities-based" approach to defense planning, focusing not only on who might threaten us, or where, or when – but more on *how* we might be threatened, and what portfolio of capabilities we will need to deter and defend against those new threats.

Monitor the Status of Defense Technology Objectives

Our science and technology investments are focused and guided through a series of Defense Technology Objectives (DTOs), which highlight specific technological milestones to be reached. Every two years, independent peer review panels assess the DTOs – at least two-thirds of the panel members are from academia, private industry, and other U.S. government agencies. The reviews are conducted openly; observation by stakeholders is welcomed. The teams assess progress against three factors—technical approach, funding, and technical progress—and rate the programs as:

Green	Progressing satisfactorily toward goals
Yellow	Generally progressing satisfactorily, but some aspects of the program are proceeding more slowly than expected
Red	Doubtful that any of the goals will be attained.

The benefits of these ratings are many. Not only do they reflect the opinions of independent experts, but they are also accepted and endorsed by stakeholders. These reviews result in near real-time

adjustments being made to program plans and budgets based on the ratings awarded. To measure performance in this area, our overall goal is to have 70 percent or more of the DTOs progressing satisfactorily ("green" or "yellow"). The Department has exceeded this goal each year since FY 2000; however, setting a higher target may discourage research in higher risk (but also higher payoff) areas. Therefore, our performance target for FY 2004 and FY 2005 will remain at 70 percent.

In FY 2003, 96 percent of the DTOs reviewed were determined to be progressing satisfactorily. The same success rate is expected in FY 2004 and FY 2005. As the Defense Advanced Research Projects Agency (DARPA) includes a greater portion of their total science and technology investment in DTOs, the Department's aggregate success rate may drop slightly, given the high-risk nature of DARPA programs.

Exploit the U.S. Information Advantage

Our preeminent global intelligence capability is the foundation of U.S. military power. It enables our leaders to decide how and when to apply military force, and provides a capability to assure allies and friends of our purpose and resolve, dissuade adversaries from threatening ambitions, deter aggression and coercion, and decisively defeat an adversary on our terms.

ACHIEVE PREDICTIVE INTELLIGENCE CAPABILITIES AND RESPONSIVE, INTEGRATED INTELLIGENCE SYSTEMS

We are committed to developing capabilities that provide insights into our adversaries' intentions and secrets without *their* knowing that *we* know. This means closing the gap in time and culture between intelligence and military operations. To do so is to enable a seamless transition from the collection of information to its employment to assessments of the effects of that employment.

A critical step on this path is shifting from a collection-focused intelligence system to a user-driven system. This will fundamentally change the way in which we plan and operate. It will facilitate joint and combined intelligence operations and will exploit the

advantages of information technology to provide knowledge to our customers when they need it. To that end, we are researching capabilities that let users pull relevant data from any place on the intelligence network to where it is needed most, regardless of origin or format. These capabilities will not replace current intelligence, data analysis, or analysts; rather, they will capitalize on already collected information.

MAKE INFORMATION AVAILABLE ON A NETWORK THAT PEOPLE DEPEND ON AND TRUST

Moving information quickly and accurately is a vital combat multiplier. Networks have demonstrated a remarkable ability to leverage information to improve the lethality and responsiveness of combat power.

For example, during the early stages of Operation Iraqi Freedom, a forward operating base of the 2nd Brigade of the 4th Infantry Division was receiving incoming mortar fire. The radar of an artillery command and control (C2) system was able to pinpoint the source. An unmanned aerial vehicle, which was already flying in the area, verified the radar contact. The location of the enemy position was transmitted to the Advanced Field Artillery Tactical Data System (AFATDS), a totally integrated fire support C2 system that processes fire mission and other related information to coordinate and optimize the use of all fire support assets, including mortars, field artillery, cannon, missile, attack helicopters, air support, and naval gunfire. With the mortar position locked in AFATDS, the forward base could quickly launch a counter-fire mission. During initial operations for Operation Iraqi Freedom, 90 percent of our fire missions were digitally targeted, reducing the time to execute from the hours needed during Desert Storm, to just minutes.

Another important capability is to be able to "see" the battlefield, especially how friendly forces are positioned relative to a potential or active threat. The Army has had excellent success with the Blue Force Tracker (BFT), a new digital tracking system that shares information among hundreds of other commanders. The system tracks both friendly (blue) and enemy (red) forces, and allows troops

to communicate by e-mail, a good back-up if tactical radios fail or a unit moves out of transmission range.

The BFT was deployed to the 101st Airborne Division (Air Assault) and 82nd Airborne Divisions, and quickly proved its value by helping a whole squadron column moving along a highway avoid a night ambush. Using the BFT graphical representation of the battlefield, the squadron commander knew the location of all blue forces. This enabled him to quickly spot red (enemy) forces that had moved into the area and call for fire to defeat them before they could launch an attack.

Ongoing research efforts are trying to find ways to "squeeze" information so it flows more easily, consistent with lessons learned from the battlefield. As more of these new concepts and programs are fielded, we will mature our understanding of the exact relationships between technology, operations, employment protocols, and battlefield performance.

POPULATE THE NETWORK WITH NEW, DYNAMIC SOURCES OF INFORMATION TO DEFEAT THE ENEMY

Our military commanders use information of all kinds, not only intelligence data, to "see" the battle space, and thus outwit and overcome our adversaries. The net-centric enterprise architecture we are building will allow commanders to engage the network at any time 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 it arrives, anywhere on the network.

An essential capability provided by such dynamic information is the ability to tell friend from foe on the battlefield. The dynamic information provided by the common operational picture (COP) was able to avert a potential fratricide on 1 April 2003, east of Karbala, Iraq. On that day, during a passage of lines, U.S. forces did not know that a U.S. scout platoon was in front of a tank platoon until alerted by the BFT. Without the real-time warning, the tank platoon might have targeted the scout as an infiltrating enemy force.

Dynamic information can also increase the speed and focus of combat planning and mission execution. For example, during deployment of an aircraft carrier in support of Operation Enduring Freedom after the September 11th attack, the carrier's commander was able to draw on networked information provided by a variety of sensors to confidently increase the number of aircraft that were redirected in flight to targets in Afghanistan.

We continue to give emphasis to those activities and programs that demonstrate our ability to improve battlefield performance, and which contribute to the underlying suite of capabilities needed to ensure reliable, dynamic information.

DENY ENEMY ADVANTAGES AND EXPLOIT WEAKNESSES

Our national security depends on clear, unambiguous, comprehensive, actionable intelligence - and aggressive counter-intelligence is vital to successful military planning and operations. Effective counter-intelligence can offer military planners "more preventative, less punitive" options that will neutralize or influence an adversary, but are short of using combat force.

In April 2002, we established a Defense Counterintelligence Field Activity to oversee all defense counterintelligence efforts, providing a "common operational counterintelligence picture" to monitor defense-wide threats and activities that could pose harm to our people or institutions. The Joint Counter-Intelligence Training Academy and the Defense Polygraph Institute are examining new methods for conducting counterintelligence and training counterintelligence officers to make counterintelligence part of integrated campaign planning and execution. The Under Secretary of Defense for Intelligence, established in FY 2003, is leading the intelligence community in developing a strategy that looks at long-term outcomes, exploring ways to integrate counterintelligence into campaign planning and execution.

By the end of FY 2005, our goal is to fill 95 percent of counter-intelligence billets at Joint Terrorism Task Force offices in the United States, and fully fund and staff 100 percent of the Force Protection Detachments approved by the Department of State. We will establish counter-intelligence elements at U.S. Northern Command,

which has responsibility for homeland defense, and resolve or otherwise dispose of 90 percent of all open terrorism investigations. Finally, we will sponsor three major advanced technology demonstrations during FY 2004, and one event in FY 2005.

DEFINE SKILLS AND COMPETENCIES FOR THE FUTURE

"A key roadblock to progress is a lack of understanding of key aspects of human and organizational behaviors..."

DoD Report to Congress on Network Centric Warfare
July 2001

Strategic Transformation Appraisal

History has shown that rapid and unexpected change can transform the geopolitical landscape. New technologies can revolutionize the character of armed conflict in ways that render previous doctrine and capabilities obsolete. Although contending with such uncertainty is a key challenge for the Department, certain features and trends of the security environment not only define today's geopolitical and military-technical challenges, but also highlight critical challenges that we must master in the future.

One trend is clear: the Department's transformation will be shaped by the emerging realities of the information age. Just as the move from the industrial age to the information age is changing the relative value of the sources of economic wealth (land, capital and labor), it is also altering the relative value of capabilities, assets, and skills that underwrite national security. Processes and organizations that cannot adapt to a networked, interoperable environment will not provide the knowledge, speed, precision, and agility we will need in the future.

More important, old ways and thinking will not foster the *human* skills demanded by our emerging security environment. Intellectual agility, adaptability, and the capacity to act in the midst of dynamic

complexity and uncertainty have increased importance in information-age warfare.

Today we are taking the first steps toward evolving our training and education to build the future force: we are establishing information-age warfare chairs at defense educational institutions; funded cutting edge research by defense educational institutions and their research partners, and founded a Transformation Certificate program for the National Security Executive Education Program sponsored by the National Defense University.

To guide transformation efforts across the Department, the Secretary issued his Transformation Planning Guidance in April 2003. This documents lists defense-wide priorities for fostering and promoting innovation. Subsequently, the military services and the U.S. Joint Forces Command prepared individual "transformation roadmaps" to describe how they are using concept-based experimentation, educational and training programs, operational prototypes, and other approaches to drive change. The first of these annual roadmaps were submitted in the fourth quarter of FY 2002, and updated during the first quarter of FY 2004. They complement the resource planning process, define a shared future vision, and provide actionable language for implementation. They become the baseline for managing transformational change and risk. The Transformation Planning Guidance and service roadmaps can be viewed at www.oft.osd.mil.

Are we making progress toward our transformational goals? To help keep the Department on track, the Director of the Office of Force Transformation prepares an annual assessment of progress being made toward transformational goals. The first of these Strategic Transformation Appraisals was completed in January 2004. Beginning in FY 2005, this classified report will be submitted each November to the Secretary of Defense. The appraisal will emphasize defense-wide transformational trends and recommend whether plans or resources should be adjusted to maintain progress toward the Secretary's transformational priorities.

The January 2004 appraisal indicated where information-age trends are taking the Department, and pointed to where we must go to strengthen the training and education:

2003	2004
• More expeditionary • More networked • Designed to leverage the exterior positions • Leverage increasingly persistent intelligence, surveillance, and reconnaissance • Tighter sensor-shooter timelines • Value information superiority • Joint interoperability at the operational level • Focus on unmanned capabilities	• Lighter, more agile, easily deployable units • Knowledge-enabled warfare • Improve vertical / horizontal intelligence distribution • Strengthen intelligence capabilities for the 21st century • Joint force synergy • Demand-centered intelligence • Jointness to the lowest appropriate level • Substitution of capital for labor

Optimize Intelligence Capabilities

ESTABLISH DEFENSE INTELLIGENCE AND SECURITY STRATEGY, POLICY, AND RELATED PROCESSES

During FY 2003, we established an Under Secretary of Defense for Intelligence to ensure military intelligence capabilities respond to the needs of both the Secretary of Defense and the Director of Central Intelligence. Drawing on a best practice from private industry, Defense and Director of Central Intelligence planners are working to synchronize their individual strategies and to reconcile their performance planning and measurement requirements. This will lead to a single performance measurement cycle for defense intelligence components, and help streamline intelligence oversight functions.

DELIVER A RESTRUCTURED AND PROACTIVE DEFENSE HUMAN INTELLIGENCE CAPABILITY, SATISFYING COMBATANT COMMANDERS' FULL SPECTRUM OF REQUIREMENTS AND SUPPORTING THE NEEDS OF POLICY-MAKERS

A re-invigorated human intelligence (HUMINT) capability is one of the leading indicators of transformation in the intelligence

community. HUMINT can provide keystone tactical and operational information to combatant commanders as part of integrated intelligence operations, and is a fundamental tool in the deterrence of adversaries. The challenge for the intelligence community brought by the global war on terror is to provide insights into goals, motivations, history, networks, relationships—all dimensions of human behavior—to a level of detail that is far greater than we can accomplish today. HUMINT is crucial to meeting this challenge.

During the first quarter of FY 2004, we outlined HUMINT reform proposals, identified which are the most critical to achieving our strategic goals, and recommended courses of action for FY 2005 and beyond to the Secretary and Congress.

DELIVER A HORIZONTALLY INTEGRATED NATIONAL SECURITY ENTERPRISE ENCOMPASSING JOINT, INTERAGENCY, AND MULTINATIONAL DATA, PROCESSES, AND CAPABILITIES IN COLLABORATION WITH THE DIRECTOR OF CENTRAL INTELLIGENCE

Another leading indicator of performance is Horizontal Integration: an entirely new perspective on how we collect, process, and apply intelligence. Horizontal integration focuses on outcomes - on what data is most usable to the most consumers, how easy it is to post and process across a network, and how seamlessly intelligence can be integrated into other defense activities.

Toward this goal, we have established a senior steering group with the Central Intelligence Agency to review current programs and processes, recommend changes, and propose measures of performance to be monitored over the long-term. Accordingly, we have also developed a phased investment plan that includes war-gaming, experiments, and demonstration projects.

ATTRACT, RECRUIT, RETAIN, AND REWARD HIGH QUALITY PEOPLE FROM GOVERNMENT, INDUSTRY, AND ACADEMIA

Perhaps the most important indicator of ability to meet our long-term strategic goals for intelligence is the quality of our intelligence analysts. We need energetic, dedicated people with broad and varied experiences. They must be problem-solvers who can operate effectively in an environment that constantly changes to meet new challenges and threats.

During FY 2005, and in concert with the National Security Personnel System (see Institutional Risk), we will stand up a Defense Civilian Intelligence Personnel System. The new system will tie performance to the defense intelligence strategy, and strive to improve job satisfaction by providing clear direction and quantitative objectives against which an employee can measure his or her progress.

REPORT OF THE SECRETARY OF THE ARMY

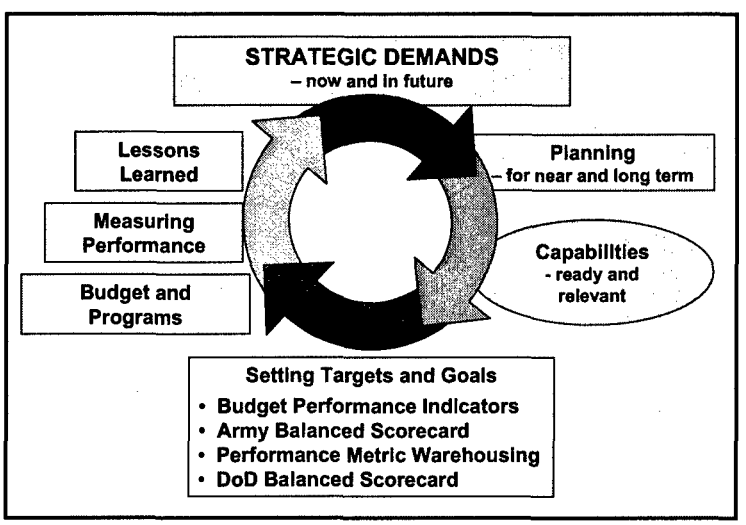
America's Army — Relevant and Ready

America is a Nation at war and we are America's Army — resolved to be relevant and ready. In the wake of the terrorist attacks of September 11, 2001, the post-Cold War era closed and, along with it, the window of opportunity it provided the Army to transform in relative peace. Now, the imperative to maintain our position as the world's preeminent land power is stronger than ever, and we aware what the brutal price of failure will be.

We know that we are relevant and ready today, but to remain so next year, five years from now and into the next decade, the Army must determine the future demands for land power: What outcomes does the Nation expect and what would we need to support the Combatant Commanders as part of the joint team?

We can begin to answer these questions by analyzing our mission and strategy, along with the related planning necessary to fielding a ready and relevant force. Fulfilling our duty to the Nation and the Combatant Commanders may exceed our existing resources; therefore, we must consider our requirements in terms of the Defense Department's balanced scorecard and risk areas. These criteria provide a basis for setting goals, programs, budgets and performance measures. We also recognize that effective planning includes monitoring actual performance, understanding lessons learned and being able to react quickly to new threats.

Our process is illustrated in the figure below.



The current national security environment differs dramatically from that of the past. We no longer face a monolithic superpower; instead, we must contemplate and fight multiple

adversaries in multiple places. As our enemy evolves, so too are we rapidly and dramatically altering our forces, our weapons, our training and our tactics. We are quickly changing our business processes, as well, to be more responsive to this dynamic world.

Through the balanced scorecard, we are formally instituting performance management in the Army. For the first time in history, we have begun to justify our budget requests by putting performance measures against our programs. In the budget just submitted, 60 percent of our programs were accompanied by measures and goals to gauge our success. By 2007, 100 percent of our budgeted programs will have associated metrics.

The Army does not fight alone – we are but one part of a joint team. This report aligns our efforts with DoD's balanced scorecard, its risk management framework and other members of the joint team. It represents one of the many steps along our road map to institutionalizing performance management, Army-wide.

THE ARMY – WHERE WE ARE GOING

Our goal is a better Army every day — a relevant and ready campaign-quality force with a Joint and Expeditionary Mindset. To this end, the Army is continually improving its ability to execute its core competencies: (1) training and equipping Soldiers and growing Leaders; and (2) providing relevant and ready land power as part of the joint force.

The Army's challenge is to transform doctrine, organizations, processes and its very culture to better provide essential capabilities to the joint force in a prompt and rapid manner. In order to meet this challenge, we must inculcate a Joint and Expeditionary Mindset into every member of the Army team. This means embracing a forward-leaning, modularly structured, joint-interdependent and capabilities-based Army led by and composed of aggressive, intelligent and empowered Soldiers.

We must think of ourselves as vital members of the joint team first, and as a service component second. The joint force is now capable of sustained interoperability, but must attain joint interdependence as quickly as possible. The Joint Operational Concepts (JOpsC) is the blueprint for achieving this posture; the Army is developing and nesting its concepts and capabilities within it to ensure that the U.S. military reaches its goal.

Training and Equipping Soldiers, and Growing Leaders

The American Soldier is the centerpiece of Army combat systems and formations. But, none can survive in the current battlespace without constant training in weaponry and fieldcraft — our troops must be prepared for the stark realities they will encounter. Thus, at the basic-skills level, the same standard of training applies to every Soldier, regardless

of component or specialty. Additionally, we will prepare our Soldiers, civilians and families for the sustained challenge of serving a Nation at war.

Our leaders must possess the mental agility; a mix of unit, staff and command experience; and training and education to meet the current and future leadership requirements of the Army and the joint force. We will optimize leader-development systems to grow personnel capable of operating as part of a joint team at war. We will focus on the current and future strategic environments, the current and projected pace of operations and deployments, and force stabilization initiatives. We will adjust combat-training center and battle-command training programs to nest within the joint national training capability and to replicate the realities of the contemporary operating environment.

Improving Today's Army

Our first priority is clear — winning the current war. Adapting our forces to meet the challenges of the Global War on Terrorism (GWOT) requires a capabilities-based, modular, flexible and rapidly employable Joint-Army team. The joint force must be capable of dominating any adversary and controlling any situation across the full range of military operations. As a crucial member of this team, the Army must be positioned around the world with the right composition, numbers and materiel to enable the maximum flexibility, agility and lethality for operations across the full military spectrum.

FORCE MANAGEMENT RISK

Providing a trained and ready Army is the business of the Department. To do so, we must employ the tools of modern commerce to better manage our military and civilian workforce: more flexible compensation packages, contemporary recruiting and retention techniques, improved training. Our working and living conditions must enable our people to perform at their best. And, we must seek out or grow the skilled individuals demanded by the Future Force.

Maintain a Quality Force

The tempo of our international commitments places an exceptional demand on active, National Guard and Army Reserve Soldiers, and that demand likely will continue for the immediate years ahead. The Army therefore must pursue selected programs to recruit and retain the high-quality Soldiers and civilians necessary to execute our mission.

Recruiting And Retaining A High-Quality Volunteer Force

All of our Soldiers are warriors whose actions have strategic impact. As we are at war and will be for the foreseeable future, we must recruit men and women, who already have

the warrior ethos ingrained in their character; who seek to serve our Nation; and who will have the endurance and commitment to stay the course of the conflict. They must be confident, adaptive and competent to handle the full complexity of 21st-century warfare.

One-hundred percent of the Soldiers we enlist will be high school graduates (diploma or equivalent, with no less than 90 percent holding high school diplomas). The active Army, National Guard and Army Reserve recruiting goals for FY 2005 are:

- Active Army — 79,000 enlistees.
- Army Reserve — 18,175 non-prior service; 5,000 prior service; 5,000 prior service transition from Active Component to Reserve Component; and 9,500 prior-service transfer from Individual Ready Reserve to Troop Program Unit.
- Army National Guard — 40,950 non-prior service and 22,050 prior service.

Active Army retention goals for FY 2005 are: 19,670 initial career; 23,595 mid-career; and 12,016 career soldiers. The National Guard and Army Reserve will not set their FY 2005 retention goals until 30 September 2004, when each will be able to determine its eligible population.

Critical Military Skills

In addition to meeting numeric and quality recruiting goals, successfully manning the force requires that we maintain a sufficient balance of critical skills among military specialties. Currently neither our Active nor Reserve Component is optimized for today's rapid deployability requirements. We will continue ongoing efforts to restructure our forces in order to mitigate stress; to align better with the current and projected security environments; and to offer campaign-quality, land-power capabilities to the Combatant Commanders. By doing so, we will ensure that our Army provides the responsiveness and depth required to achieve strategic and operational objectives, while simultaneously defending our homeland.

The Army continues to track our TOP 25 Recruiting Military Occupational Specialties (MOSs). MOSs that are listed on the TOP 25 include critical skills needed by the Army, specialties with a large recruiting program, historically difficult to recruit MOSs and those which have a large percentage of unfilled training seats in the current year. This list is updated monthly.

So far this fiscal year, the Army has reached 102 percent of its TOP 25 requirements. Of particular interest are the Special Forces Candidate (18X) "Off the Street" Enlistment and the Arab Linguist Enlistment initiatives. FY 2004 recruiting goals for these military specialty skills are: 1,500 Special Forces candidates and 250 Arab linguists. The Special Forces candidate goal for FY 2005 will be set in May 2004, and the Arab linguists goal for FY 2005 is 250 personnel.

Military Personnel Costs

In FY 2004, we improved compensation for our Soldiers. We funded an average 4.1 percent across-the-board pay increase, which included targeted pay raises ranging from 3.7 percent to 6.25 percent. We reduced median out-of-pocket housing expenses from 7.5 percent to 3.5 percent for FY 2004, and we are on a glide path to cutting those expenses to zero in FY 2005.

Improved pay and benefits signal our commitment to our Soldiers and their families. However, we still do not know exactly which compensation thresholds or benefits have the most influence on a Soldier's decision to join or remain in the armed services. Therefore, we are researching new metrics to help us better understand the complex relationships between military compensation (basic pay, special pay, incentive pay, basic allowances, other allowances, health care, education benefits and retirement benefits) and other force-management factors.

Ensure Sustainable Military Tempo and Workforce Satisfaction

Today our Army is supporting homeland security; executing stability and support operations in the Balkans; participating in the Sinai peacekeeping mission; and conducting combat operations in Iraq and Afghanistan. The Army also is forward-stationed in Korea and elsewhere around the world. These deployments mean overseas assignments for Soldiers – sometimes accompanied but mostly unaccompanied. This environment places great demands upon Soldiers, civilians and their families.

Soldiers are the heart and soul of the Army. The Army's preparedness to carry out its missions is directly linked to Soldier well-being. As we move further into the 21st century, the needs and aspirations of our Soldiers and their families will continue to evolve, as will the operational and societal environments. We must make every effort to match the Army's investment in its people to the commitment and sacrifices we expect of them.

This year, the Army announced a major initiative to improve readiness and to better our quality of life. Our revamped force stabilization strategy will keep soldiers with the same unit, stationed at the same home base, for up to seven years. This relative stability will increase unit cohesion and our combat effectiveness, and will make military life more attractive to our Soldiers and their families. We intend to apply the policy to 10 units in 2005, and to extend it to others in subsequent budget cycles.

The Army also has an extensive well-being program, which we have expanded beyond its traditional focus to a more inclusive consideration of Reserve Component soldiers, civilians and the entire Army family. Key examples include:

Support to Deployed Soldiers

To ease the effects of sustained deployment on our Soldiers, we have made available in-theater and on-location R&R. We are committed to providing these services as long as our troops remain deployed in the Central Command area of responsibility.

Currently, 600 unit-level recreation kits are in the CENTCOM AOR to support both Coalition Joint Task Force-Iraq (CJTF-7) and Operation Enduring Freedom. Fitness and recreation facilities are operational at 20 large camps in the CTJF-7 region, and fitness equipment is targeted for 40 other smaller sites. The Community and Family Support Center and CJTF-7 also have purchased equipment for Internet cafes; Internet access is free to users. Satellite phones are available and cost $0.05 per minute. Stars & Stripes is being printed in Baghdad and 800 book kits are being shipped each month.

Two mobile teams from the Army Continuing Education System (ACES) in Europe have administered Army Personnel Tests in Iraq and Afghanistan to Soldiers eligible for re-enlistment. Mobile testing will continue until Army Education Centers (AECs) are established in theater. Also, Soldiers in Iraq and Afghanistan have enrolled in distance-learning college courses using tuition assistance. The ACES goals for FY 2005 are to maintain installation reach-back support for Soldier continuing education and to open AECs in Afghanistan, Uzbekistan and Iraq.

Deployment Cycle Support (DCS)

DCS prepares Soldiers and DA civilians for returning to their spouses, families and home stations. To ensure smooth transitions, they and their family members participate in a number of classes, discussions and assessments. For deployed Soldiers and DA civilians, the DCS process begins in theater and continues at demobilization sites and home stations. For family members, training is conducted at home stations. Each participant receives information on family reunion and health care, as well as an individual assessment from the unit leadership. Based on these evaluations, the Army provides follow-up assistance, as appropriate. Currently, FORSCOM, USAREUR and 3rd PERSCOM are executing the DCS program.

Since 8 May 2003, approximately 94,314 Soldiers (92 percent) completed DCS Phase I in theater before redeployment. To improve this program, the Army intends to develop by FY 2005 a single, by-name database that tracks all deploying Soldiers.

Deployment Support at Home Stations

Army Community Service (ACS) Family Readiness personnel conduct training to help families respond to deployments. In FY 2003, they provided more than 5,000 pre-

deployment briefings, post-deployment briefings, Family Readiness Group training sessions, Family Readiness liaison officer training sessions, and rear-detachment commander training sessions to hundreds of thousands of soldiers and their family members. ACS goals are for 98 percent of installations to conduct required Army Family Team Building classes and for every installation with a Soldier Readiness Processing Center to have an ACS station.

Also in FY 2003, Child and Youth Services (CYS) at 64 installations provided more than 260,000 hours of extended care to 23,000 children and teenagers. This extra care supported Soldiers and family members working extended hours and provided respite for the spouses of those deployed. CYS' broader objective is to establish at every installation a Child and Youth Services Mobilization Plan, validated each year by a higher headquarters, that addresses services needed to support families during pre-deployment, deployment and reunion periods.

Communication with parents who are deployed is an essential factor in maintaining the well-being of our children and youth. More than 50 youth technology labs will be installed this year, and another 50 in 2005, so that young people can stay connected through e-mail and digital photography.

Spouse Employment

The Army formally unveiled the Spouse Employment Partnership at the AUSA annual conference on 7 October 2003, with the Assistant Secretary of the Army (Manpower and Reserve Affairs) and senior executives from 13 Fortune 500 companies signing a Statement of Support. The objective is to enhance employment opportunities for Army spouses, as job availability for them plays a significant role in retention decisions.

The FY 2005 goal is for 55 percent of spouses seeking employment to obtain positions through these corporate sponsorships.

In-State Tuition

The Army is still encouraging local governments to grant in-state tuition in both the place of official residence and the place of assignment; and to permit continuity of the benefit until graduation for the children and spouses of Soldiers, who transfer overseas or to another state following matriculation. We are making progress. So far, 21 states have agreed to all three provisions of this initiative, with Texas and Georgia recently passing legislation to cover both in-state tuition and continuity of the benefit upon reassignment. The new In-State Tuition website is a valuable source of information for military members, their families, educators and state legislators.

By the end of FY 2005, the Army's goal is to add another 19 states to the list of those that have implemented each piece of the in-state tuition plan. Twelve states already meet two of the goals, missing only continuity of the benefit when the Soldier is transferred.

National Guard/Army Reserve Job Centers

These new centers assist National Guard and Army Reserve Soldiers in finding jobs when they return home from deployment. While many Soldiers resume their former positions, some find the employment on which they were counting is no longer there; companies go out of business or relocate. Soldiers also sometimes discover that they have outgrown their previous jobs. The centers work closely with the Department of Labor, state employment offices and the Department of Veterans Affairs to help make the transition back to civilian life as quick and trouble-free as possible. The metrics to determine the impact of this program are being developed.

OPERATIONAL RISK

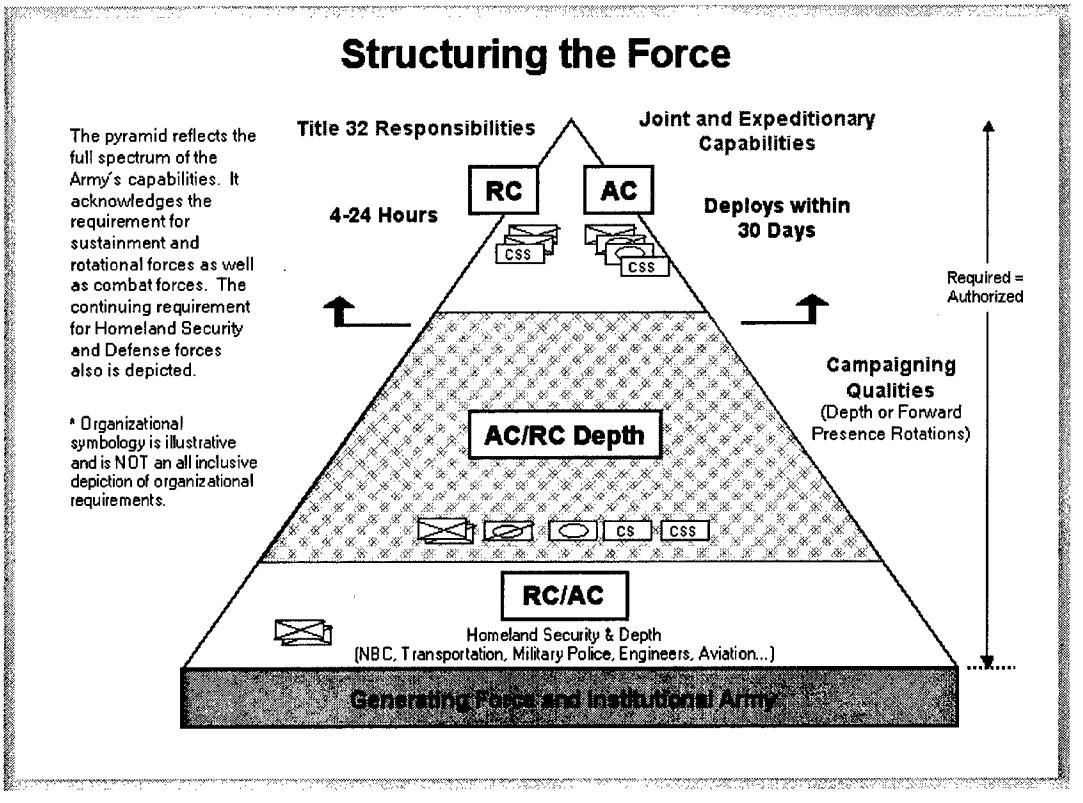
The Operational Risk area refers to our ability to overcome today's threats. This includes planning and adapting as events unfold; training for the next real-time mission; and sustaining the warfighters. Our first priority is clear — to win the war on terrorism. Our other priority is to provide for Homeland Security.

The Right Forces Will Be Available

The Army is committed to always providing the Combatant Commander the land power required to accomplish the mission at hand. With this in mind and in light of today's radically different security environment, we have begun a multi-pronged redesign of our entire force structure. Our individual units will become more modular, flexible and responsive, thus creating an array of balanced formations that can meet current and future requirements.

In addition, we are rebalancing the mix between Active- and Reserve-Component force structure and adjusting the quantities of certain military specialties. We expect through this process to realign more than 100,000 positions across the Active and Reserve components. In response to Secretary of Defense guidance, we already have addressed approximately 10,000 slots. The Army National Guard is on track to divest about 19,500 spaces of less frequently used force structure, which will help to resource critical, high-demand units, such as military police, civil affairs and special operations forces. We project that our rebalancing efforts will convert another 80,000 slots of lower-priority force structure, 26,000 of which should be completed in FY 2005.

The Army Reserve, in conjunction with Army Headquarters, also is re-examining its configuration to determine how best to support the Combatant Commanders. The Federal Reserve Restructuring Initiative (FRRI) will be completed by the end of FY 2006. Once implemented, it will position the Army Reserve with the right capabilities to meet emerging mission requirements.



These various force-structure modifications will increase the Active-Component capabilities available to support the first 30 days of a rapid response operation, and will help to mitigate stress on our units. AC and RC follow-on forces will give the joint force commander the campaign-quality combat, combat support and combat service support capabilities necessary to achieve operational and strategic objectives and to conduct sustained land operations. The Reserve Component also will reinforce stability and support operations, and will lead our efforts to protect the homeland.

Our Forces Will Be Postured to Succeed

In FY 2003, approximately two-thirds of our active and reserve combat formations were deployed in more than 120 countries around the world. As a result of the GWOT, we will remain in most of these places for the foreseeable future.

As part of the effort to make sure that we have the right capabilities in the right place, the Army will continue to enhance the tools we place in our Soldiers hands. For example, in FY 2005, the Army will buy 310 vehicles for the fifth Stryker Brigade Combat Team (25th ID, Hawaii), which will be fielded in FY 2006. We also are pursuing an aggressive aviation modernization program. In FY 2005, the Army will undertake 19 Apache Longbow conversions; will upgrade five Black Hawks to the UH-60M configuration; and will purchase 27 new UH-60Ls. Additionally, we will buy four new CH-47Fs; will convert 16 existing CH-47s into F and G models; and will procure 160 new, higher-power CH-47 engines. The Army will start a Lightweight Utility Helicopter program, as well, under which we will acquire 10 new, off-the-shelf aircraft in FY 2005.

Our Forces Will Be Ready

Our Army is adapting and changing dramatically to fight a sustained campaign against a new type of enemy. Our first priority is clear: We will prosecute and win the war. This mindset is essential for the entire Army.

The demands placed upon our equipment and personnel as a result of major combat and stability operations in Iraq and Afghanistan require that the Army quickly reset returning units for future national security needs. Our forces must be ready to respond to near-term emerging threats and contingencies.

Through reset, all active duty and Army Reserve units will achieve a sufficient level of combat readiness within six to eight months of their return to home station. The goal for Army National Guard units is one year.

We simultaneously will take advantage of reset to reorganize our forces into modular units that are more responsive to regional Combatant Commanders' needs; that better employ joint capabilities; that reduce deployment time; and that fight as self-contained entities. The reset process began in 2003 with the 3rd Infantry Division and will soon be expanded to include the 101st Airborne Division (Air Assault). Both divisions will be completely reset by the end of FY 2004. These initial conversions will serve as prototypes to help accelerate the overall redesign and fielding of the Current and Future forces.

Training and Equipping Soldiers. No Soldier can survive the stark realities of today's battlefield without constant training in weaponry and fieldcraft, and a continuous immersion in the Army's warrior culture. Our combined-arms training strategy is working and sustaining our warfighting readiness. We see the results every day in Afghanistan and Iraq.

Operational tempo (OPTEMPO), which supports the combat readiness of our troops, is among our top priorities. Our strategy incorporates an appropriate mix of live, virtual and

constructive training. In FY 2005, we will continue our commitment to fully executing the Active and Reserve components' ground and air OPTEMPO training plans, which include actual miles driven and hours flown, as well as virtual miles associated with the use of simulators.

There can be only one standard of training for our Soldiers, regardless of component or specialty. Thus, we have revised our training ammunition standards to allow combat support and combat service support units to conduct live-fire exercises under conditions similar to those they might encounter in combat. Additionally, an Initial Entry Training (IET) review is under way to determine the best course of action for incorporating greater emphasis on and increased rigor into field training, weapons training, combatives and leadership opportunities. By FY 2005, we also will have implemented a program to ensure that every Soldier is an intelligence collector and consumer.

Soldiers remain the crucial link to both realizing Future Force capabilities and enhancing the effectiveness of the Current Force; they are the ultimate combat system. To this end, we have begun to provide Assignment Oriented Training (AOT) for certain military specialties. Through this initiative, we can get Soldiers to their first assignments more quickly and with greater proficiency in their specialty. AOT has begun in four specialties; by FY 2006 it will include 18 specialties.

Growing Leaders. We will optimize our leader-development systems to train and educate soldiers and officers, who are capable of operating as part of a joint team at war and who possess a Joint and Expeditionary Mindset. Our leader-development systems and facilities will be redesigned for the current and future strategic environments, and to accommodate the current and projected pace of operations and deployments.

In conjunction with Joint Forces Command, we are developing a set of joint-leader competencies that we intend to incorporate into our leader-education program in FY 2005. Also by FY 2005, all majors attending Command and General Staff College will receive training in joint planning and operations.

To cultivate agile and adaptive leaders, able to conduct simultaneous, distributed and continuous operations, we will refocus Combat Training Center and Battle Command Training programs. Our training will nest within the Joint National Training Capability, will accurately replicate the realities of the contemporary operating environment and will introduce leaders to the new joint military decisionmaking process. We already have implemented a pilot program and we intend to finalize the revised program in FY 2005.

Our Forces Are Employed According to Strategic Priorities

Our operational tempo is high and will no doubt remain so. Our first priority is fighting and winning the GWOT. This requires a host of radical paradigm shifts in the way we

view the face and nature of our global operating environment, as well as in the way that we conduct operations.

We are deployed in accordance with our strategic priorities. The majority of our combat formations are now in the U.S. Central Command area of responsibility (AOR), effectively executing stability and support operations. More than 153,000 Soldiers are participating in CENTCOM operations in Iraq, Afghanistan, Kuwait and the Horn of Africa. This constitutes the largest movement of troops since World War II, with more than eight-and-a-half divisions and three enhanced Separate Brigades rotating to or from the theater.

Army support to other Combatant Commanders remains high. More than 23,000 Active and Reserve Component Soldiers are assisting in the homeland defense mission. U.S. Army Europe units have been sent to the CENTCOM AOR; and are participating in Stability Force (SFOR) and Kosovo Force (KFOR) in the Balkans. Additionally, more than 31,000 Soldiers remain on the Korean Peninsula, while others from U.S. Pacific Command fight the GWOT in the Philippines. Army troops are executing detainee operations at Guantanamo Bay, Cuba, and are aiding the government of Colombia in its war on narco-terrorism. U.S. Special Operations Command's Army component provides professional, dedicated and specially trained Soldiers to each Combatant Commander. These personnel, working closely with conventional forces, have been instrumental to our success in the GWOT.

INSTITUTIONAL RISK

The Institutional Risk area focuses on the way the Army works, emphasizing in particular our facilities and infrastructure, and our financial and acquisition processes. Our priorities are to operate efficiently and to streamline those processes.

Streamline Decision Processes, Improve Financial Management

The Army is committed to profound and far-reaching financial management reform that will guarantee decision makers access to reliable, relevant and timely financial data with which to carefully and efficiently manage and account for taxpayer funds. To do this, the Army is leading the way in DoD efforts to replace antiquated and stand-alone, automated financial management systems with a robust financial management infrastructure. The Army is following the guidance established by the Business Financial Management Modernization Program Office, which manages the enterprise architecture that links systems and business processes in a comprehensive and integrated fashion. The Army's CFO Strategic Plan outlines our path to improving financial management and correcting materiel weaknesses in our financial statements.

We also have established the Army Audit Committee to provide a forum to discuss and resolve a wide variety of federal accounting and auditing issues. The committee is a major component of our efforts to meet the Defense Department's goal of receiving an unqualified audit opinion by FY 2007. We are making progress toward this objective and, by FY 2005, will be ready for an independent audit of the entire financial statement for Army Civil Works; as well as the fund balance with Treasury, accounts receivable and accounts payable for the Army General Fund and the Army Working Capital Fund.

Improve Financial Management

The Army is pursuing numerous efforts that will deliver quality financial management during FY 2004 and beyond. Three of these initiatives are described below.

The **Logistics Modernization Program**, a key component of Army Transformation, will update our national-level logistics business practices and supporting information technology. It will provide integrated logistics management capabilities such as total asset visibility, a single source of data, better forecasting accuracy and real-time access to enterprise information. We also expect that LMP will measurably improve Army readiness. AMC completed initial implementation of the first phase in July 2003. Deployment to 12 Working Capital Fund sites will be completed in FY 2005.

The **Internal Use Software Accountability Initiative** is a 12-month, joint effort that will identify, value and account for all software products used throughout the Army, in accordance with Federal Accounting Standard Advisory Board standard No.10. Once the software is identified and properly valued, it will be entered into a Defense Property Accountability System database so that continuous accountability and reporting can be sustained. The Army intends to complete this program by the end of FY 2004 so that accurate, auditable figures can be presented in the FY 2004 financial statements.

The **Government Furnished Equipment Accountability Initiative** is a six-month proof of concept to design the processes and business rules to properly account for government equipment in the custody of contractors. During the proof of concept, which is now under way, five installations will provide feedback regarding the creation of fiduciary records on the Installation Property Book system. In FY 2005, after the proof of concept is completed, we will extend the processes and business rules to the remainder of our installations until all GFE is properly accounted for on an Army property system and is reported annually on Army financial statements.

Manage Overhead and Direct Costs

In developing a cost culture, the Army must change how we think about our money. Our people must understand why they should care about preserving, protecting and defending every dollar that the U.S. Army receives from the American taxpayer. Simultaneously,

we must find more economical ways to operate — even if that means removing programs, which are not achieving established performance measures.

Tradeoffs will be required as part of this effective cost culture, which will balance overhead and indirect costs against military capabilities. Elimination of excess property is one approach to freeing funds, which can be applied to other areas of the Army enterprise. Since FY 2001, the Army has disposed of more than 77,000 excess acres. In FY 2005, we will dispose of an additional 8,000 acres.

Improve The Readiness and Quality of Key Facilities

Installations

Installations are essential to maintaining the premier Army in the world; they serve as our flagships. Our short-term planning strategies for them center on three essential tasks: (1) posturing installations as deployment platforms with robust, reach-back capabilities; (2) adjusting installation support to meet the needs of an Army at war and transforming; and (3) supporting the well-being of all Soldiers and their families.

Our installations require restoration and modernization to enable Army transformation and the rotation-based system of global engagement. The Army has repeatedly accepted risk in infrastructure and installation services in order to maintain warfighting capabilities and readiness; as a result facility conditions have deteriorated. The average rating for Army facilities in the Installations' Readiness Report (IRR) is C-3 (adverse impact on mission accomplishment). However, through proper sustainment and recapitalization investments, we will restore installation readiness; stabilize and reduce the average age of our physical plant; reduce operating costs; and maximize our return on investment.

We are in the process of reversing the decay, but much remains to be done. Our overall goal is to achieve C-2 quality (minimal impact on mission accomplishment) by 2010, with specific facility types achieving C-1 ratings. The estimated bill to attain C-2 status is $12.1 billion. In FY 2005, the Army has programmed $2.5 billion in sustainment, restoration and modernization (SRM) funding to stop deterioration and to improve our facilities; within those funds, sustainment dollars will cover 95 percent of requirements. Reducing the recapitalization rate of facilities also is an indication of improving quality. The FY 2005 recapitalization rate is estimated at 80 years (total Army), compared with 124 years for fiscal year 2004. The Army's goal is to achieve a 67-year recapitalization rate by FY 2008.

Maximum facility utilization and reduction in facility footprint also help to improve facility quality by allowing more efficient and effective expenditure of limited SRM resources. The Army has an aggressive facility disposal program that has reduced its inventory by more than 30 percent since 1990. The Army's demolition program for

FY 2005 contains $30.1 million to eliminate 2.1 million square feet of facilities (total Army). We are enforcing an established construction policy of one-square-foot disposal for every one square-foot constructed to prevent growth of our inventory. We also have implemented enhanced-use leasing, which produces cash or in-kind consideration from the private sector for their use of our underutilized facilities. We have completed two pilot projects at Fort Sam Houston and Fort Leonard Wood; others are in the discussion stage and may be completed during FY 2005.

Environment

The Army is proud of its excellent environmental stewardship record. We firmly believe that protecting the environment entrusted to our care is part of our mission. Additionally, careful stewardship is essential to maintaining our capacity to train effectively for combat.

The Army's FY 2005 environmental budget request is $1.5 billion. Among our key initiatives for FY 2004-05 are: better management through the Environmental Management Systems (EMS); fewer violations of environmental laws and regulations; and implementation of enhanced contracting and oversight mechanisms for environmental restoration efforts.

Our performance measures monitor the number of installations that meet the established standards of the Environmental Quality Index, which addresses compliance with federal statutes, pollution reduction mandates and management of natural and cultural resources. Other measures track our progress in maintaining low relative risk to mission accomplishment and cleaning up polluted sites, according to DoD schedules.

Utilities

As we modernize our facilities, we intend to reduce our energy consumption and associated costs. The Army already has met the federal energy reduction target for 2005 and is on track to meeting the goal for 2010. The Army also is developing a comprehensive energy strategy that will: increase renewable energy usage; take advantage of restructured energy commodity markets; and modernize our infrastructure through privatization. The Army will finalize privatization decisions on all available water, sewage, electric and gas utility systems by September 2005. We also are pursuing renewable energy technologies, such as fuel cells and geothermal, wind and solar power; we intend to purchase electricity from these environmentally friendly sources when cost-effective.

Caring For Our Solders And Their Families

The Army must support our warfighters and ensure safe living and working conditions. Sustaining a good quality of life is crucial to recruiting, retention and readiness. Our commitment to improving single-Soldier and family housing is an excellent example of these efforts.

The Army intends to eliminate inadequate family housing by FY 2007 and inadequate permanent-party, single-soldier housing by FY 2008. The primary vehicle for improving family housing is privatization, specifically the Residential Communities Initiative. By the end of FY 2004, nearly 42,000 homes across 19 installations will have transitioned to privatized operations. In FY 2005 and 2006, we will privatize an additional 71,000 homes on 34 installations. Our aggressive program to improve permanent-party, single-soldier housing has funded the modernization of 75 percent (119,000 spaces) of the requirement. In FY 2005, the Army has programmed $700 million to continue this effort. Our next objective is to upgrade trainee barracks.

Realign Support for the Warfighter

We have adapted and continue to improve our acquisition and fielding processes to better support the warfighter. In 2002, as Soldiers reported equipment shortages in Afghanistan and elsewhere, we implemented the Rapid Fielding Initiative (RFI) to ensure that all of our troops deploy with the latest available equipment. Equipment fielding schedules were revised to support unit-rotation plans, and procurement and fielding cycles were radically compressed.

Our FY 2004 goal for RFI is to upgrade a minimum of 16 brigade combat teams, to include three Reserve Component enhanced Separate Brigades, serving in Operation Iraqi Freedom and Operation Enduring Freedom. More than $100 million have been programmed to continue RFI in FY 2005. Additionally, the Army has established a Rapid Equipping Force (REF) that works directly with operational commanders to find solutions to operational requirements. These solutions may be off-the-shelf or near-term developmental items that can be made quickly available.

Another key performance metric used by the Army to gauge success in supporting the soldier is Customer Wait Time (CWT). It measures the elapsed time from order to receipt of a materiel item, which may be obtained from assets on hand at the customer's military installation or naval vessel, or through the wholesale logistics system. For purposes of this enterprise-level metric, CWT includes orders for spare and repair parts requested by organizational maintenance activities. The FY 2005 goal is to reduce CWT to 16 days.

FUTURE CHALLENGES RISK

Historically, the Army has evolved to meet the challenges posed by conventional and unconventional threats and the dynamic international landscape. Today, our efforts also require a cultural metamorphosis that will forever influence the Army's change process. The purpose is to make our Soldiers and our institutions more innovative, adaptive and able to meet the challenges of a full-spectrum, joint and expeditionary environment.

The annually updated Army Campaign Plan sets our strategy for becoming an even more relevant and ready force, nested in the Joint Team. This section identifies a few of our significant efforts and performance metrics within the future risk sphere.

Drive Innovative Joint Operations

The Army is institutionalizing the new Joint Capabilities Integration and Development System (JCIDS). This revolutionary process defines future joint capability requirements through the creation, articulation, wargaming and experimentation of joint operating concepts and supporting capability-based architectures. JCIDS reviews all Doctrine, Organization, Training, Materiel, Leadership, Personnel, and Facilities (DOTMLPF) capabilities to maximize complementary effects, to offset individual service vulnerabilities and to eliminate unneeded redundancy. This process will move us beyond joint interoperability to an Army that is jointly interdependent with our sister services. We are focused on five key joint and expeditionary interdependencies: Joint Battle Command, Joint Fires, Joint Lift, Joint Air and Missile Defense, and Joint Logistics.

In FY 2005, we will continue to develop collaboratively these emerging joint concepts and architectures, and will nest our own concepts and architectures within them.

The Army Transformation Concept Development and Experimentation Campaign Plan (AT-CDEP) identifies our efforts to support exploration of new joint warfare concepts in concert with the JFCOM Joint Experimentation Campaign Plan. FY 2005 milestones for the AT-CDEP include: development of the Unit of Action (UA) Combined Arms Training Strategy; the Future Combat Systems (FCS) Milestone B update and Capabilities Production Document; the FCS Complementary System design; and the Unit of Employment (UE) organization and pooled-assets design. The Army also will participate in joint and sister service experimentation and demonstration exercises, to include JFCOM's Unified Quest.

Develop More Effective Organizations

The Army has begun the most significant restructuring of forces to occur in the last 50 years. We anticipate more than 100,000 positions will be altered between FY 2004 and 2009. This restructuring, along with other initiatives such as Force Stabilization, will

relieve stress on high-demand units and will improve readiness. It also will create a more modular, flexible and responsive array of balanced formations necessary to meet the near-term and future requirements of the Combatant Commanders. The approved temporary increase of 30,000 personnel will help us to maintain readiness during this period, throughout which the pace of military operations will remain high.

Our new force design will be "brigade-based." Our goal is to increase the number of active component brigade combat teams from 33 to 43 by FY 2006. A corollary increase in National Guard brigade teams also is planned. In February 2004, the 3rd Infantry Division began reorganizing as a prototype; it will transition from a three-brigade to a four-brigade division. Through the remainder of this year and FY 2005, the Army will restructure the 101st Airborne (Air Assault), the 10th Mountain, the 4th Infantry and the 25th Infantry divisions in order to reach 39 brigades. By the end of FY 2006, the Army will comprise 43 brigades. At that point, we will decide whether to continue the process in FY 2007 to achieve a total of 48 brigades in the Active Component. Success will be measured through the Unit Status Reports for these new units. Executing these redesigns on time is critical to maintaining overall force readiness.

Define Skills and Competencies for the Future

Today, joint military operations are the standard. The Army recognizes this and is introducing joint, interagency and multinational components into our training. Our Training Transformation Initiative is designed to provide dynamic, capabilities-based training and mission rehearsal in a joint context. We also proactively support establishment of a Joint National Training Capability.

Our Soldiers in OEF and OIF operate in complex and changing environments. They must be: culturally aware of their surroundings; able to assimilate rapidly information from national and local assets; capable of making decisions in ambiguous circumstances; and prepared to take decisive action when necessary. The Army is modifying its education processes to develop fully these capabilities.

In FY 2005, the Army will continue its existing initiatives to improve training infrastructure and leader development. We have focused $246 million, with an additional $836 million over the rest of the Future Years Defense Plan, to re-engineer our leader development program. A Basic Officer Leader Course will instill the Warrior Ethos in all new lieutenants. Flight School XXI will provide trained and qualified pilots to operational units at a rate 50 percent faster than the current training system. We also have increased funding for special-skills training to augment the Asymmetric Warfare Institute and the Chemical, Biological, Radiological and Nuclear School. West Point cadets will receive an enhanced wireless network, connecting the classroom to student 24 hours a day. We will improve Reserve Component schools, as well. Feedback from field

commanders regarding how well these Soldiers are prepared will be one measure of success for these efforts and will drive further change to our learning institutions.

Define and Develop Transformational Capabilities

The Army is defining and developing requirements for joint-force capabilities. Our materiel solutions, integrated across DOTMLPF, represent a large investment in producing these capabilities. We use a "balanced" modernization strategy to ensure that these investments remain aligned with overall requirements and the four DoD risk areas. In terms of funding, approximately 30 percent of the Army budget is focused on current operations, 50 percent on people programs and the remaining 20 percent on developing Future Force capabilities.

In the past four budget submissions, we made difficult choices to cancel and restructure programs in order to shift an additional $36 billion toward developing the Army's Future Force. In the FY 2004-2009 Future Years Defense Plan, over 97 percent of our S&T funding supports Future Force technology development and 59 percent of our RDA funding supports Future Force system development and fielding. Our top investment priority is the Future Combat Systems (FCS), with over 30 percent of all S&T funding and 20 percent of all RDA funding.

Future Combat Systems. FCS remains the materiel centerpiece of the Army's commitment to becoming more joint and expeditionary, and is well on its way to reconciling the challenge of coupling deployability with sustainable combat power. The FCS program consists of 18 integrated, synchronized, manned and unmanned platforms, which are networked together to enable the Soldier to see first, understand first, act first and finish decisively. These platforms will provide the joint force networked, lethal direct fire; indirect fire; air defense; complementary non-lethal fires and effects; and troop transport capability.

As part of the FY 2005 budget submission, we added $3 billion across the FYDP for FCS and its complementary systems. (Complementary systems are those that are not part of the 18 core systems, but which must be developed and fielded along with FCS to provide the operational capability envisioned for the Unit of Action.) During FY 2005, the Army will continue to execute the FCS program aggressively, within the overarching framework of a lead systems integrator, and we will award additional contracts for specific developmental efforts. In the first quarter of the year, a panel will review program progress since the May 2003 Milestone B decision. A third-quarter preliminary design review will follow this update to ensure that FCS design development is proceeding properly. The program's overall progress in FY 2005 will be evaluated according to already established performance metrics.

Networking The Force. Key to the success of all future efforts within the Army is the ability to connect and to communicate securely at both the tactical and strategic levels.

The Network Enterprise Technology Command (NETCOM) is implementing an enterprise concept to improve the capacity, performance and security of Army networks at every level. As part of this effort, in FY 2005 the Army will field SATCOM on the move to critical deploying units. This satellite communications system maintains 24/7 communications connectivity, supporting command and control requirements and eliminating gaps in information flow. Additionally, we will continue redesigning our signal force to match the Unit of Action concept.

The Joint Tactical Radio System (JTRS) and the Warfighter Information Network – Tactical (WIN-T) are two key components of network-centric warfare. During FY 2005, JTRS will remain in the system design and development phase; a Milestone C decision is scheduled for FY 2006 and a multi-service Operational Test and Evaluation in FY 2007. WIN-T moved into the system design and development phase in July 2003. Using modeling and simulation, prototypes will be developed and tested in FY 2005 to support a Milestone C decision in FY 2006.

Focused Logistics. The Army also is enhancing functional capabilities, such as Focused Logistics. FY 2005 initiatives to address systemic logistics shortfalls highlighted during OIF can be grouped into four areas.

Connectivity for Logisticians. Logisticians require the ability to "see the requirements," 24/7, through a dedicated, logistics-data, network environment. In FY 2005, the Army intends to connect critical logistics nodes in five active-duty divisions and certain related support units through commercial Very Small Aperture Terminals, which provide satellite communications, and the wireless Combat Service Support Automated Information System Interface.

Modernized Theater Distribution. An integrated system of modern equipment, force structure and procedures will provide positive logistics command and control and will ensure real-time visibility of items moving through the supply chain. In FY 2005, the Army will procure approximately 50 man-portable satellite terminals for use by Movement Control Teams in both III Corps and V Corps. Acquisition of business process server hardware and software will enable the Standard Army Retail Supply System to utilize radio frequency identification interrogation in tactical logistics warehouses across the entire Army.

Improved Force Reception. The Army's goal is an integrated, modular organization that can quickly open a theater and support continuous sustainment throughout the joint operations area. Initial studies are under way for reconfiguring one of the Army's Corps Support Groups into a Theater Opening Group. The Army also is working with the DLA

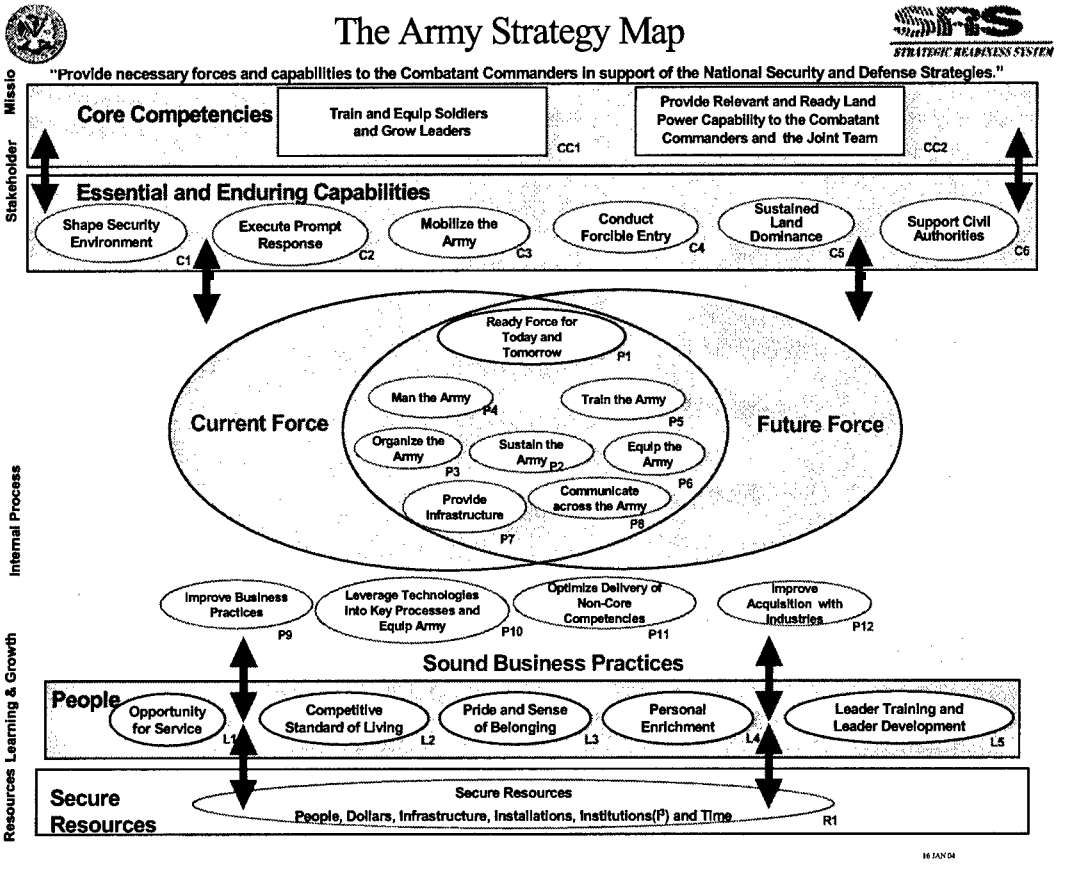
to place tailored stocks of supplies in strategic forward locations to support expeditionary operations. During FY 2005, the ships of the Army Regional Flotilla (Guam/Saipan) will be loaded with equipment to support theater opening and will be positioned to support U.S. Pacific Command.

Integrate the Supply Chain. The Army will tailor FY 2005 development efforts for enterprise resource planning software (such as GCSS-Army and PLM+) to emphasize immediate implementation of critical warfighting functionality.

ARMY BALANCED SCORECARD

The Strategic Readiness System (SRS) provides the Army with its first enterprise-wide management system to integrate readiness information from field and staff organizations in both the Active and Reserve components. This reporting system markedly improves how readiness is measured by gathering timely, precise information and by expanding the scope of the data considered. The Army intends to utilize SRS to leverage leading indicators and to predict trends so that we can address issues affecting readiness before they become problems. Thus, SRS will help the Army to improve support to Combatant Commanders; to invest wisely in soldiers and their families; to identify and adopt sound business practices; and to transform the Army from the Current Force to the Future Force.

SRS is based on the Balanced Scorecard (BSC) methodology, which was designed to provide Army leadership with a single system that communicates our mission, vision, strategic objectives and priorities. It enables the Army to monitor progress against our vision, to forecast strategic performance and to make adjustments, as necessary, to resources, personnel and policy. The Army Balanced Scorecard Strategy Map is shown below.



Individual commands, in addition to our leadership, also have extracted tremendous value from the BSC. Units have been able to meet their mission essential task lists more effectively and to focus simultaneously on readiness and overall transformation toward the Future Force. The SRS balanced scorecard allows each team to evaluate recent unit performance in a way that cuts across organizational "silos" (e.g., logistics, operations, medical, training and other staff areas). People from different organizations within the Army have easy access to scorecard data, and can thus quickly come together to work common issues.

CONCLUSION

An old Army television commercial used to say, "Freedom Isn't Free." No phrase has ever rung more true. For more than 228 years, America has entrusted the Army with its sons and daughters. Soldiers remain the centerpiece of our force, and we are bound by our honor and integrity to give them the best training, leadership and equipment that we can provide.

Whether in Afghanistan, Iraq or anywhere else in the world, our Soldiers continue to demonstrate their superb military skills and their fine personal character. Time and again our land forces provide the versatile and decisive action across the full spectrum of joint operations that enables the United States to succeed.

Our continuing responsibility is to give Soldiers the tools and training needed for the tough missions to which we assign them. There is much to do, but resources are not unlimited. We will use performance management to help us make smart decisions and to monitor our progress. As we proceed, our environment will change but our performance management processes will enable us to respond effectively.

We have achieved sustainable momentum in Army Transformation and institutionalizing performance management will serve as a key tool for fielding the Future Force. After three and a half years of undiminished support from the administration and the Congress, and the incredible dedication of Soldiers and Department of the Army civilians, we have begun to deliver The Army Vision. With continued strong support, we will fight as a joint team to win the GWOT; we will meet our obligations to our friends and allies; we will remain ready to prevail over the unpredictable; and we will transform ourselves for decisive victories on future battlefields.

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REPORT OF THE SECRETARY OF THE NAVY

Introduction

This past year has been one of remarkable accomplishment and continual improvement in the efficiency and effectiveness of our Navy and Marine Corps Team. The year 2003 witnessed the extraordinary capability of United States Naval forces to project power in support of vital national interests. Our investment in personnel, acquisitions, training, infrastructure, and operations and maintenance enabled our Naval forces to answer the President's call to action, deploy at a higher state of combat readiness, and build a more responsive surge capability.

Our men and women operating in the air, on and under the sea, and on the ground played a key role in Operation Iraqi Freedom (OIF), and prepare for follow-on stability operations during OIF II. Forward deployed, combat ready Naval forces are proving every day the unique value of sovereign forces projecting power from the sea. OIF has shown the extraordinary strategic agility and operational flexibility provided by forward deployed naval expeditionary forces.

Overview of the Naval Strategy

Guided by the President's *National Security Strategy* and the Secretary of Defense's (SECDEF) *Defense Strategy*, we continue to maintain superiority over a broad range of innovative and determined adversaries. The 2001 Quadrennial Defense Review (QDR) calls on us to give " . . . priority to investments that improve the ability to swiftly defeat an adversary from a forward deterrence posture." That desire is consistent with the inherent characteristics of Naval forces, and that priority is a guiding principle in the Department of the Navy program and budget for FY 2004 through FY2010.

Our vision and our way ahead – *Naval Power 21* and the *Naval Transformation Roadmap* – provide the framework to align, organize, and integrate our Naval forces to meet the maritime contributions to joint capabilities necessary to face the wide array of challenges that lie ahead. *Naval Power 21* defines how the Navy and Marine Corps will continue to control the sea and project power, defense and influence beyond the seas as part of a Joint Warfighting Team. The *Naval Transformation Roadmap* describes the key Naval concepts, capabilities, initiatives, process, and programs that will guide the Department's transformation efforts in support of the critical operational goals of transformation described in the 2001 QDR.

Our Naval Strategy continues to be assertive in the pursuit of new capabilities and concepts, and funds them in quantities that are relevant to tomorrow's capability needs.

In achieving our strategy, the FY 2005 budget and the associated performance goals emphasize the Department of Navy's commitment in four focus areas: (1) combat capability; (2) people; (3) technology insertion; and (4) improved business practices. First, 'combat capability' refers to a well equipped, relevant, and quickly employable Naval force as a key enabler for forcible entry, subsequent joint follow-on echelon, and redeployment. Second, 'people' encompasses the men and women of the Navy and Marine Corps Team as our most valued resource. Achieving a higher quality workplace and higher quality of life for our Sailors, Marines and civilians is our ultimate goal. Third, the application of technology is central to our Nation's military strength. Sustaining a robust science and technology effort will be the linchpin for success in the War on Terrorism. Lastly, the Department is continuously working to revitalize business practices to be more efficient and effective.

Performance Measures

The President stated that this Administration is "dedicated to ensuring that the resources entrusted to the federal government are well managed and wisely used." To achieve this, the strategy proposed in the President's Management Agenda (PMA) focuses on five government-wide initiatives: (1) Budget and Performance Integration, (2) Strategic Management of Human Capital, (3) Competitive Sourcing, (4) Financial Management Improvement, and (5) Expanding E-Government. Additionally, the September 2001 QDR established a balanced scorecard risk framework that will ensure the nation's military is properly prepared to carry out that strategy. Within this framework, there are four risk areas employed as principal management tools: operational risk, force management risk, future challenges risk, and institutional risk. Through the FY 2005 Budget, the Department of the Navy consolidates its performance management goals with those of the PMA and those of the FY 2001 (QDR).

Additionally, in an effort to incorporate metrics into the budget process, the Office of Management and Budget (OMB) has instituted the Program Performance Assessment process to identify programs measured by "stoplight" fashion in "getting to green" and providing a rating system that is consistent, objective, credible, and transparent. Programs were assessed and evaluated across a wide range of issues related to performance, including strategic planning, program management and program results. The initial programs reviewed in FY 2004 are summarized in the Department of the Navy (DON) FY 2004 Budget Highlights Book (February 2003). Current assessments for FY 2005 are consolidated in the DON FY 2005 Budget Highlights Book (February 2004), and are consistent with Government Performance and Results Act (GPRA).

Performance measures and standardized data collection methods are critical for measuring effectiveness and efficiency to support resource requirements for future strategic planning and program assessment. We continue to work with the Office of the

Secretary of Defense (OSD) and our program managers in further refining the Department's metrics and improving performance wherever possible. The Department has markedly improved its use of metrics in budgetary decisions with the FY 2005 resource management process focused on simplifying our practices and using modern models to link performance with resources. This improvement is also reflected in the FY 2005 Budget, where the percentage of resources supported by associated performance metrics was increased to 60 percent. Our program efforts are summarized below and are aligned with DoD's balanced scorecard approach, as it aligns well with our four focus areas of combat capability, people, technology, and better business practices. Amplifying metric information related to these programs can be found in detailed budget justification materials supporting the FY 2005 President's Budget to Congress.

Operational Risk

The Navy and Marine Corps performance in Operations Enduring Freedom and Iraqi Freedom demonstrated more than just combat excellence. It proved the true value of readiness, and highlighted the Navy's ability to exploit the vast maneuver space provided by the sea. During OIF, more than 50 percent of Naval forces were forward deployed. The Navy surged 164 ships worldwide in a "truly joint" global operation. This worldwide deployment, which included seven Carrier Strike Groups (CSGs) and eight large deck amphibious ships, demonstrated the agility and decisiveness of a rotational force, backed by a credible capacity to "surge" additional naval capabilities when and where they are needed. Navy and Marine Corps aircraft flew more than 8000 sorties in support of the combined coalition forces. Likewise, an overall increased readiness allowed the Marines to deploy over 68,000 combat ready Marines in less than 60 days – using the operational speed and reach of seapower. Marine Forces (I MEF) conducted the longest sequence of coordinated overland attacks in Marine Corps history, fighting ten major engagements, destroying nine Iraqi divisions during sustained combat operations covering a distance of over 450 miles inland. Eleven Maritime Prepositioned Force (MPF) ships provided the equipment and sustainment for over 34,000 Marines and Sailors and fourteen amphibious ships embarked and delivered another 12,000 Marines and Sailors and their equipment.

Do We Have the Right Forces Available?

During FY 2003, we dramatically improved naval operational availability by establishing the Fleet Response Plan (FRP), which provides the nation with increased naval capabilities and more employment options, to better meet the objectives of the *National Security Strategy* and the *Defense Strategy*, as well as to respond to the dynamic international security environment. With the implementation of our Fleet Response Plan in FY 2004, the Department of Defense will have a model for a new joint presence concept – which could be used in the Global Force Management process envisioned by senior DoD leaders – that could transform how the U.S. military is employed. The plan

holds promise for this type of change by refining the maintenance, training, and readiness process in order to increase the number and capability levels of combat ready forces throughout the Fleet. In doing so, Naval capabilities can be employed with greater flexibility and agility for a range of *Defense Strategy* missions, from security cooperation assurance exercises with allies, to deployments in times of crisis to prevent or defeat aggression.

In FY 2005, the FRP will support future policies and methods for sourcing capabilities in support of Combatant Commander requirements by transforming the Fleet into a more responsive, and adaptable force. By building upon a culture of readiness, the Department will tailor manning, maintenance and training processes to support a Naval force poised for employment in crisis and in ongoing missions for the war on terror. The improvements in readiness and availability envisioned with the FRP allow the Department to have a greater percentage of our forces employable (six to seven CSGs versus three to four CSGs). More specifically, the FRP will posture the force to surge six CSGs in a matter of days for a contingency and an additional two CSGs in less than ninety days. With the full implementation of FRP, over half of the Fleet could be deployed or postured to surge, able to arrive swiftly with persistent, sovereign combat power in support of national interests. In order to attain this improved posture and more flexible force, the FRP will modify current ship and air wing operating cycles by extending the Inter-Deployment Readiness Cycle from 24 months to 27 months.

Are the Forces Currently Ready?

The accomplishments of this past year tell the Naval force readiness story and its return on investment. Over the past two years, U.S. Naval forces, as part of an integrated joint force, have participated in the successful execution of two conflicts in support of national objectives. Because the appropriate resources were applied to increase the readiness of the Naval operating forces, they were able to support the efforts of the joint force commander in a rapid and effective manner. In FY 2005, key readiness accounts are funded to ensure these readiness levels continue.

The Department of the Navy employs several measures associated with maintaining operational readiness. In one such metric, the Navy sets operational tempo goals in the form of ship steaming days per quarter. These OPTEMPO goals are considered the minimum required for maintaining a combat ready and rapidly deployable force. The Navy met its FY 2003 OPTEMPO goals of 54 steaming days per quarter for deployed forces, and 28 steaming days per quarter for non-deployed forces. In FY 2005, as a result of implementing new readiness processes in support of the FRP, OPTEMPO goals of 51 steaming days per quarter for deployed forces and 24 days per quarter for non-deployed forces will ensure we continue to maintain a highly ready force.

Similarly, the FY 2003 Flying Hour Program met 100 percent of the required flying hour goals identified as necessary to maintain effective aviation readiness. The FY 2005 budget provides for the operation and training of ten active Navy carrier air wings and three Marine Corps air wings to meet those same goals. Additionally, improvements in readiness and availability envisioned with the FRP will allow for an overall increase in the average training readiness rate of all aircraft squadrons.

Marine Corps readiness metrics indicate the ability to provide combat ready forces to the Combatant Commanders for current and future contingencies. The Marine has taken the first step in an iterative process to develop a family of performance measures that will have applicability across the Marine Air Ground Task Force. This first step attempts to link resources to SORTS readiness ratings throughout the ground operational forces and is called the Combat Ready Day for Equipment and Training (CRED-ET). As CRED-ET data is collected and refined, the measure will provide greater predictive capability.

Maintenance rates are another measure of operational readiness. In regards to aviation depot maintenance, the Department met its FY 2003 targeted goal of providing 100 percent Primary Aircraft Authorization (PAA) for deployed squadrons and 90 percent PAA for non-deployed squadrons, as well as 100 percent of engine availability for all aircraft and 90 percent allocation of spare engine inventories. The Department's FY 2005 budget is sufficient to achieve the engine and airframe readiness goals for deployed and non-deployed squadrons.

Ship Maintenance goals for FY 2003 were met for equipment readiness (i.e. average equipment CASREP rating of 1.86 for deployed forces and 2.05 for non-deployed forces) and deferred maintenance ($36.1M). The Department's FY 2005 ship maintenance budget supports 97 percent of the notional operations and maintenance (O&M) requirements and 100 percent of the SCN refueling overhaul requirements. The FY 2005 budget also reflects the new FRP, which lengthens periods between shipyard availabilities, yet creates a more employment-capable and responsive fleet.

The Department also measures depot maintenance for Marine Corps ground equipment. The Depot Maintenance program for systems such as combat vehicles, ordnance, and missiles, provides overall repair and maintenance to ensure that all deployed equipment is fully mission capable. The FY 2005 Marine Corps Depot Maintenance program is funded at 65 percent of the estimated requirement, which balances mid-term readiness with the need to enhance modernization and transformational programs. A vital part of the ground depot maintenance effort is to ensure the reconstitution of Maritime Prepositioning Force (MPF) equipment for strategic readiness following OIF I. The MPF has historically exceeded the equipment readiness goal of 90 percent.

Force Management Risk

This past year we witnessed the first results of our human capital transformation. Our recruiting successes, coupled with our retention achievements, have resulted in much improved force manning. While maintaining a combat-ready force, we built on our mentoring philosophy, and re-emphasized our commitment to diversity to create an environment that promotes personal and professional growth while providing the kind of warfighters needed for our 21st Century Naval force. Our goal remains attracting, developing, and retaining highly skilled, diverse, and educated Sailors, Marines, and civilian workforce that will lead the 21st Century Navy.

Maintain a Quality Force

The Department met its FY 2003 force management performance goals, to include maintaining military manning levels, and meeting recruiting, retention, and quality goals. Most importantly, we developed a more responsive Force — one that surged forward with the right people, to the right place, at the right time to fulfill our national security requirements. The FY 2005 manpower investment is aimed at sustaining personnel readiness in a cost effective manner.

The end strength limits authorized for the Navy and Marine Corps under the National Defense Authorization Act for 2004 are adequate to meet all peacetime missions. Looking ahead, the Marine Corps needs to maintain end strength at 175,000 to meet critical mission requirements for the Global War on Terrorism, while the Navy's end strength goals are predicated on maintaining a high degree of readiness. At the same time, it is essential that manpower objectives enable critical capabilities efficiently. The Navy's goal is to reduce manpower requirements, where possible, through process efficiencies and the elimination of workload. This will permit both the reallocation of end strength to other critical manpower priorities, such as anti-terrorism/force protection as well as the reapplication of constrained fiscal resources to compelling non-manpower requirements, such as recapitalization. A short summary of authorized, actual and projected end strength goals are shown below.

	USN	USNR	USMC	USMCR
FY03 Actual	382,235	88,156	177,779	41,046
FY04 Projected	373,800	85,900	175,000	39,600
FY05 Projected	365,900	83,400	175,000	39,600

Additionally, the Department again met enlisted recruiting and accession goals in FY 2003, and continues to attract America's finest young men and women to national service. The Navy achieved recruiting goals for a fifth consecutive year and in December 2003 completed the 29th consecutive month of attaining national mission goals for

accessions and new contracts. The Marine Corps met its eighth year of meeting monthly and annual enlisted recruiting goals and its thirteenth year of success in officer recruiting. Both Services are well positioned for success in meeting FY 2004 officer accession requirements. The Marine Corps Reserve achieved its FY 2003 recruiting goals, assessing 6,174 Non-Prior Service Marines and 2,663 Prior Service Marines. Navy Recruiting was also successful in Naval Reserve recruiting by exceeding the enlisted goal of 12,000 recruits for FY 2003.

In regards to quality of recruits, the Marine Corps recruited over 100 percent of its goal with over 97 percent Tier I High School graduates. During the year, the Navy implemented a policy requiring 94 percent of new recruits be high school diploma graduates (HSDG), and Navy recruiters succeeded by recruiting 94.3 percent HSDG. Navy Recruiting continued to seek the best and brightest young men and women by requiring that 62 percent of recruits score above 50 on the AFQT; Navy recruiters excelled with a rate of 65.7 percent. Navy recruiting also sought to increase the number of recruits with college experience in FY 2003, recruiting more than 3,200 applicants with at least 12 semester hours of college.

Retaining the best and brightest Marines and Sailors is as important as recruiting them. The Marine Corps has achieved first-term reenlistment consistently over the past nine years. They have already achieved 79.8 percent of their first term retention goal and 59.8 percent of second tour and beyond goals with under half of the fiscal year completed. Officer retention is at a nineteen year high. Likewise, retention in the Navy has never been better. The Navy continues to enjoy a 3-year streak of retention, surpassing anything in its history with first-term reenlistment reaching 61 percent. Retention goals for all categories were exceeded; specifically, we retained 61 percent of eligible Sailors in their first term; 77 percent of Zone B; and 88 percent of Zone C. As a result, enlisted gaps at sea fell from more than 4,000 in FY 2002 to less than 1,000 today.

Ensure Sustainable Military Tempo and Maintain Workforce Satisfaction

People are our most treasured asset and the DON, in concert with DoD, continues to support a compensation strategy that moves our Sailors and Marines toward parity with private sector compensation and offers flexibility for shaping the force, while addressing manpower management challenges. The Department continues to focus on improving objective standard of living issues for Sailors, Marines, and their families, while also recognizing that quality of life expectations of this generation of Service member, and society as a whole, are higher than ever before. We improved service-member compensation and benefits by increasing active-duty service member pay by an average of 4.1 percent with targeted pay raises up to 6.25 percent. We also extended the increase in family separation pay and hostile fire and imminent danger pay through 31 December

2004 and increased the Basic Allowance for Housing (BAH) to reduce average service-member out-of-pocket expenses.

Shape the Force of the Future

Our goal in shaping the force of the future is to properly shape and size Naval manpower to meet current and future requirements. To better meet these demands, we are implementing *Marine Corps Strategy 21* and *Sea Warrior* (the human resource components of the *Naval Transformation Roadmap*). The focus is on maximizing human capital and improving Fleet readiness by ensuring Sailors with the right skills are in the right place at the right time. Specifically, *Sea Warrior* is a management and process reengineering initiative to align mission essential tasks and manpower management, career management and training processes. *Sea Warrior* is merging manpower, personnel and training functions with supporting technology to provide integrated tools and capabilities that empower Fleet commanders and the workforce.

Successful implementation of *Sea Warrior* will create a Navy in which all Sailors, active and reserve, are optimally assessed, trained, and assigned to enable the Navy to successfully execute its worldwide mission. The organizational impact is three pronged: (1) Linkage of human capital to mission objectives that enable the Navy to execute mission essential tasks; (2) empowerment of individual Sailors throughout the Navy in mapping their career paths, developing skills, and obtaining the advanced education needed to successfully operate our advanced platforms and systems; and (3) incorporating the human capital dimension throughout the Navy today and future systems and platform development.

With respect to force manning initiatives, the Navy has extended its Sea Swap program to four DD crews and three DDG crews, resulting in substantial savings in transit fuel costs and increasing our forward presence without lengthening deployment times for our Sailors. With few exceptions, we achieved C-2 manning status for all deploying battle group units at least six months prior to deployment. Additionally, as we continue to augment and replace manpower with technology, the Navy is growing a more senior force to lead and manage the increasingly technical 21st Century force. The percentage of E-4s through E-9s grew to about 72 percent, nearly halfway toward our goal of 76 percent by FY 2007.

Another key part of our human capital transformation is the Redesign of the Naval Reserve initiative. In support of the Secretary of Defense's *Rebalancing the Force* memorandum, the Navy and Marine Corps have taken a proactive rebalancing approach to the judicious and prudent use of the Reserve component to reduce stress on that component. The Navy recently commenced the implementation of a program focused on transforming the Naval Reserve so that it is fully integrated with active forces. The goal

is to rebalance active and reserve forces to improve and ensure operational readiness for forward presence and surge capabilities. The Marine Corps is focused on ensuring a balanced use of reserve component forces in order to not overuse them beyond their primary mission of augmenting and reinforcing the active component. Individual Augment Marines from the Selected Marine Corps Reserve, Individual Mobilization Augmentees (IMA), Individual Ready Reserves (IRR), and Marine Retirees are filling critical joint and internal billets along with active Marine components, demonstrating without doubt that the Marine Corps operates as a Total Force.

For our civilian workforce, the implementation of National Security Personnel System (NSPS) will be a critical component of our civilian human capital transformation. The NSPS, recently passed by Congress, provides the DON leadership with tools to better manage the civilian workforce today and shape the civilian workforce of the future. Anticipated benefits of NSPS include alignment of the human resources system with mission objectives, agility to respond to new business and strategic needs, and a reduced administrative burden. Among other attributes, this merit-based NSPS will enable the Department to recruit and retain high performing workers. Implementing guidelines are now being developed, as the DON plans to have the first DoD employees converted to the new personnel system this year. In anticipation of this conversion, the DON, in close coordination with DoD, has established an NSPS Project Management Office (PMO) to develop and execute its implementation strategy.

Future Challenges Risk

Naval warfare will continue to evolve to be able to respond to new threats in the joint environment of the future. We will be bold and continue to develop new capabilities and concepts, and fund them in quantities that are relevant to tomorrow's emerging threats. The Department has embraced transformation. The challenge is to take our vision, *Naval Power 21*, and operationalize it with technological, organizational, and doctrinal transformation.

To meet this challenge, the Department is addressing future risk with its robust recapitalization program. The FY 2005 budget contains funding for nine new construction ships and 104 aircraft in FY 2005. The program also includes funding for transformational initiatives such as LCS, V-22, DD(X), CVN-21, priority aviation capabilities, and advanced communications. The Department's objective for FY 2005 is to move forward with *Naval Power 21* capabilities, strengthen joint and combined warfighting operations, and refine our concept of global engagement, thus transforming Naval forces to better meet joint requirements of the future. To that end, we will make great strides in advancing each element of the *Naval Transformation Roadmap* – Sea Base, Sea Strike, Sea Shield, and FORCEnet.

Drive Innovative Joint Operations

In order to strengthen joint and combined warfighting capabilities, we have increased our emphasis on joint PME completion, have tasked our fleet commanders to develop the capability and skills to function as Standing Joint Task Forces, and are evaluating options for participation in the Combined Force Air component Commander's Combined Air Operations Center. The Department also improved alignment for "Joint Warfare" by publishing the Naval Operational Concept for Joint Operations, and implementing the Navy-Marine Corps TACAIR integration plan.

Additionally, the Department of the Navy is committed to building an integrated Information Operations capability throughout the operating forces. Using the OSD *IO Roadmap* guidance and *Naval Power 21* strategy, the Department has embarked upon a broad effort to mature IO in Naval forces. From the continued development of robust IO capabilities, the building of a professionalized IO community, to the formalization of IO architectures, the Department intends to maximize the advantages of this transformational warfare area.

Define Future Human Capital Skills and Competence

The recent successes in combat operations demonstrate a level of greater integration than in the past. OIF demonstrated the importance of demanding and realistic joint training to achieve a joint capability that increases the options our Naval forces provide the Nation. Transformation initiatives are often the result of emerging technologies that permit the creation of a new type of military force and approach to warfare. Training individuals is critical to taking full advantage of advanced technologies such as utilizing unmanned vehicles on, above, and in the sea; the effective operation of evolving attack and defense systems; and international data sharing systems. Training our Sailors and Marines is critical to implementing transformation initiatives and to ensure optimum results. To accommodate the demand for this training, we are transitioning training concepts and methods from the traditional school-house classroom approach to processes that involve the use of simulators, trainers, computer-based interactive curriculums, and other approaches that are media based to improve performance and increase Fleet and Expeditionary readiness.

The Department will be actively involved in the future Joint National Training Capability (JNTC). For example, the Marine Corps is fully engaged in the JNTC program development, and is on track to enhance service core-competency training with the appropriate level of Joint context. It will participate in exercises including Combined Arms Exercises and Marine Aviation Weapons and Tactics Squadron-1 evolutions scheduled for FY 2005. Additionally, the Navy's continuing development of the Training Resource Strategy (TRS) to provide high quality training of our deploying combat forces

has also provided a model for effective networking of range capabilities necessary to achieve the JNTC vision. The complexity of training our high technology force in modern warfare requires this shift to a network of ranges and installations providing more training options, reduced pre-deployment training transit time, and has increased productive training days. The USS ENTERPRISE was the first CSG to deploy under the TRS, utilizing six training ranges, each unique to the successful completion of her qualification. The first fully integrated JNTC implementation event will be centered on a Navy Combined-Joint Task Force Exercise scheduled for Summer 2004. TRS also supports the FRP and will quickly respond to surge requirements by delivering and bringing to bear a capable fighting force.

Develop More Effective Organizations

To make the FRP a reality, the Navy/Marine Corps Team has completed the Carrier Strike Group alignment, and continues to experiment with the Expeditionary Strike Group (ESG) concept. The ESG, centered on the proven flexibility and combat power of a combined Marine Expeditionary Unit and Amphibious Readiness Group, adds the robust strike, anti-air, anti-surface, and anti-subsurface capabilities of a surface combatants and an attack submarine. These combined capabilities give the combat commander a wider variety of options and enables independent operations in more dynamic environments. Together, this partnership of the Navy-Marine Corps Team will support the essential elements of joint transformation by projecting persistent, credible combat power ashore. The pilot deployment of the first ESG, ESG 1, composed of west coast Navy and Marine forces, is currently deployed and is scheduled to return shortly. The *Wasp* ESG, composed of east coast Navy and Marine forces, deployed in February of this year.

Additionally, in FY 2005, the Department will continue the integration of Navy and Marine Corps tactical air power that will provide a more potent, cohesive, and affordable fighting force that is in concert with enhanced Seabasing concepts, guaranteeing more responsive Naval TacAir support to the joint warfighter. Through this integration, the Department will reduce the number of tactical aircraft (JSF and F/A-18) from 1,637 to 1,140 by 2021. The culmination of this long-term effort is an increased level of readiness by effectively husbanding the resources given to us, generating an anticipated savings of several billion dollars.

Define and Develop Transformational Capabilities

We continue to develop transformational capabilities enhanced through new systems/platforms, including: next-generation aircraft carrier (CVN-21) development; augmentation and replacement of DD-21 with a new family of ships – Littoral Combat Ship (LCS) and DD(X); one more SSBN-to-SSGN conversion; accelerated investment in

transformational platforms to move troops and equipment (MPF(F), LPD 17 and transformational aircraft in both strike and supporting roles (JSF, MV-22, F/A-18 E/F, EA-18G, E-2 Advanced Hawkeye (AHE), MMA, BAMS, UAV, JUCAS). In addition, MPF(A) and HSV capabilities were added within the FYDP in support of critical Seabasing capabilities. The Department is also increasing warfighting capabilities by modernizing our Ticonderoga class cruisers, launching of the new USS VIRGINIA (SSN 774), commissioning of the aircraft carrier USS RONALD REAGAN (CVN 76), and continued timely delivery of the Arleigh Burke class guided missile destroyers.

The FY 2005 shipbuilding plan supports our transformational vision and increases the number of new construction ships from seven in FY2004 to nine in FY 2005. This increases the shipbuilding rate to 9.6 battle force ships per year from 8.7 battle force ships per year across the Future Year Defense Plan (FYDP), reducing the procurement gap. Additionally, the FY 2005 plan completes the purchases of DDG-51 class ships and establishes the foundations for the new DD(X) and LCS classes of ships. The DD(X) and LCS lead ship detail design and construction are planned to start in FY 2005. These focused mission ships will contribute significantly to the Sea Shield core operational requirement of *Naval Power 21*. The FY 2005 plan also continues to fund accelerated development of several critical technologies into the CVN 21 lead ship, providing earlier delivery of transformational capability to the fleet.

In order to complete our Seabasing capability, we are pursuing improvements in our amphibious lift with the construction of the LPD 17, and continued development of LHA(R) to enable our Naval forces to meet the goal of 12 amphibious ready groups (ARGs) capable of lifting 2.5 Marine Expeditionary Brigade (MEB) Assault Equivalents (AEs). In FY 2003, we completed the lead ship design and over 80 percent of the construction on the lead LPD 17 ship. In FY 2005, the first LPD 17, the USS SAN ANTONIO, will be launched, and the Department will continue research and development on the LHA (R). The Maritime Prepositioning Force (Future) – MPF(F) – will be another key enabler of seabased operations that will allow us to better exploit the maneuver space provided by the sea to enable and conduct joint operations at a time and place of our choosing. The enhanced capabilities of these ships will significantly increase the capability of the Sea Base – in the Seabasing Concept – to provide unimpeded mobility and persistent sustainment.

The Department's aviation goals are aimed at maintaining the continued superiority of Navy and Marine Corps aviation for the next generation. During this past year, we continued to enjoy the fruits of our aviation investments with the first successful deployment and operational employment of an F/A-18 E/F squadron in support of Operation Iraqi Freedom. The Department's aircraft procurement plan emphasizes replacing costly stand-alone legacy platforms with more efficient and capable integrated systems, which has resulted in significant investments in transformational aircraft and

program investments across the spectrum of aviation capabilities. Procurement of aircraft in FY 2005 increases to 104, vice 100 in FY2004. This year the Navy has signed a new multi-year procurement contract with Boeing to procure 210 aircraft over the next 15 years. This multi-year procurement includes the F/A-18E/F Super Hornet, as well as the EA-18G Airborne Electronic Attack (AEA) aircraft, which will replace the aging EA-6B.

The V-22 remains a critical priority. The V-22's increased capabilities of range, speed, payload and survivability will generate truly transformational tactical and operational opportunities. We returned the MV-22 program to flight by crafting the test and deployment strategy to satisfy OSD's flight safety and operational reliability concerns. The program is expected to continue at least another 18 months when Milestone III, the point at which full rate production is expected, is planned for fall of 2005.

The Department is also continuing to move forward with the Joint Strike Fighter (JSF) Program, although that program has been restructured to accommodate System Development and Demonstration. The JSF recently completed the 2nd year of a 10-11 year development program. JSF development is experiencing a variety of typical challenges that affect System Develop and Demonstration (SDD) program schedule and cost. Additional design work is required to address technical issues, primarily weight projections, resulting in SDD cost increase, SDD schedule delays, and one-year slip to starting Low Rate Initial Production (LRIP). We clearly believe current issues are solvable within normal parameters of design fluctuation, and have taken appropriate steps necessary to manage these challenges.

The FY 2005 budget also demonstrates the Department's goal of developing, acquiring and fielding transformational Unmanned Aerial Vehicle (UAV) technologies for Intelligence, Surveillance and Reconnaissance and tactical missions. This system will support the CSG and ESG by providing wide area surveillance for situational awareness and battlespace management. The budget includes developmental funding for the Broad Area Maritime Surveillance (BAMS), with the goal of providing an Initial Operational Capability (IOC) in FY 2010. The Navy is also participating in the joint effort to develop the Joint Unmanned Combat Air System (J-UCAS).

In keeping with the Department's goal to achieve an organic mine warfare capability in 2005, the budget includes funding to meet scheduled strike group deployments while maintaining funding for a potent and dedicated Mine Countermeasure (MCM) force. The FY 2005 budget reflects an increase in $167 million across the FYDP for mine warfare programs, such as the development of the AQS-20A Mine-hunting System and the Airborne Laser Mine Detection System (ALMDS), the Airborne Mine Neutralization System (AMNS), the Rapid Airborne Mine Clearance System (RAMICS), the Organic Airborne and Surface Influence Sweep (OASIS) system, and a single common console for all organic Airborne Mine Counter Measures (AMCM) systems. Additionally, the

FY 2005 budget continues the development and acquisition of the Long-Term Mine Reconnaissance System (LMRS) and the Remote Mine-hunting System. Finally, the plan also includes funding for the Assault Breaching System (ABS) to add mine and obstacle clearance capability in the beach and surf zones.

Pushing the state-of-the-art in transformational weapons technologies, we have invested in key demonstration programs. These include the Active Denial System for Force Protection, the Free Electron Laser for both Force Protection and Missile Defense, and Electromagnetic Gun efforts that will eventually support many Navy and Marine Corps missions, including extended range naval gunfire support. This will lead to a mix of kinetic and non-kinetic capabilities optimally suited to the electric ship of the future, and the emergent threats to both Sailors and Marines.

In the area of munitions, the Department's weapon procurement programs continue to maintain warfighting wholeness. A robust weapons procurement profile supports the Navy and Marine Corps strategy by acquiring advanced technology weapons and funding current warfighting capability gaps, assuming acceptable risk in areas where warfighting wholeness is strong, and identifying and divesting in areas of excess capability. The Navy made valuable investments in PGMs to ramp-up production for OEF/OIF and subsequently support on-going replenishment of needed wartime expended inventories. The FY 2005 budget request will continue to enhance the Department's warfighting capability by funding existing production programs, improving the capability, lethality and overall effectiveness of fielded PGMs as well as developing new capabilities.

A viable Regional and Terminal sea based ballistic missile defense system is important to ensure the safety of U.S. forces and the flow of U.S. forces through foreign ports and air fields when required. Sea based missile defense can also allow us to assist allies and friends deterring coercion and threats. Aegis Ballistic Missile Defense (ABMD) continues its development and testing and will support Initial Defensive Operations beginning in September 2004, with surveillance and track capability in the Command and Control, Battle Management and Communications (C2BMC) and regional missile defense engagement capability in FY 2005.

We are also working to improve our expeditionary combat capability with the continued development of the Expeditionary Fighting Vehicle (EFV), to provide surface assault elements the requisite operational and tactical mobility to exploit opportunities in the fluid operational environment of the future in support of Joint operations. With its high-speed water and land maneuver, the EFV will significantly enhance the lethality, survivability, and operational/tactical agility of Marine maneuver units and provide the Marine Air Ground Task Force and Expeditionary Strike Group with increased operational tempo throughout the battle space and across the spectrum of operations. The FY 2005 target is to have the production representative vehicle delivered.

To accelerate the transformation of our Naval forces, we are also continuing to improve the inter-operability among networks, sensors, weapons, and platforms through FORCEnet. In 2003, its first year of funding, FORCEnet has begun to transform the Navy and Marine Corps in both processes and product. FORCEnet will provide the overarching framework and standard communication mechanism for future combat systems. A critical subset application already being procured is the Cooperative Engagement Capability (CEC), which will be installed on 38 ships and 4 squadrons (16 aircraft) by FY 2006. CEC will enable real time data between battle force units, each having the identical picture to conduct engagements.

Another critical system supporting FORCEnet is the Advanced Digital Networking System (ADNS). Upgrades will be fielded starting this year on all ships, to provide significant improvements in shipboard data capacity, availability and speed. Also beginning this year, the Common Data Link – Navy (CDL-N) Block 1 upgrades will provide high-bandwidth Intelligence, Surveillance and Reconnaissance (ISR) data dissemination by networking aircraft to ships using multiple protocols.

In order to enable shared access to Service/Agency/joint-provided data sources, the Navy is poised to evolve the Global Command and Control System (GCCS) from its current state of joint and Service variants to a single Joint Command and Control (JC2) architecture and capabilities-based implementation on Global Information Grid (GIG) enterprise services. The latest spiral development of GCCS-M will begin fielding late in FY 2004 and will employ a secure, collaborative, web-enabled, and tailorable C2 architecture that will be fully interoperable with JC2, when it begins fielding.

The next step in Net Centric Undersea Warfare (USW), Common Undersea Picture (CUP), begins fielding in FY 2005. It will integrate stove-piped USW Tactical Decision Aids on DDGs, FFGs, CGs, SSNs, and CVNs, to form a common set of sensor data that can be shared among platforms in a CSG/ESG. CUP will leverage existing communications paths, networks, displays, and multi-platform sensor data to help the various warfare commanders plan, conduct and coordinate USW operations with improved asset allocation and battlespace awareness.

We firmly believe that experimentation is critical to achieving future combat capabilities, and have continued our focus in this area. Sea Trial continued in FY 2003 to put operational experimentation in the hands of the warfighters. Joint wargames, experiments and exercises coordinated by Commander, Fleet Forces Command (CFFC) will continue to develop new operational concepts and methods to employ technology, such as the Distributed Common Ground System-Navy (DCGS-N) and High Speed Vessels. The first FORCEnet at-sea event, "Giant Shadow", was successfully conducted with air, surface, and subsurface units and demonstrated Network Centric Warfare technology and

tactics. The first FORCEnet joint operational event, "Trident Warrior 03" was successfully completed with Forward Deployed Naval forces. Additionally, the Marine Corps Sea Viking Campaign is inherently complementary to the Joint concept development and experimentation campaign of Joint Forces Command and the Navy's Sea Trial experimentation process. It is exploring future concepts and capabilities needed to conduct forcible entry from the sea as part of an overall Joint concept for forcible entry against concerted anti-access efforts. The Department of the Navy is also exploring the potential for an expanded Seabasing capability in support of future Joint operations.

Institutional Risk

The FY 2005 performance plan represents the Department's commitment to improve the acquisition processes, make facility structure more efficient, and better manage resources. The Navy Marine Corps Intranet, Enterprise Resource Planning, and our eBusiness office are examples of innovative changes that will significantly improve connectivity, financial and business reporting, and management performance. As a department, we continue to aggressively challenge our Systems Commands and other shore activities to find efficiencies, reduce contractor support and eliminate legacy information systems.

Streamline the Decision Process, Drive Financial Management and Acquisition Excellence

Focusing on specific actions we could take within existing statutory and regulatory guidelines during FY 2003 at the headquarters' level, we realigned the PPBS by virtually merging the Program Objectives Memorandum (POM) and Budget end-game processes and eliminating duplicative oversight reviews. Additionally, we began consolidating the POM and budget databases into one entity (the Program Budget Information System (PBIS)). We have also substantially streamlined our business practices to work toward a more efficient Navy and Marine Corps. By emulating smart business practices from commercial industry, we have made management teams more product-oriented, pushing down responsibility, authority and accountability to the operational unit(s) or performing activities wherever possible. We are developing leaders with a better understanding of business strategies, cost control, program risk and rapid flexible design.

We have increased the use of activity-based costing and continue to streamline the three major decision processes – Planning, Programming, Budgeting and Execution System (PPBES), acquisition management, and requirements formulation. Divestiture is allowing us to reallocate savings to more urgent requirements through the reduction or elimination of legacy systems, programs and organizations.

Improve the Readiness and Quality of Key Facilities

In an effort to improve shore installation effectiveness, the Navy identified best business practices, set enterprise-wide standards of service, developed metrics and linked standards and metrics to requirements and fleet readiness. As a commitment to improving management effectiveness and enterprise-wide alignment, the Navy consolidated management oversight of all Navy shore installations into a single Commander Navy Installations Command on 1 October 2003. This consolidation will achieve economies of scale, increase efficiency, and reduce headquarters staffs while also standardizing policies and service levels across all Navy installations. Facility readiness reports show that 40 percent of Navy installations were fully mission-capable in FY 2003, compared to 32 percent in FY 2002. Additionally, by consolidating all base operations worldwide and implementing common support practices the Navy expects to save $65 million over the next six years.

In response to DoD-established facility quality goals, the Department plans to meet the facility sustainment goal of 95 percent in FY 2005, and we will continue to meet the facility recapitalization rate goal of 67 years by FY 2008, while at the same time balancing risk tradeoffs to maintain force readiness and to invest in essential combat capability.

We also continue our goal of improving housing for members and their families through increased BAH compensation, partnering with the private sector in Public/Private Ventures (PPV), and budgeting for traditional military construction where appropriate. We awarded 11 PPV projects for some 16,000 homes through FY 2003, with plans to award projects totaling over 23,000 homes at nine Navy and Marine Corps locations during FY 2004 and FY 2005. We are on track to eliminate all inadequate housing by FY 2007. Additionally, we have set a performance goal for reducing out-of-pocket expenses for housing to zero in FY 2005, vice 3.5 percent set for FY 2004.

In a continuation of BRAC land sales we sold 235 acres at the former Marine Corps Air Station Tustin, CA in FY 2003 through an "E-Bay"-like auction on the GSA internet web site and are applying the net $204 million in proceeds to accelerate cleanup of environmental contamination at nine prior BRAC locations. In January 2004, we completed the sale of Prior BRAC property at Key West, FL, and Long Beach, CA. for an additional $26 million that will also be applied to cleanup. Additional land sales are planned. We expect less than 7 percent (about 11,000 acres) of the original total of 161,000 acres of prior BRAC property will be left to dispose by the end of FY 2004.

The Department is also working closely with OSD and the other Military Departments to prepare for BRAC 2005. This effort is vital to transform our shore infrastructure in the

same manner we are transforming our forces, and to gain greater efficiencies by identifying and eliminating excess infrastructure. We assembled a full time staff and issued the first data call to Navy and Marine Corps installation commanders in January 2004, which will serve as the basis for the analysis.

Manage Overhead and Indirect Cost

We fully understand that in order to re-capitalize our weapon systems, inefficiencies within our business practices require true transformation. Sea Enterprise, as the *Naval Power 21* resource enabler, seeks to improve organizational alignment, refine requirements and invest resources to re-capitalize, transform, and increase the combat capability of our Naval force. Drawing on lessons from the business revolution, Sea Enterprise will streamline organizations, improve productivity and cost effectiveness, and reduce manpower investments by adopting best practices, streamlining processes and leveraging technology. It focuses headquarters leadership on outputs and execution, and creating ideas that will improve our productivity and better manage overhead and indirect costs. The Department's leadership is actively engaged in tracking the execution of ongoing Sea Enterprise initiatives. To date, Sea Enterprise has identified significant savings that have been incorporated into the FY 2005 budget. Focused on efficiency and productivity improvements, the Department will generate the resources necessary to augment our investment stream and implement our *Naval Power 21* vision – delivering the right force, with the right level of readiness, at the right cost.

The Sea Enterprise concept highlights that our leadership requires a thorough understanding of the cost implications of every course of action in their decision-making processes. The Department has implemented several enterprise-wide Sea Enterprise initiatives in FY 2003 that enable reprogramming of resources in order to re-capitalize. Specific initiatives include: converging our Enterprise Resource Planning (ERP) pilots into an end-to-end Operating Systems; incorporating proven would class Efficiency Methodologies into our day-to-day operations; implementing additional Multi-Ship/Multi-Option (MSMO) repair contracts and Performance Based Logistics (PBL) agreements; and implementing Strategic Sourcing.

The Navy virtual ERP program office was stood up in FY 2003 to reinvent and standardize Navy business processes for acquisition, financial and logistics operations. Our four pilots demonstrated significant improvements in efficiency and effectiveness. Navy ERP will provide a standard set of tools to Navy organizations that will facilitate business process reengineering and provide interoperable data elements for acquisition, financial management, and logistics.

The Department is aggressively pursuing Performance Based Logistics (PBL) as the preferred weapon system support strategy. PBL support strategies are evolving into

increasing comprehensive contracts that provide support for entire weapon systems, sub-systems, and platforms. The contracts are buying performance vice the old paradigm of procuring spare parts with the benefit of significant improvement in capability and reliability at a reduced cost.

The Navy Strategic Sourcing program is focusing on those efforts that are critical to the conduct of the Department's business. Our efforts are focused on three avenues to implement efficiencies: The A-76 Competitive Sourcing program; Strategic Manpower Planning; and Divestiture. The Department's A-76 Competitive Sourcing program has successfully competed 25,400 positions since 1998 and plans to conduct studies on an additional 29,000 positions in FY 2004 – FY 2008. The Strategic Manpower Planning effort is focused on ensuring uniform service members are performing assignments that are inherently military and converting functions that are commercial in nature to civilian or contractor performance. The Department has identified approximately 4,700 military positions for conversions in FY 2004 and FY 2005. The Divestiture effort will look at opportunities to outsource a function that is not a core competency of the Department and that is readily available in the commercial sector. In one such Divestiture initiative, the Department is studying whether to divest the Navy's optical fabrication to private industry. The Navy employs 380 military and civilian personnel and spends $36 million per year to produce 1.3 million pairs of eyeglasses. We plan to complete the study in FY 2004. Departmental budget estimates reflect projected Strategic Sourcing annual steady state net savings exceed $1 billion beginning in FY 2005.

Navy leadership of the Business Initiatives Council (BIC) is key to the Sea Enterprise effort as well. Where these initiatives may have applicability across the Services, Sea Enterprise is the feeder for Navy BIC initiatives. We will continue to pursue product and process efficiencies and evaluate other business processes through the Sea Enterprise effort and the Business Management Modernization Program (BMMP) for opportunities to be more effective while improving our warfighting capability.

Lastly, the Department of the Navy eBusiness initiative is achieving effective business solutions through eBusiness transformation. To date, the Navy and Marine Corps Team has funded 54 eBusiness pilot projects through rigorous selection criteria. These pilot projects have provided solutions in a variety of areas including Distance Support, Maintenance/Engineering, Readiness, Communications, Supply Chain Management, Medical, and Procurement.

Conclusion

Our Naval forces continue to lead from the front lines of the Global War on Terrorism and continue to answer the call of our Nation. Together with our fellow services, we will assure our friends and allies and we will dissuade, deter and defeat our nation's enemies.

While our Navy and Marine Corps Team faces uncertain future battlegrounds, we have set a course to win our nation's wars and transform to meet tomorrow's challenges. Naval forces remain a critical and unique element for implementing the U.S. *National Security Strategy*. Throughout history, the Navy and Marine Corps Team answered the President's call to duty by being the first on station with staying power. Our forces leverage the freedom of maneuver provided by the open oceans and deliver persistent sovereign combat Naval forces to Combatant Commanders around the globe. This is the value credible forward deployed Naval forces can provide our nation.

To make the most efficient use of scare resources, future investments will be based on rational decision-making driven by assessment of performance measures. Deciding on the right naval capabilities will be balanced across the risk management areas. Sustaining this investment in Naval forces will help protect and promote American interests by allowing the forward deployed Navy and Marine Corp Team to shape the international security environment and to respond to the full spectrum of crises.

REPORT OF THE SECERETARY OF THE AIR FORCE

After September 11, 2001, the words "clear and present danger" acquired a new meaning for America and its allies. This nation's safety and security are at risk, both here and abroad. We are facing an unprecedented array of asymmetric threats from terrorists and rogue nations, potentially with access to weapons of mass destruction. We are fighting wars — and endeavoring to win the peace — in Iraq and Afghanistan, and responding to critical missions at flashpoints around the globe. We are poised to defend America's interests wherever threatened.

The Global War on Terror has forced us to rethink the nature of military force as well as the infrastructure that is designed to support multiple warfighter missions. In this era of uncertainty, a key challenge for the United States as a worldwide power is that it must be prepared to contend with a broad array of threats and operational contingencies in a war without clearly defined rules of engagement.

We recognize that much work remains to consolidate our military victories abroad. Yet, the lessons from these campaigns validate the incredible capabilities of our armed forces. They demonstrate the maturity of our ability to plan and execute an array of complex, integrated, and simultaneous coalition operations designed to support objectives across the spectrum of conflict, from global strike to humanitarian relief. As advanced military capabilities proliferate among potential adversaries, we need to keep pushing technology forward. We must be driven by more flexible and responsive planning and budgeting, better risk management, shorter procurement decision cycles, and a resolve to integrate all of our combat, information, and support systems into an architecture of joint air and space capabilities.

We will continue to move our expeditionary Air Force closer to realizing the transformational imperatives of this new era, including machine-to-machine digital integration of manned, unmanned, and space assets, as well as real-time global command and control of joint, allied and coalition forces. Our overarching objective is to provide a global warfighting architecture that ensures America's joint forces will always have air dominance and operational fires on demand, whatever the level of conflict, whenever and wherever it is required.

To achieve our end-state as America's Future Total Force in air and space capabilities, we have established the following strategic planning objectives:

- Create a strategy-focused, capabilities-based organization, linking clearly defined strategic objectives to Air Force Concepts of Operation (CONOPS). CONOPS will define and articulate Air Force requirements.
- Enhance integrative mechanisms within the Total Force, with other services, with allies and coalition partners, and with governmental agencies.

- Define the Air Force's future force structure in terms of Air and Space Expeditionary Force (AEF) capabilities needed to achieve desired effects and support the National Security Strategy.
- Define the Future Total Force (FTF) mix and adopt new organizational concepts to better leverage all elements of our Service.
- Determine the fundamental manpower and organizational tenets that will shape the demographics of the future Air Force – core and non-core activities for active duty and reserve Air Force personnel, potential divestitures, and outsourcing.
- Assess the infrastructure required to support our future force structure.
- Increase the speed and efficiency of our approach to the way we conceive, develop, prioritize, acquire, deploy and sustain our weapons and support systems so needed capabilities are available quickly and on budget.
- Implement a streamlined Air Force planning, programming, budgeting and execution process.
- Restructure our existing Performance Management Program to more closely align with OSD's Balanced Scorecard for Risk Management. The AF Effects Management Program will provide an essential framework for driving our strategic priorities, defining how well the Air Force is achieving its strategic goals measured against real-world performance, risks and investment decisions.

In the years ahead, the Air Force must be prepared for a number of challenges:

- America's strategic planners must develop new concepts of deterrence to counter a wide range of non-traditional adversaries and asymmetric threats. The time-critical and precise application of air and space power will be a key component in many scenarios.
- New technologies are now widely available to potential adversaries around the world, including deep strike and intelligence, surveillance, and reconnaissance (ISR), as well as missiles and various weapons of mass destruction.
- Because of the diminished protection afforded by geographic distance, the Air Force's role in homeland security as the "first line of defense" will increase.
- The Department has reduced presence at forward bases. As a result, the Air Force must continue to refine its expeditionary culture and strategic agility.
- The nature of joint, allied and coalition operations is changing, which will require more interoperability and precise real-time command and control in air and space operations.
- The speed of information will require the United States to achieve decision cycle dominance to strike adversaries before they can mount an effective defense.
- There will be an increased demand for precision in warfare, and the need to field capabilities that can deliver timely, desired effects while minimizing collateral damage.
- The Air Force must reduce the ability of adversaries to attack and disrupt the American warfighter's reliance on information and assure jam-resistant, secure, survivable C4ISR (Command, Control, Communications, Computers, Intelligence,

Surveillance and Reconnaissance). We will require robust, effects-based information operations capabilities that can deny, manipulate, or significantly degrade adversary C4ISR.

- The demands of the global environment will require the joint force to counter various anti-access strategies by adversaries, defend our freedom to operate in space, and field a 24/7 persistent, rapid, and stealthy global strike capability.

The Report of the 2001 Quadrennial Defense Review provided a new risk management planning and decision-making framework to help the Defense Department and the Services balance investment priorities against performance risks in meeting the critical requirements of America's National Security Strategy.

To achieve our vision of an agile, responsive, and capabilities-based future Air Force, we have adapted the Defense Balanced Scorecard as the basis for gauging overall strategic performance, risk mitigation factors, organizational status, real warfighter value, financial outcomes, and return on investment. Using this process, our goal is to provide joint combatant commanders with a portfolio of warfighting advantages — the tools and resources they need.

FORCE MANAGEMENT RISKS

Air Force lethality, mobility, speed, precision, and the ability to project U.S. military power around the globe provide combatant commanders the capabilities required to meet the nation's military requirements and dominate our enemies. Consistent with the Department of Defense (DoD) focus on Joint Operating Concepts, we will continue to transform our force — meeting the challenges of this new era, adapting our forces and people to them, and operating our service efficiently. We will adopt service concepts and capabilities that support joint operations and capitalize on our core competencies. To sustain our dominance, we develop professional Airmen, invest in warfighting technology, and integrate our people and systems together to produce joint warfighting capabilities and decisive battlespace effects.

Our focus for the ongoing management and development of Air Force personnel will be to define, renew, develop, and sustain the readiness of our Total Force.

Defining Our Requirements

To meet current and future requirements, we need the right people in the right specialties. The post-September 11 global security environment has taxed our equipment and our people, particularly those associated with force protection, ISR, and the buildup and sustainment of expeditionary operations. To meet the demands of this new steady state, we have realigned key personnel with specialized skills into our most stressed career fields and hired additional civilians and contractors to free military members to focus on military-specific duties.

U.S. AIR FORCE

Stressed Career Fields
Manpower Reallocations

AFSC	Title	ORIGINAL Stress Level	New Stress After Manning Adjustments	3% Of Career Field (UMD)	20% Of Career Field (UMD)	Manpower Action (3704)	FY 04 SPLIT (70%)	FY05 SPLIT (30%)
1N3	Cryptologic Linguist	2.02	2.38	44	299	299	209	90
2F0X1	Fuels	1.63	1.77	114	760	424	297	127
7S0X1	Special Investigations	1.68	1.68	23	154	154	108	46
3M0X1	Services	1.57	1.67	131	879	196	137	59
3P0X1	Security Forces	1.67	1.67	702	4686	1000	700	300
1N6X1	Electronic Sys Security Assesment	1.67	1.61	7	47	96	67	29
3E9X1	Readiness	1.57	1.56	21	140	73	51	22
2T2X1	Air Transportation	1.54	1.54	134	895	460	322	138
3E8X1	EOD	1.53	1.53	30	201	201	141	60
1N1X1	Imagery Analysis	1.85	1.53	33	221	221	155	66
1A7X1	Aerial Gunner	1.51	1.51	10	68	0	0	0
3E7X1	Fire Protection	1.46	1.46	108	723	260	182	78
3E2X1	Pavement and Construction	1.15	1.45	51	345	40	28	12
2T3	Vehicle Maintenance	1.20	1.43	100	667	282	197	85
1N2X1	SIGINT Production	1.27	1.40	42	285	0	0	0

Integrity - Service - Excellence

Since 2001, we have exceeded our congressionally-mandated end-strength by more than 16,000 personnel. In light of the Global War on Terrorism and ongoing operations in Afghanistan and Iraq, this overage was appropriate. We are now working to get back to our mandated end-strength. We are addressing this issue in two ways: first, by reducing personnel overages in most skills, and second, by shaping the remaining force to meet mission requirements. To reduce personnel, we will employ a number of voluntary tools to restructure manning levels in Air Force specialties, while adjusting our active force size to the end-strength requirement. As we progress, we will evaluate the need to implement additional force-shaping steps.

We are also reviewing our Air Reserve Component (ARC) manpower to minimize involuntary mobilization of ARC forces for day-to-day, steady state operations while ensuring they are prepared to respond in times of crisis. Today, 20 percent of our AEF packages are comprised of citizen Airmen, and members of the Guard or Reserve conduct nearly all Operation NOBLE EAGLE missions in the skies over the U.S. Our Reserve component accounts for more than 72 percent of our tactical airlift capability, 42 percent of our strategic airlift capability, 52 percent of our air refueling capability, and possesses more than one-third of our strike fighters. The ARC also makes significant contributions to our rescue and support missions, and has an increasing presence in space, intelligence and information operations.

Air Reserve Component
Mobilization

	ANG	AFRC	TOTAL
Mobilized	5,882	7,815	13,687
MPA Volunteers	2,093	925	3,018
Demobilized Processed (since 15 Apr 03)	15,525	7,059	22,584

Maximum Mobilized: 36,261 (15 Apr 03)

As of March 2004

Integrity - Service - Excellence

Yet, only about one-third of the entire ARC was mobilized for OEF and OIF. We recognize this is a challenge and, in FY05, we plan to redistribute forces in a number of mission areas among the Reserve and Active components to balance the burden on the active and reserve components. These missions include our Air and Space Operations Centers, remotely piloted aircraft systems, Combat Search and Rescue, Security Forces, and a number of high demand global mobility systems.

Future Total Force

Just as in combat overseas, we are continuing to pursue seamless ARC and active duty integration at home, leveraging the capabilities and characteristics of each component, while allowing each to retain their cultural identity. We continue to explore a variety of organizational initiatives to integrate our active, Guard, and Reserve forces. These efforts are intended to expand mission flexibility, create efficiencies in our Total Force, and prepare for the future. Today's Future Total Force team includes a number of blended or associate units that are programmed or are in use. The creation of the "blended" unit, the 116th Air Control Wing at Robins Air Force Base, Georgia, elevated integration to the next level. We are now examining opportunities to integrate active, Guard, and Reserve units elsewhere in order to produce even more measurable combat benefits, surge capacity, and cost efficiencies.

Renewing the Force

To renew our force, we target our recruitment to ensure a diverse force with the talent and commitment to be the best. In FY03, we exceeded our recruitment goals, accessing 5,419 officers and 37,144 enlisted. For FY04, we plan to access 5,795 officers and 37,000 enlisted.

In the Air Force, the capabilities we derive from diversity are vital to mission excellence and at the core of our strategy to maximize our combat capabilities. In this new era, successful military operations demand much greater agility, adaptability, and versatility to achieve and sustain success. This requires a force comprised of the best our nation has to offer, from every segment of society, trained and ready to go. Our focus is building a force that consists of men and women who possess keener international insights, foreign language proficiency, and wide-ranging cultural acumen, as well as new levels of technical expertise. Diversity of life experiences, education, culture and background is essential to help us achieve the asymmetric advantage we need to defend America's interests wherever threatened. Our strength comes from the collective application of our diverse talents, and is a critical component of the air and space dominance we enjoy today.

In addition to a diverse force, we also need the correct talent mix. For example, we remain concerned about recruiting individuals with technical degrees. To meet our needs, we continue to focus our efforts to ensure we attract and retain the right people. We will also closely monitor ARC recruitment. Historically, the Air National Guard and Air Force Reserve Command access close to 25 percent of eligible, separating active duty Air Force members with no break in service between their active duty and ARC service.

Developing the Future Force

In 2003, we implemented a new force development construct in order to get the right people in the right job at the right time with the right skills, knowledge, and experience. We have mapped out a deliberate approach to develop officers, enlisted, and civilians throughout our Total Force. Through targeted education, training, and mission-related experience, we will develop professional Airmen into joint force warriors with the skills needed across the tactical, operational, and strategic levels of conflict.

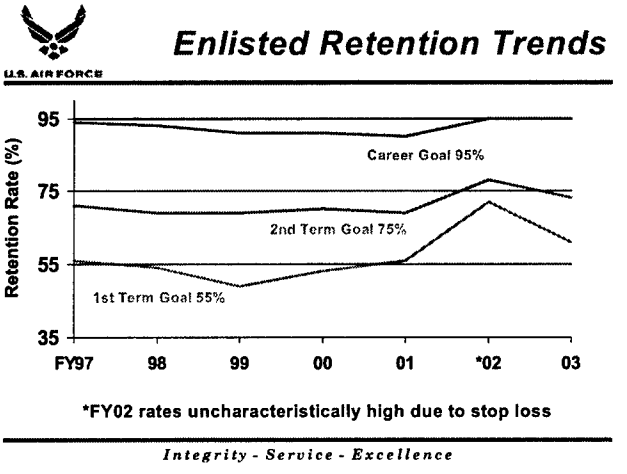
A segment of warriors requiring special attention is our cadre of space professionals – those that design, build, and operate our space systems. As military dependence on space grows, the Air Force continues to develop this cadre to meet our nation's needs. Our Space Professional Strategy is the roadmap for developing that cadre. Air Force space professionals will develop more in-depth expertise in operational and technical space specialties through tailored assignments, education, and training. This roadmap will result in a team of scientists, engineers, program managers, and operators skilled and knowledgeable in developing, acquiring, applying, sustaining and integrating space capabilities.

Sustaining the Force

Because the skill-sets of our Airmen are not easily replaced, we expend considerable effort to retain our people, especially those in high technology fields and those in whom we have invested significant education and training. In 2003, we reaped the benefits of an aggressive retention program, aided by a renewed focus on – and investment in –

education and individual development, enlistment and retention bonuses, and significant quality of life improvements in healthcare and housing.

Our FY 2003 enlisted retention numbers tell the story. Retention for first term Airmen stood at 61%, exceeding our goal by 6%. Retention for our second term and career Airmen was also impressive, achieving 73% and 95% respectively.



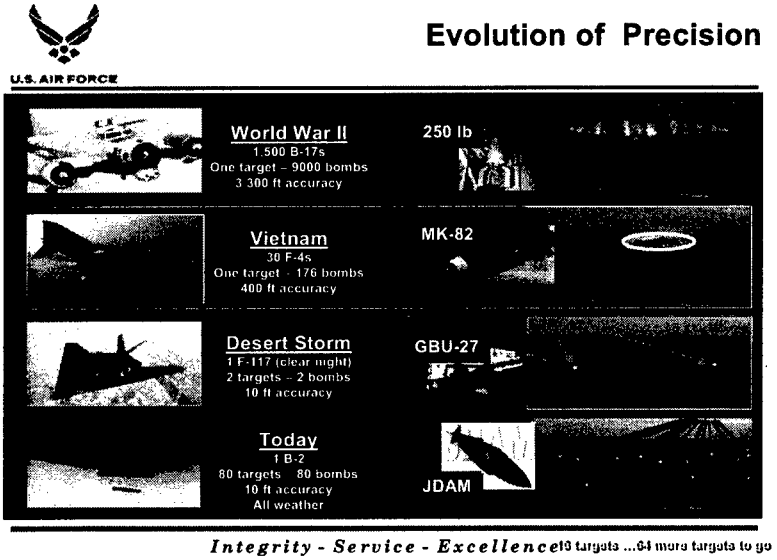
Force Management Priorities for FY 2004

Performance Goals for FY 2004

- Maintain a Diverse, Quality Force.
- Ensure Sustainable Military Tempo.
- Maintain Workforce Satisfaction.
- Maintain Reasonable Force Costs.
- Shape the Force of the Future.

OPERATIONAL RISKS

In 2003, U.S. and coalition military operations produced mission successes across the spectrum of conflict and around the globe. OIF was a joint and coalition warfighting effort from planning to execution. Air, ground, maritime and space forces worked together, at the same time for the same objectives, not merely staying out of each other's way, but orchestrated to achieve wartime objectives and real-time battlefield effects. Our air and space forces achieved dominance throughout the entire theater, enabling maritime and ground forces to operate without fear of enemy air attack. Our Airmen demonstrated the flexibility, speed, precision and compelling effects of air and space power, successfully engaging the full range of enemy targets, from the regime's leadership to fielded forces. When our ground and maritime components engaged the enemy, they were confident our Airmen would be there — either in advance of their attacks, or in support of their operations. These operational accomplishments illustrate the growing maturity of air and space power. It is our heritage to adapt and we will continue to do so. The evolving precision of USAF strike capabilities is demonstrative of this approach.



We are also investing in technologies that will enable us to create a fully integrated force of intelligence capabilities, manned, unmanned and space assets that communicate at the machine-to-machine level, and real-time global command and control (C2) of joint, allied and coalition forces. Collectively, these assets will enable compression of the targeting cycle and near-instantaneous global precision-strike.

As we cultivate new concepts of global engagement, we will adopt more agile, non-linear ways of integrating to achieve mission success. This change in thinking leads to evolving capabilities including networked communications; multi-mission platforms that fuse multi-spectral sensors with advanced stealth features; integrated global ISR; robust, all-weather weapons delivery with increased standoff; small smart weapons; remotely-

piloted and unattended aircraft systems; advanced air operations centers; more secure position, navigation, and timing; and a new generation of satellites with operationally responsive launch systems. Investment in our core competencies is the foundation of our preparation for future threats.

Our sustained investment in Airmen, technology, and integration has produced a fleet that is more capable and at a higher state of readiness than we've seen in the past six years. Fourteen of our twenty major systems have improved rates in FY03 over FY02. Additionally, our supply and cannibalization rates are the best levels we've seen since FY94 and FY 95 respectively.

Potential adversaries, however, continue to pursue capabilities that threaten the dominance we enjoy today. Double-digit surface-to-air missile systems are proliferating. Fifth-generation advanced aircraft with capabilities superior to our present fleet of frontline fighter/attack aircraft are in production. Advanced cruise missile technology is expanding, and information technology is spreading. Access to satellite communications, imagery, and use of the Global Positioning System (GPS) signal for navigation are now available for anyone willing to purchase the necessary equipment or services.

With this relentless technological progress, and potential parity of foreign nations, the mere maintenance of our aging aircraft and space systems will not suffice. Simply stated, our current fleet of legacy systems cannot always ensure air and space dominance in the future.

Despite increased readiness and significant investment in maintenance, we cannot stop the march of time. The age of our fleet continues to grow in all categories except strategic lift. And, even with an accelerated investment in our tanker fleet, we expect to be flying many of these aircraft after they reach more than 70 years of operational employment.

U.S. AIR FORCE

Average Age of Air Force Systems
2004 to 2009

Mission	*Average Age 2004*	*Average Age 2009*
Fighter/Attack	17	21
Bombers	29	34
Tankers	40	45
Strategic Lift	20	16
Tactical Lift	25	25
Operational Support Airlift	23	27

To counter these trends, we are pursuing a range of strategies that will guide our modernization and recapitalization efforts. We are using a capabilities-based planning and budgeting process, an integrated and systematic risk assessment system, a commitment to shorter acquisition cycle times, and improved program oversight. Our goal is to integrate our combat, information warfare, and support systems to create a portfolio of air and space advantages.

Air Force Concepts of Operation – Mapping Our Warfighting Capabilities

The principal mechanisms that facilitate this process are our AF CONOPS. Through the CONOPS, we analyze problems we will be asked to solve for the Joint Force Commanders (JFCs), identify the capabilities our expeditionary forces need to accomplish their missions, and define the operational effects we expect to produce. Through this approach, we can make smarter decisions about future investments and tradeoffs, articulate the link between systems and employment concepts, and identify our capability gaps and risks.

The Air Force has established a capabilities-based approach to war planning that is closely aligned with National Security Strategy and DoD priorities, allowing us to focus investments on those key capabilities we need to support the joint warfighter. The Air Force has written six CONOPS that support capabilities-based planning and the joint vision of combat operations. The CONOPS help analyze the span of joint tasks we may be asked to perform and define the effects we can produce. Most important, they help us identify the capabilities an expeditionary force will need to accomplish its mission, creating a framework that enables us to shape our portfolio.

- Global Strike CONOPS employs joint power-projection capabilities to engage anti-access and high-value targets, gain access to denied battlespace, and maintain battlespace access for required joint/coalition follow-on operations.
- Global Persistent Attack CONOPS provides a spectrum of capabilities from major combat to peacekeeping and sustainment operations. Global Persistent Attack assumes that once access conditions are established there will be a need for persistent and sustained operations to maintain air, space, and information dominance.
- Space and Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance CONOPS (Space and C4ISR) harnesses the integration of manned, unmanned, and space systems to provide persistent situation awareness and executable decision-quality information to the Joint Force Commander.
- Global Mobility CONOPS provides combatant commanders with the planning, command and control, and operations capabilities to enable timely and effective projection, employment, and sustainment of U.S. power in support of U.S. global interests – precision delivery for operational effect.

- Nuclear Response CONOPS provides the deterrent "umbrella" under which conventional forces operate, and, if deterrence fails, is capable of delivering a scalable response.
- Homeland Security CONOPS leverages Air Force capabilities with joint and interagency efforts to prevent, protect, and respond to threats against our homeland – within or beyond U.S. territories.

The priorities that emerge from the CONOPS guide a reformed acquisition process that includes more active and continuous partnerships among the requirement, development, operational test, and industry communities who work side-by-side at the program level. In our science and technology planning, we are also working to demonstrate and integrate promising technologies quickly by providing an operational "pull" that conveys a clear vision of the capabilities we need for the future.

We are applying this approach to our space systems as well. As the Defense Department's Executive Agent for Space, we are producing innovative solutions for the most challenging national security problems. We have defined a series of priorities essential to delivering space-based capabilities to the joint warfighter and the Intelligence Community. Achieving mission success – in operations and acquisition – is our top priority. To achieve this exacting standard, we have many areas that require a sustained investment. We need to replace aging satellites, improve outmoded ground control stations, enhance space control capabilities to ensure freedom of action, sustain operationally responsive assured access to space, address bandwidth limitations, and focus space science and technology investment programs.

Learning Lessons from Operations

To improve upon the dominance we enjoy today, the Air Force will remain engaged with the other services, our coalition partners, interagency teams, and the aerospace industry. As we do, we will incorporate the lessons learned from rigorous evaluation of past operations, detailed analyses of ongoing combat operations, and thoughtful prediction of future needs.

The dynamic pace of operations in 2003 enabled us to validate the function and structure of our AEF CONOPS. Operations demanded more capability from our AEFs than at any time since their inception in 1998. However, for the first time we relied exclusively on our AEFs to present the full range of our capabilities to combatant commanders.

More than three-fourths of our active duty Airmen are eligible to deploy and are assigned to an AEF. Through much of 2003, Total Force capabilities from 8 of the 10 AEFs were engaged simultaneously in worldwide operations. The remaining elements were returning from operations, training, or preparing to relieve those currently engaged.

In 2004, we will continue to use the AEFs to meet our global requirements while concurrently reconstituting the force. Our number one reconstitution priority is returning our forces to a sustainable AEF battle rhythm while conducting combat operations. Attaining this goal is about revitalizing capabilities. For most Airmen, that will include a renewed emphasis on joint combined force training and preparation for rotations in the AEF.

Operational Priorities for FY 2004

Performance Goals for FY 2004

- Introduce uncertainty, surprise, & asymmetry into calculus of potential adversaries.
- Develop new concepts and capabilities to help anticipate a potential adversary's actions.
- Gain operational access in denied environments.
- Obviate or mitigate the value of Weapons of Mass Destruction to our enemies.
- Expand interagency cooperation to include Joint Services, other Government Departments, our allies and coalition partners.
- Assist USNORTHCOM as it develops Homeland Security Interagency CONOPS.
- Develop AF force structure to meet defensive strategy missions, including Air Defense Levels 1-5, missile defense, and rotational force requirements.
- Develop mid- to far-term AF force structure projections that incorporate future concepts and technologies while supporting our 10 AEFs.
- These alternatives will seek to optimize our force structure mix by investments in:
  - Advanced Air Dominance and Strike Systems
  - Long Range Strike & Close Air Support, including Battlefield Airmen
  - A Sensing Portfolio of Manned, Unmanned, and Space Systems
  - Joint Warfighting Space – Strategic, Operational, & Focused Effects from Space
  - Advanced Munitions – Standoff, Precise, and Stealthy
  - Global Mobility (including Expeditionary Combat Support)
  - Special Operations Capabilities
  - Command and Control Capabilities
  - Cruise Missile Defense

INSTITUTIONAL RISKS

The DoD has mandated that we shift our focus and our resources from bureaucracy to battlefield, from tail to tooth. The Air Force understands that winning future conflicts will depend on how effectively and cost-efficiently we deliver the right resources to support our warfighters. If the potential of air and space power is to be fully exploited as a joint force enabler, we must ensure that DoD's future force objectives are met with adaptive and dynamic planning and budgeting, innovative and integrated technology and total systems solutions, all grounded in results-based management practices. We will:

- Drive cross-functional integration and modernization in Air Force core processes, particularly through implementation of business transformation.
- Create a capability-focused enterprise that maps our operational and support processes to our core processes to directly support the success of our warfighting mission.
- Link resources and performance to key strategic goals, institutionalizing capabilities-based planning, risk management, and business "best practices."
- Streamline the planning, programming, budgeting, and execution process to align with the new DoD two-year cycle and improve financial management of overhead & direct costs.
- Increase the visibility of trade space through the use of the Enhanced Tradespace Tool.
- Promote rapid adoption of the Adaptive Joint Planning Process.
- Work with DoD & the defense industry to reduce acquisition cycle times & cost growth.
- Realign support to warfighters through enhanced interagency processes and integrated systems, especially in intelligence and information sharing.

As we continue to support a high level of contingency operations, we will evaluate, implement, and validate a host of breakthrough technological advances, organizational changes, and operational concepts that enable our Airmen to achieve desired effects on the battlefield faster and with greater precision than at any time in the history of warfare.

Revolutionizing the Technology-to-Warfighting Process

The goal of Air Force innovation is the timely development and integration of new or improved technologies, capabilities, concepts, and processes into Air Force operations. Air Force innovation must be continuous and comprehensive over the near-, mid-, and far-term. We must also continually improve our acquisition, logistics, maintenance, training, and other corporate processes as they ultimately determine our overall enterprise effectiveness and directly sustain combat capabilities. This includes the management of human resources, finances, contracts, property and equipment, and networked information technology.

As a global leader in the military application of air, space, and C4ISR technology, the Air Force is committed to innovation as the catalyst driving sustained research and development. This process flows from vision to military strategy and effects-based planning, to operational concepts, and then to capabilities.

Air Force Effects Management Program

In 2003, in response to the transformation of DoD's strategic management of the business of warfighting, we have introduced an effects-based management program that will ensure greater accountability and improved performance throughout the organizational Air Force.

The Report of the 2001 Quadrennial Defense Review provided a new risk management planning and decision-making framework to help the Defense Department and the services balance investment priorities against performance risks in meeting America's most critical national security requirements. If we are to develop a more effective, better-integrated "strategy-focused organization," performance management will be the key linking strategic objectives and effects-based planning, programming and budgeting to warfighter performance.

To achieve this end-state, the Air Force decided to restructure its existing Performance Management Program (AFI 90-1102) to more closely align with DoD's balanced scorecard. In this restructuring, we shaped our measurement strategy on the current four risk areas. Beginning with the FY 2004 President's Budget, DoD will use this structure to combine the Annual Defense Report, Government Performance and Results Act (GPRA) performance plan, and GPRA performance report into a single document, reflecting performance measures or metrics consistent with the President's Management Agenda. As a result, our service's budget will become increasingly tied to our performance as weighed against these measures.

Commanders Integrated Product Team and Business Transformation

The Air Force is moving to enact business transformation from an integrated enterprise perspective, examining every process and associated link, streamlining the Strategic Resource Planning Process in accordance with new DoD directives on capabilities-based planning, programming, and budgeting cycles. The Air Force business transformation vision for the future is a single, capability-focused enterprise that delivers what the warfighter needs, when he needs it, and uses industry "best practices" to reduce overhead and direct costs. Our principal goal is to fashion a fast, flexible, agile, integrated business infrastructure that supports and enables lethal combat forces. These are the short-term targets:

- Streamline our acquisition and contracting regulations.

- Authorize high powered teams of requirements and acquisition professionals to create spiral development plans that deliver initial capability to warfighters more quickly, and add capability increments in future spirals.
- Implement a Reformed Supply Support Program to improve the spares acquisition process by integrating the support contractor into the government supply system.

Improving the Science and Technology Planning and Collaboration Process

Our investment in science and technology continues to be the cornerstone of our modernization and recapitalization program. The Air Force science and technology program fosters development of joint warfighting capabilities and integrated technologies that are consistent with DoD and national priorities. We will provide strategic, long-term, stable investments in areas that will immediately benefit existing systems and in leap ahead technologies that will improve tomorrow's Air Force. Many Air Force science and technology programs — such as directed energy, hypersonics, laser-based communications, and the emerging field of nanotechnology — show great promise for joint warfighting capabilities.

Streamlining the Acquisition Process

Our Agile Acquisition initiative emphasizes speed and credibility: we must deliver what we promise — on time and on budget. Our goal is to deliver affordable, sustainable capabilities that meet the operational needs of joint warfighters. We continue to improve our acquisition system — breaking down organizational barriers, changing work culture through aggressive training, and reforming processes with policies that encourage innovation and collaboration.

Developing and fielding weapon systems in today's dynamic threat environment with rapidly evolving technologies demands changes to the process the Air Force uses to acquire those systems. The Air Force has made progress in adopting innovative business "best practices" to decrease acquisition cycle time and increase flexibility in program performance. Achieving these goals requires closer collaboration among all the stakeholders in the acquisition process, including the warfighter, financial management, the labs, engineering, testing, program management, contracting, and the industrial base.

We are working toward the following goals:

- **Realigning our Program Executive Officers (PEOs).** By moving our PEOs out of Washington and making them commanders of our product centers, we have aligned both acquisition accountability and resources under our most experienced general officers and acquisition professionals.
- **Creating a culture of innovation.** We will continue to focus on enhanced training. Laying the foundation for change, this past year 16,500 Air Force acquisition professionals, and hundreds of personnel from other disciplines,

attended training sessions underscoring the need for collaboration, innovation, reasonable risk management and a sense of urgency in our approach.

- **Reducing Total Ownership Costs.** With strong support from the Secretary of Defense, we will expand the Reduction in Total Ownership Cost program with a standard model ensuring that we have accurate metrics.
- **Moving technology from the lab to the warfighter quickly.** Laboratories must focus on warfighter requirements and researchers need to ensure technologies are mature, producible, and supportable. Warfighters will work with scientists, acquisition experts, and major commands to identify gaps in capabilities.
- **Tailoring acquisition methods for space systems.** In October 2003, we issued a new acquisition policy for space systems that will improve acquisitions by tailoring acquisition procedures to the unique demands of space systems.

The next steps in Agile Acquisition include developing a collaborative requirements process, a seamless verification process, and a focused technology process. A collaborative requirements process — starting with joint and AF CONOPS — will demand that the warfighter, acquirer, and tester work as one team from the outset and throughout the development of a weapon system. A seamless verification process will necessitate the merger of developmental and operational tests into complementary, synergistic activities. Closer collaboration with the science and technology communities will bring more mature technologies into programs, adding operational capabilities and avoiding delays.

Recapitalizing Air And Space Capabilities

As the Air Force positions itself to meet the challenges of a rapidly changing and increasingly threatening global environment, rebuilding an aging infrastructure and modernizing weapons platforms and systems are issues of paramount importance. The key to Air Force readiness is a dynamic, well structured recapitalization planning process that will ensure tomorrow's warfighters have the advanced tools, technology, and equipment they need to win the battle for airspace dominance. The reality is that the nation's mid- and long-term air power readiness is at significant risk.

We are now faced with a troubling situation in which large quantities of aircraft are getting older, less capable, and more expensive to maintain — all at the same time — just as our nation is facing dynamic challenges and new threats in a different kind of widespread, asymmetric, protracted conflict. To meet this challenge, the Air Force must follow a smart, logical approach to acquisition planning that will accelerate recapitalization. Such a framework will prevent the need for large-scale procurement spikes and avoid critical modernization gaps.

Recapitalization of our airframes and weapons systems is only a portion of the problem. Additional investment is required to upgrade the Air Force's infrastructure and physical

plant. To be effective in its fulfilling our mission requirements in a changing world, the Air Force's recapitalization framework will remain linked with joint service transformation goals, AEF CONOPS capabilities, and a smarter, more streamlined strategic planning process.

Our objectives cannot be realized without the incorporation of unique new capabilities, leading edge technologies, and more efficient weapons systems. Simply stated, our legacy systems cannot ensure air dominance in future engagements — the pivotal element in successful joint force access and operations. Although ultimately solving recapitalization problems requires acquisition of new systems, we must continue to find innovative means to employ current systems, and we must invest in our legacy aircraft to hedge against future uncertainties.

Infrastructure Strategy

Reconstituting and reconfiguring our expeditionary basing systems and wartime stocks is a critical element of our force projection planning. While we have made significant strides in funding, we require renewed investments in bare base systems, vehicles, spares, munitions, and pre-positioning assets. Deteriorating airfields, hangars, waterlines, electrical networks, and air traffic control approach and landing systems are just some of the infrastructure elements needing immediate attention.

Our infrastructure investment strategy focuses on three simultaneous steps. First, after a thorough examination, we must dispose of excess facilities. Second, we must fully sustain our facilities and infrastructure systems so they remain combat effective throughout their expected life. Third, we must establish a steady investment program to restore and modernize our facilities and systems, while advancing our ability to protect our people and resources from the growing threat of terrorism at current, planned, and future operating locations. Our approach will allow us to replace, renovate, or privatize more than 10,400 family housing units, over 10% of our total inventory. This keeps us on track to eliminate inadequate housing in CONUS by 2007, our four northern tier bases by 2008, and in our overseas housing by 2009. Our investment plan balances new mission beddowns, force structure changes, and quality of life projects while maintaining our infrastructure. Our Military Construction strategy keeps us on target to reduce our recapitalization rate to 67 years, keeping our word to our Airmen.

Our Depot Maintenance Strategy and Master Plan calls for financial and infrastructure capitalization to ensure Air Force hardware is safe and ready to operate across the threat spectrum. Increased funding for depot facilities and equipment modernization in FY04-09, along with public-private partnerships, will result in more responsive support to the Joint Forces Commander through Agile Combat Support. We expect to maximize production and throughput of weapons systems and commodities that will improve overall mission capability.

Our logistics transformation initiative will revolutionize logistics processes to improve warfighter support and reduce costs. Our goal is to increase weapon system availability by 20% with zero cost growth. Our current initiatives — depot maintenance transformation, purchasing and supply chain management, regionalized intermediate repair, and improved logistics command and control — will transform the entire logistics enterprise.

The Capabilities Review and Risk Assessment (CRRA) process guides our investment program. Replacing an outdated threat-based review process that focused on platforms versus current and future warfighting effects and capabilities, our extensive two-year assessment identified and prioritized critical operational shortfalls we will use to guide our investment strategy. These priorities present the most immediate Air Force-wide capability objectives.

First, we need to field capabilities that allow us to reduce the time required to find, fix, track and target fleeting and mobile targets and other hostile forces. One system that addresses this operational shortfall is the F/A-22 Raptor. The F/A-22 is in low rate initial production and has begun Phase I of its operational testing. It is on track for initial operational capability in 2005. The F-35 Joint Strike Fighter provides a complementary capability, providing sustainable, focused close air support and interservice and coalition commonality.

There is also a need for a globally interconnected capability that collects, processes, stores, disseminates, and manages information on demand to warfighters, policy makers, and support personnel. The C2 Constellation, our capstone concept for achieving the integration of air and space operations, includes these concepts and the future capabilities of the Global Information Grid, Net Centric Enterprise Services, Transformational Communications, the JTRS, and MC2A, among others.

One of the key elements in the National Security Strategy is the ability to maintain U.S. power projection capabilities. The ongoing Global War on Terror confirms the necessity of an enhanced Air Force aerial refueling capability, and the CRRA process has validated an operational need to invest in this capability. Our current fleet of aging tankers met the challenges of operations in Afghanistan and Iraq — but is increasingly expensive to maintain. Recapitalization for this fleet of some 600 aerial refueling aircraft will clearly take decades to complete and is vital to the foundation and global reach of our Air Force, sister services, and coalition partners. It is essential that we invest in an affordable, but timely solutions that will increase tanker fuel offload, availability, reliability, and flexibility for force employment.

Capabilities-driven modernization and recapitalization efforts are also taking place on our space systems, as we replace constellations of satellites and ground systems with next generation capabilities. Using two launch designs, our Evolved Expendable Launch

Vehicles will improve our ability to provide assured access to space. Space-Based Radar will provide a complementary capability to our portfolio sensing systems. We will employ Internet protocol networks and high-bandwidth lasers in space to transform communications with the Transformational Satellite, dramatically increasing connectivity to the warfighter. Finally, modernization of the Global Positioning System (GPS) and development of the next-generation GPS III will enhance navigation capability and increase our resistance to jamming.

Institutional Priorities for FY 2004

Performance Goals for FY 2004

- Use an effects- and capabilities-based planning and programming process as the foundation for developing the Air Force PM for FY06-11.
- Reduce overseas footprint–invest in infrastructure to support flexible basing options.
- Employ a reformed acquisition process that includes active partnership among the scientific, industry, and R&D communities.
- Ensure new systems are relevant to jointness and asymmetric nature of warfare.
- Sustain AF Science & Technology funding at 3% of TOA and promote R&D in the private sector through innovation incubators, "seed money" and venture startups.
- Hedge future uncertainties by investing in portfolio of military capabilities, accelerate and fund transformational systems supporting joint integration goals.

MEETING THE RISK OF FUTURE CHALLENGES

The imperatives of this era demand that we modify our legacy systems, as well as the systems currently under development, and ensure that when employed, we use them in ways that are suitable to the national defense strategies we support and the missions we perform. Advances in GPS-aided munitions, low observable technologies, space-based systems, manipulation of information, joint integration and communications, and smart weapons have revolutionized the way in which we conduct war. Many of these programs bridge the gap from the Cold War to the era of asymmetric war — and they signal a new direction in how we apply the tools of air and space power to meet the challenges of joint force transformation.

Creating an Integrated Global Information Architecture

We are focused on an enterprise approach to warfighting integration that brings together the operational experience and the technical expertise of diverse elements (C4ISR, systems integration, modeling and simulation, and enterprise architecture specialties), will close the seams in the "kill chain" by guiding the cross-platform/cross-service integration of manned, unmanned, and space C4ISR systems.

Central to our role as the DoD Executive Agent for Space, the Air Force serves as the joint forces integrator of the global information grid — the essential foundation of network-centric warfare. In conjunction with the other services and agencies, we are shaping a comprehensive approach to national security space management and organization. Our capstone objective is to realize the enormous potential in the ultimate high ground of space, and to employ the full spectrum of space-based capabilities to enable joint warfighting.

Integrating Global Operations — Key to Rapid Global Response

Integration takes place at three levels. At the joint strategic level, integration occurs between the Joint Force Commander and the joint air, land and naval forces at his disposal, allies and coalition forces, as well as other government agencies. Integration also takes place within the Air Force at an organizational level. At its most basic, integration takes place at the machine-to-machine level to achieve universal information-sharing, facilitating comprehensive integration across the spectrum of conflict – and enabling network-centric warfare.

Integrating Joint, Coalition, and Interagency Operations

The dynamics of global events will drive the need to integrate DoD and interagency capabilities and, in most cases, those of our coalition partners. Joint solutions are required to produce warfighting effects with the speed that the Global War on Terror demands. Fully integrated operations employ only the right forces and capabilities necessary to achieve a strategic objective in the most efficient manner. We are pursuing adaptations of our command and control organizations and capabilities, space-based assets, and intelligence relationships to support this vision.

We are also adapting the capabilities of our Combat Air Operations Centers (CAOCs). The CAOCs of each headquarters will be interconnected with the theater CAOCs, all operating 24 hours a day, seven days a week. They will be operated as a comprehensive weapons system, certified and standardized, and have cognizance of the entire air and space picture. This reorganization will considerably enhance our ability to support combatant commanders, reduce redundancies, and deliver precise effects to the warfighters.

Integrated operations also depend on integrated training. We continue to advance joint and combined interoperability training with our sister services and the nations with which we participate in global operations. Integrating live, virtual, and constructive training environments into a single training realm using a distributed mission operations capability, the Joint National Training Capability (JNTC) will improve our opportunities for joint training. Training in 2004 will benefit from improved instrumentation and links

to other ranges as well as the ability to supplement live training with virtual or constructive options.

Integrating within the Air Force — Air and Space Expeditionary Forces

The Air Force is continuing to strengthen and refine its AEF CONOPS. The AEF enables rapid build-up and redeployment of air and space power without a lapse in the Air Force's ability to support a combatant commander's operations. The Air Force provides forces to combatant commanders according to the AEF Presence Policy, the Air Force portion of DoD's Joint Presence Policy.

There are ten AEFs, and each AEF provides a portfolio of capabilities and force modules. At any given time, two AEFs are postured to immediately provide these capabilities. The other eight are in various stages of rest, training, spin-up, or standby. The AEF is how the Air Force organizes, trains, equips, and sustains responsive air and space forces to meet the key defense strategy requirements outlined in the Strategic Planning Guidance.

Machine-to-Machine Integration

We also strive to increasingly integrate operations at the most basic level – electron to electron. Collecting intelligence, communicating information, and bringing warfighting capabilities to bear in combat with accuracy, speed, and power requires assured access and the seamless, horizontal integration of systems, activities and expertise across all manned, unmanned, and space capabilities. Such integration will dramatically shorten the kill chain.

We want a system where information is made available and delivered without regard to the source of the information, who analyzed the information, or who disseminated the information. The culmination of the effort is the cursor over the target. It is a precise effect we seek – and what we will deliver is lethal accuracy.

The C2 Constellation is the Air Force capstone concept for achieving the integration of air and space operations. Our vision of the C2 Constellation is a robust, protected network infrastructure, a globally-based command and control system to encompass all levels of the battlespace and allow machines to do the integration and fusion of data. It uses Battle Management Command and Control and Connectivity and consists of command centers, sensors, and systems like the U-2, Space Based Radar, the Distributed Common Ground System, and our CAOCs. Given the C2 Constellation's complexity, we recognize the need for a joint information architecture to address myriad systems integration issues.

Lessons for the Future

As we continue combat operations and prepare for an uncertain future, we are examining lessons from our recent experiences. Although we are currently engaged with each of the other services to refine the lessons from Operation IRAQI FREEDOM, many of the priorities in our future investment strategy reflect our preliminary conclusions. Working closely with our joint partners, we intend to continue our momentum toward an even more effective fighting force.

The authors of the Goldwater-Nichols Act envisioned one of the most important lessons learned. Operations in Afghanistan and Iraq validated jointness as the only acceptable method of fighting and winning this nation's wars. In Iraq, the mature relationship between the Combined Forces Land Component Commander (CFLCC) and the Combined Forces Air Component Commander (CFACC) led to unprecedented synergies. Another lesson was validation of the need for air and space superiority. Without having to defend against Iraqi airpower, coalition commanders could focus their combat power more effectively. In addition, air and space superiority allowed Airmen to dedicate more sorties in support the coalition scheme of maneuver, substantially reducing enemy capability in advance of the land component.

Finally, there are three general areas for improvement we consider imperative: battle damage assessment, fratricide prevention/combat identification, and equipping our battlefield Airmen. Precision engagement requires precision location, identification, and precision assessment. Effective and timely battle damage assessment shapes the commander's ability for efficient employment of military power. Restriking targets that have already been destroyed, damaged, or made irrelevant by rapid ground force advances wastes sorties that could be devoted to other coalition and joint force objectives.

We are also improving operational procedures and technology to minimize incidents of fratricide or "friendly fire." In Iraq, major steps toward this goal resulted from technological solutions. Blue Force Tracker and other combat identification systems on many ground force vehicles allowed commanders situational awareness of their forces and enemy forces via a common operational picture. Still, not all joint or coalition forces are equipped with these technological advances. We are pursuing Fire Support Coordination Measures that capitalize on the speed and precise situational awareness of digital communications rather than analog voice communications and grease pencils.

A third area we are actively improving is the effectiveness of the Airmen who are embedded with conventional land or Special Forces. With assured access to Air Force datalinks and satellites, these "battlefield airmen" can punch data coordinates directly into air-land-sea weapons systems and enable joint force command and control.

The air and space warriors of America's Air Force have demonstrated their expertise and the value of their contribution to the joint and coalition fight. These combat operations are made possible by Air Force investments in realistic training and education, superior organization, advanced technology, and innovative tactics, techniques, and procedures. In the future, our focus will be to determine the appropriate capabilities required for joint warfighting and to provide maximum effects from, through, and in air and space.

Future Challenges Priorities for FY 2004

Performance Goals for FY 2004

- Support the development of Joint Operating Concepts and participate in Joint Experiments to support future warfighting.
- Develop more effective organizations, including future warfighting headquarters focused on planning and execution in support of the Combatant Commander.
- Define Future Human Capital Skills and Competencies.

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APPENDIX A: BUDGET TABLES

Table A-1

Department of Defense—Budget Authority by Appropriation[1] [2] [3] (Dollars in millions)	FY 1985	FY 1990	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004[4]	FY 2005
Current Dollars								
Military Personnel	67,773	78,876	73,838	76,888	86,957	109,062	117,713	106,346
O&M	77,803	88,309	108,776	115,758	133,851	178,316	168,470	141,245
Procurement	96,842	81,376	54,973	62,607	62,740	78,490	80,920	74,905
RDT&E[5]	31,327	36,459	38,706	41,594	48,718	58,103	64,665	68,942
Military Construction	5,517	5,130	5,106	5,423	6,631	6,670	5,956	5,289
Family Housing	2,890	3,143	3,543	3,683	4,048	4,183	3,833	4,172
Defense-wide Contingency					83		-1,800	
Revolving & Management Funds & Other	5,097	566	7,314	5,333	4,389	4,154	3,227	2,955
Trust & Receipts	-426	-832	-1,571	-1,202	-1,552	-947	-1,046	-1,023
Deduct, Intragovernment Receipt	-21	-27	-150	-136	-234	-231	-210	-195
Total, Current Dollars	**286,802**	**292,999**	**290,534**	**309,948**	**345,631**	**437,801**	**441,728**	**402,635**
Constant FY 2004 Dollars								
Military Personnel	133,056	133,203	88,854	89,554	95,860	115,589	120,881	106,346
O&M	132,669	128,934	124,490	127,540	143,859	186,321	171,749	141,245
Procurement	146,323	103,312	58,623	65,972	65,408	80,801	82,157	74,905
RDT&E	48,573	47,502	41,616	44,002	50,866	59,837	65,598	68,942
Military Construction	8,578	6,642	5,514	5,778	6,958	6,889	6,051	5,289
Family Housing	4,385	4,070	3,789	3,874	4,215	4,309	3,889	4,172
Defense-wide Contingency					87		-1,823	
Revolving & Management Funds & Other	7,821	736	7,787	5,574	4,552	4,265	3,270	2,955
Trust & Receipts	-654	-1,082	-1,673	-1,256	-1,608	-971	-1,059	-1,023
Deduct, Intragovernment Receipt	-32	-35	-160	-142	-242	-237	-213	-195
Total, Constant Dollars	**480,718**	**423,282**	**328,841**	**340,895**	**369,953**	**456,803**	**450,500**	**402,635**
% Real Growth								
Military Personnel			-0.2	0.8	7.0	20.6	4.6	-12.0
O&M			1.6	2.4	12.8	29.5	-7.8	-17.8
Procurement			6.0	12.5	-0.9	23.5	1.7	-8.8
RDT&E			-0.8	5.7	15.6	17.6	9.6	5.1
Military Construction			-6.9	4.8	20.4	-1.0	-12.2	-12.6
Family Housing			-2.7	2.2	8.8	2.2	-9.8	7.3
Total			**1.7**	**3.7**	**8.5**	**23.5**	**-1.4**	**-10.6**

[1] Numbers may not add to total due to rounding.

[2] Tables A-1 and A-2 show the total DoD budget, which consists of both discretionary spending and direct spending. These terms were defined by the Balanced Budget and Emergency Deficit Control Act of 1985 (commonly known as the Gramm-Rudman-Hollings Act), which was extended and amended extensively by the Budget Enforcement Act of 1990 and the Omnibus Budget Reconciliation Act of 1993. Discretionary spending is controlled through annual appropriations acts. Direct spending (sometimes called mandatory spending) occurs as a result of permanent laws. For DoD, mandatory spending consists mostly of offsetting receipts.

[3] Extensive budget data is available on the DoD web site—www.dod.mil/comptroller. Click on Defense Budget, then National Defense Budget Estimates (Green Book).

[4] For FY 2004, a $3.5 billion rescission to the FY 2003 Iraq Freedom Fund is included in O&M; a $1.8 billion rescission to DoD appropriations in the FY 2004 Omnibus Appropriations Act is reflected in Defense-Wide Contingency; and $.8 billion in prior-year program rescissions to Procurement, RDT&E, Military Construction, Family Housing, and National Defense Sealift Fund are also included.

[5] RDT&E=Research, Development, Test and Evaluation

Department of Defense–Budget Authority by Component[6] [7] (Dollars in millions)								Table A-2
	FY 1985	FY 1990	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004[8]	FY 2005
Current Dollars								
Army	74,270	78,479	73,165	77,027	85,918	121,132	132,891	97,025
Navy	99,015	99,977	88,795	95,501	102,376	124,057	120,259	119,172
Air Force	99,420	92,890	83,050	89,549	100,228	125,245	124,034	120,421
Defense Agencies/OSD/JCS	14,096	21,652	45,524	47,872	57,109	67,366	64,543	66,016
Total, Current Dollars	**286,802**	**292,999**	**290,534**	**309,948**	**345,631**	**437,801**	**441,728**	**402,635**
Constant FY 2003 Dollars								
Army	130,088	117,706	83,404	85,551	92,210	126,356	135,395	97,025
Navy	164,916	143,762	100,195	104,579	109,089	129,347	122,593	119,172
Air Force	162,189	132,232	93,143	97,234	106,175	130,207	126,270	120,421
Defense Agencies/OSD/JCS	23,525	29,583	52,099	53,531	62,479	70,893	66,243	66,016
Total, Constant Dollars	**480,718**	**423,282**	**328,841**	**340,895**	**369,953**	**456,803**	**450,500**	**402,635**
% Real Growth								
Army			3.5	2.6	7.8	37.0	7.2	-28.3
Navy			2.7	4.4	4.3	18.6	-5.2	-2.8
Air Force			-0.8	4.4	9.2	22.6	-3.0	-4.6
Total			**1.7**	**3.7**	**8.5**	**23.5**	**-1.4**	**-10.6**

[6] Numbers may not add to total due to rounding. Entries for the three military departments include Retired Pay accrual.

[7] Extensive budget data is available on the DoD web site—www.dod.mil/comptroller. Click on Defense Budget, then National Defense Budget Estimates (Green Book).

Each year's multi-volume Budget of the United States Government is the most widely available source for data for National Defense (Function 050 – includes Dept of Energy defense activities) and for the Department of Defense (DoD) (Function 051). The President submits his proposed budget to Congress on the first Monday in the February preceding the October 1st start of a new fiscal year. Each year's Budget is available in most public libraries and many Congressional offices. It also is on line at ***www.gpo.gov/usbudget/***, where one can select:

- Budget of the US Government, the main document, includes chapter on national security.
- Historical Tables: Include tables showing total budget authority and total outlays (total equals discretionary plus mandatory).
- Budget System and Concepts for explanations of the federal budget process and terms like budget authority, discretionary spending, and mandatory spending.

[8] For FY 2004, a $3.5 billion rescission to the FY 2003 Iraq Freedom Fund is included in O&M; a $1.8 billion rescission to DoD appropriations in the FY 2004 Omnibus Appropriations Act is reflected in Defense-Wide Contingency; and $.8 billion in prior-year program rescissions to Procurement, RDT&E, Military Construction, Family Housing, and National Defense Sealift Fund are also included.

APPENDIX B: PERSONNEL TEMPO

This appendix responds to Title 10 United States Code, Section 487 requirement for the Secretary of Defense to provide an annual report on the operations and personnel tempo for each of the Military Services. Personnel Tempo (PERSTEMPO) measures the time a member is deployed. A Service member is considered "deployed" when that member is:

- On orders and;
- Performing duties in a training exercise or operation at a location or under circumstances that make it impossible or infeasible for the member to spend off-duty time in the housing at the member's permanent duty station or home port.

In the specific case of a member of a Reserve Component performing active service, the member is considered "deployed" when that member is:

- On orders that do not establish a permanent change of station and;

A member is not deployed when the member is:

- Performing service as a student or trainee at a school (including any government school);
- Performing administrative, guard, or detail duties in garrison at the member's permanent duty station; or
- Unavailable solely because of hospitalization (when not deployed) or as a result of discipline action.

The Department now has a system in place to track individual deployment information uniformly based upon the above definition. These data are shown in table D-1.

Service Size and Deployment Summary — Table D-1

Component		FY 1999*	FY 2000*	FY 2001				FY 2002				FY 2003			
					Deployed				Deployed				Deployed		
						Average				Average				Average	
		End Strength	End Strength	End Strength (ES)	Members Deployed	Days / Deployed Members	Days / ES	End Strength	Members Deployed	Days / Deployed Members	Days / End Strength	End Strength	Members Deployed	Days / Deployed Members	Days / End Strength
Army	Active	479,426	482,170	475,072	255,853	51.3	27.6	477,914	202,969	81.1	34.4	488,640	226,274	160.8	74.4
	Reserve	391,409	369,215	362,295	74,214	17.2	3.5	337,015	81,135	34.8	8.4	337,015	80,586	65.9	15.7
	Guard	362,059	357,257	355,351	189,578	17.5	9.3	354,293	199,065	49.3	27.7	350,568	219,230	108.9	68.1
	Total	**1,232,894**	**1,208,642**	**1,192,718**	**519,645**	**34.1**	**14.9**	**1,169,222**	**483,169**	**60.2**	**24.9**	**1,176,223**	**526,090**	**124.6**	**55.7**
Navy	Active	373,046	373,193	366,990	183,340	118.9	59.4	376,781	190,915	121.3	61.4	377,881	177,726	126.7	59.6
	Reserve	202,411	191,293	172,681	61,305	87.3	31.0	154,525	51,798	98.7	33.1	154,525	44,159	105.3	30.1
	Total	**575,457**	**564,486**	**539,671**	**244,645**	**111.0**	**50.3**	**531,306**	**242,713**	**116.4**	**53.2**	**532,406**	**221,885**	**122.5**	**51.0**
Marine Corps	Active	172,641	173,321	171,688	96,756	67.6	38.1	171,142	96,672	84.4	47.7	176,087	109,294	126.7	78.6
	Reserve	99,388	100,750	98,109	9,376	15.6	1.5	96,570	15,411	73.1	11.7	96,570	25,989	147.5	39.7
	Total	**272,029**	**274,071**	**269,797**	**106,132**	**63.0**	**24.8**	**267,712**	**112,083**	**82.9**	**34.7**	**272,657**	**135,283**	**130.7**	**64.8**
Air Force	Active	360,590	355,654	348,821	190,178	43.7	23.8	357,392	190,666	55.9	29.8	366,278	206,626	69.8	39.4
	Reserve	143,172	139,073	191,308	46,775	25.4	6.2	114,433	38,905	46.8	15.9	114,433	35,258	49.3	15.2
	Guard	105,715	106,365	121,891	55,833	21.3	9.8	111,242	40,717	42.3	15.5	109,457	39,722	45.0	16.3
	Total	**609,477**	**601,092**	**662,020**	**292,786**	**36.5**	**16.2**	**583,067**	**270,288**	**52.6**	**24.4**	**590,168**	**281,606**	**63.7**	**30.4**
DoD	**Total**	**2,689,857**	**2,648,291**	**2,664,206**	**1,163,208**	**53.5**	**23.4**	**2,551,307**	**1,108,253**	**73.0**	**31.7**	**2,571,454**	**1,164,864**	**110.2**	**49.9**

* Prior to 2001 the Services did not consistently track deployed data

Data from Defense Manpower Data Center

Table D-1 depicts the total end strength of each of the military services for FY's 1999-2003. For Fiscal Years 1999 and 2000, the active end strength is calculated by counting those members on active duty as of the end of the fiscal year. Reserve end strength is calculated as those members in the ready reserve as of the last day of each fiscal year. For 2001-2003, the end strength is an average over the year. To calculate deployment days, the military departments collect deployment data for each individual service member and send the data to the Defense Management Data Center (DMDC), who then aggregate and average. The table shows the number of members deployed, average days deployed per member (who had deployed) and deployment days per end strength. Prior to 2001, the Services did not have a uniform definition for deployed personnel therefore; the chart shows deployment data from 2001 and onward. Data for "Low Density /High Demand" assets and units of battalion size or larger participating in named contingency operations or major training events, contain classified or sensitive information. Requests for these data should be directed to the Deputy Under Secretary of Defense (Readiness).

APPENDIX C: RESOURCES ALLOCATED TO MISSION AND SUPPORT ACTIVITIES

Section 113(1) of Title 10, United States Code, requires the Department of Defense (DoD) to identify resources allocated to mission and support activities in each of the five preceding fiscal years. In response to that requirement, Appendix C provides year-by-year comparisons of:

- DoD funding (in constant dollars) allocated to forces and infrastructure (Table C-1).[1]
- DoD manpower allocated to forces and infrastructure (Tables C-2 through C-7).
- DoD manpower in management headquarters and headquarters support activities, compared to active-duty military end-strength (Table C-8).

Data for the reporting period (FY 2000-2004) have been normalized for definitional or accounting changes.

As shown in Table C-1, the Department is allocating about 41% of Total Obligational Authority (TOA) to infrastructure activities in FY 2004, down from about 42% in the preceding year. Tables C-2 through C-8, which address DoD manpower, show continued reductions in manpower for infrastructure activities. This is an important measure of the Department's progress in improving the efficiency of its support operations. The efficiencies achieved result from initiatives in the Quadrennial Defense Review and Defense Reform Initiatives, including savings from previous base realignment and closure rounds, strategic and competitive sourcing initiatives, and privatization and reengineering efforts.

DEFINITIONS

In tracking annual resource allocations, this appendix uses an updated version of the mission and infrastructure definitions adopted by the Department for the 1993 Bottom-Up Review and used in the 1997 and 2001 Quadrennial Defense Reviews. The updated definitions support macro-level comparisons of DoD resources such as those presented here. They are based on the 2001 Quadrennial Defense Review, the Future Years Defense Program (FYDP), and Institute for Defense Analyses publication, *DoD Force and Infrastructure Categories: A FYDP-Based Conceptual Model of Department of Defense Programs and Resources*, prepared for the Office of the Secretary of Defense. While the updated definitions differ from their predecessors, the overall impact on the ratio of infrastructure to force structure is small (about 5 percent). The definitions are

[1] In this appendix, the term "forces" is synonymous with mission and the term "infrastructure" is synonymous with support.

consistent with the Goldwater-Nichols Department of Defense Reorganization Act of 1986 (P.L. 99-433). This act requires that combat units, and their organic support, be routinely assigned to the combatant commanders and that the military departments retain the activities that create and sustain those forces. This feature of U.S. law provides the demarcation line between forces (military units assigned to combatant commanders) and infrastructure (activities retained by the military departments). In addition to more precisely distinguishing forces from infrastructure, the force subcategories have been updated to reflect current operational concepts. The infrastructure subcategories likewise have been updated and streamlined.

The sections that follow define the force and infrastructure categories addressed in this appendix. Each FYDP program element is assigned to one and only one force or infrastructure category.

FORCE CATEGORIES

- ***Expeditionary Forces.*** Operating forces designed primarily for nonnuclear operations outside the United States. Includes combat units (and their organic support) such as divisions, tactical aircraft squadrons, and aircraft carriers.
- ***Deterrence and Protection Forces.*** Operating forces designed primarily to deter or defeat direct attacks on the United States and its territories. Also includes those agencies engaged in U.S. international policy activities under the direct supervision of the Office of the Secretary of Defense.
- ***Other Forces.*** Includes most intelligence, space, and combat-related command, control, and communications programs, such as cryptologic activities, satellite communications, and airborne command posts.

INFRASTRUCTURE CATEGORIES

- ***Force Installations.*** Installations at which combat units are based. Includes the services and organizations at these installations necessary to house and sustain the units and support their daily operations. Also includes programs to sustain, restore, and modernize buildings at the installations and protect the environment.
- ***Communications and Information Infrastructure.*** Programs that provide secure information distribution, processing, storage, and display. Major elements include long-haul communications systems, base computing systems, Defense Enterprise Computing Centers and detachments, and information assurance programs.
- ***Science and Technology Program.*** The program of scientific research and experimentation within the Department of Defense that seeks to advance fundamental science relevant to military needs and determine if the results can be successfully applied to military use.

- ***Acquisition Infrastructure.*** Activities that develop, test, evaluate, and manage the acquisition of military equipment and supporting systems. These activities also provide technical oversight throughout a system's useful life.
- ***Central Logistics.*** Programs that provide supplies, depot-level maintenance of military equipment and supporting systems, transportation of material, and other products and services to customers throughout the DoD.
- ***Defense Health Program (DHP).*** Medical infrastructure and systems, managed by the Assistant Secretary of Defense for Health Affairs, that provide health care to military personnel, dependents, and retirees.
- ***Central Personnel Administration.*** Programs that acquire and administer the DoD workforce. Includes acquisition of new DoD personnel, station assignments, provision of the appropriate number of skilled people for each career field, and miscellaneous personnel management support functions, such as personnel transient and holding accounts.
- ***Central Personnel Benefits Programs.*** Programs that provide benefits to service members. Includes family housing programs; commissaries and military exchanges; dependent schools in the United States and abroad; community, youth, and family centers; child development activities; off-duty and voluntary education programs; and a variety of ceremonial and morale-boosting activities.
- ***Central Training***. Programs that provide formal training to personnel at central locations away from their duty stations (non-unit training). Includes training of new personnel, officer training and service academies, aviation and flight training, and military professional and skill training. Also includes miscellaneous other training-related support functions.
- ***Departmental Management***. Headquarters whose primary mission is to manage the overall programs and operations of the Department of Defense and its components. Includes administrative, force, and international management headquarters, and defense-wide support activities that are centrally managed. Excludes headquarters elements exercising operational command (which are assigned to the Other Forces category) and those management headquarters that are associated with other infrastructure categories.
- ***Other Infrastructure.*** These programs do not fit well into other categories. They include programs that (1) provide management, basing, and operating support for DoD intelligence activities; (2) conduct navigation, meteorological, and oceanographic activities; (3) manage and upgrade DoD-operated air traffic control activities; (4) support warfighting, wargaming, battle centers, and major modeling and simulation programs; (5) conduct medical contingency preparedness activities not part of the DHP; and (6) fund CINC-sponsored or JCS-directed joint exercises. Also included in this category are centralized resource adjustments that are not allocated among the programs affected (e.g., foreign currency fluctuations, commissary resale stocks, and force structure deviations).

Table C-1

Department of Defense
TOA by Force and Infrastructure Category
Constant FY 2005 $ (Billions)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Forces					
Expeditionary Forces	135	141	151	197	208
Deterrence & Protection Forces	8	9	13	14	14
Other Forces	30	32	34	49	50
Defense Emergency Response Fund	0	0	14	1	0
Forces Total	**173**	**183**	**213**	**261**	**272**
Infrastructure					
Force Installations	24	24	27	34	29
Communications & Information	5	5	6	8	7
Science & Technology Program	9	9	10	11	12
Acquisition	9	9	9	9	10
Central Logistics	21	19	20	27	24
Defense Health Program	20	18	26	23	25
Central Personnel Administration	11	11	8	12	12
Central Personnel Benefits Programs	8	8	9	9	9
Central Training	27	27	30	34	33
Departmental Management	15	16	17	20	21
Other Infrastructure	3	8	3	4	3
Infrastructure Total	**151**	**154**	**166**	**190**	**186**
Grand Total	**324**	**337**	**379**	**451**	**459**
Infrastructure as a Percentage of Total	**47%**	**46%**	**44%**	**42%**	**41%**

Source: FY 2005 President's Budget and associated FYDP with Institute for Defense Analyses FYDP normalization adjustments.

Note: TOA = Total Obligational Authority

Table C-2

Department of Defense
Active Duty Military & Civilian Manpower by
Force and Infrastructure Category (In Thousands)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Forces					
Expeditionary Forces	796	804	839	876	852
Deterrence & Protection Forces	29	27	27	29	32
Other Forces	59	60	67	64	68
Forces Total	**884**	**892**	**932**	**969**	**952**
Infrastructure					
Force Installations	173	171	163	163	154
Communications & Information	24	25	24	22	23
Science & Technology Program	15	15	16	17	16
Acquisition	98	97	96	100	97
Central Logistics	182	176	178	169	164
Defense Health Program	127	129	129	132	132
Central Personnel Administration	91	93	85	83	80
Central Personnel Benefits Programs	48	49	47	47	48
Central Training	298	297	293	285	274
Departmental Management	119	117	116	115	112
Other Infrastructure	23	14	24	21	22
Infrastructure Total	**1,199**	**1,184**	**1,172**	**1,155**	**1,122**
Grand Total	**2,083**	**2,076**	**2,105**	**2,123**	**2,075**
Infrastructure as a Percentage of Total	**58%**	**57%**	**56%**	**54%**	**54%**

Source: FY 2005 President's Budget and associated FYDP with Institute for Defense Analyses FYDP normalization adjustments.

Note: Excludes National Guard and Reserve Personnel.

Table C-3

Department of the Army
Active Duty Military & Civilian Manpower by
Force and Infrastructure Category (In Thousands)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Forces					
Expeditionary Forces	340	346	354	379	355
Deterrence & Protection Forces	2	2	2	2	2
Other Forces	10	11	13	12	12
Forces Total	**352**	**358**	**369**	**393**	**370**
Infrastructure					
Force Installations	39	38	34	37	32
Communications & Information	6	6	6	5	6
Science & Technology Program	10	10	10	12	11
Acquisition	11	11	12	12	13
Central Logistics	43	43	45	42	44
Defense Health Program	50	50	50	51	51
Central Personnel Administration	38	36	36	33	34
Central Personnel Benefits Programs	6	6	6	5	6
Central Training	113	110	107	97	100
Departmental Management	32	32	32	32	33
Other Infrastructure	4	0	4	4	5
Infrastructure Total	**352**	**342**	**343**	**330**	**335**
Grand Total	**704**	**700**	**711**	**723**	**705**
Infrastructure as a Percentage of Total	**50%**	**49%**	**48%**	**46%**	**48%**

Source: FY 2005 President's Budget and associated FYDP with Institute for Defense Analyses FYDP *normalization adjustments*.

Note: Excludes National Guard and Reserve Personnel.

Table C-4

Navy
Active Duty Military & Civilian Manpower by Force and Infrastructure Category (In Thousands)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Forces					
Expeditionary Forces	171	176	184	179	186
Deterrence & Protection Forces	12	12	13	12	16
Other Forces	12	12	12	13	13
Forces Total	**196**	**200**	**209**	**204**	**215**
Infrastructure					
Force Installations	46	46	45	53	57
Communications & Information	6	6	6	5	5
Science & Technology Program	0	0	0	0	0
Acquisition	51	52	51	55	51
Central Logistics	60	59	60	56	49
Defense Health Program	38	39	40	42	42
Central Personnel Administration	32	31	30	31	23
Central Personnel Benefits Programs	6	5	6	6	6
Central Training	80	78	75	74	67
Departmental Management	28	28	28	28	27
Other Infrastructure	5	6	6	4	4
Infrastructure Total	**354**	**351**	**348**	**354**	**331**
Grand Total	**549**	**551**	**557**	**558**	**546**
Infrastructure as a Percentage of Total	**64%**	**64%**	**63%**	**63%**	**61%**

Source: FY 2005 President's Budget and associated FYDP with Institute for Defense Analyses FYDP normalization adjustments.

Note: Excludes Reserve Personnel.

Table C-5

Department of the Air Force
Active Duty Military & Civilian Manpower by Force and Infrastructure Category (In Thousands)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Forces					
Expeditionary Forces	175	173	187	200	196
Deterrence & Protection Forces	14	13	11	13	13
Other Forces	26	27	30	28	29
Forces Total	**215**	**212**	**229**	**241**	**238**
Infrastructure					
Force Installations	68	67	64	53	47
Communications & Information	5	5	5	5	5
Science & Technology Program	5	5	5	5	5
Acquisition	18	17	16	17	17
Central Logistics	49	47	45	45	44
Defense Health Program	39	40	39	39	39
Central Personnel Administration	9	14	7	8	11
Central Personnel Benefits Programs	4	6	5	5	5
Central Training	66	71	75	77	69
Departmental Management	28	27	28	27	26
Other Infrastructure	12	6	12	10	9
Infrastructure Total	**303**	**304**	**300**	**291**	**278**
Grand Total	**518**	**516**	**529**	**532**	**517**
Infrastructure as a Percentage of Total	**59%**	**59%**	**57%**	**55%**	**54%**

Source: FY 2005 President's Budget and associated FYDP with Institute for Defense Analyses FYDP normalization adjustments.

Note: Excludes National Guard and Reserve Personnel.

Table C-6

Marine Corps
Active Duty Military & Civilian Manpower by
Force and Infrastructure Category (In Thousands)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Forces					
Expeditionary Forces	109	109	113	117	115
Deterrence & Protection Forces	0	0	0	0	0
Other Forces	1	1	1	1	1
Forces Total	**111**	**110**	**114**	**118**	**116**
Infrastructure					
Force Installations	20	20	19	20	19
Communications & Information	0	0	0	0	0
Science & Technology Program	0	0	0	0	0
Acquisition	1	1	1	1	1
Central Logistics	5	5	5	5	5
Defense Health Program	0	0	0	0	0
Defense Health Program	0	0	0	0	0
Central Personnel Administration	11	11	11	11	11
Central Personnel Benefits Programs	2	2	2	1	1
Central Training	38	38	37	37	37
Departmental Management	5	6	6	6	6
Infrastructure Total	**83**	**82**	**80**	**81**	**80**
Grand Total	**193**	**193**	**194**	**199**	**196**
Infrastructure as a Percentage of Total	**43%**	**43%**	**41%**	**41%**	**41%**

Source: FY 2005 President's Budget and associated FYDP with Institute for Defense Analyses FYDP normalization adjustments.

Note: Excludes Reserve Personnel.

Table C-7

Defense Agency and Defense-Wide Civilian Manpower by Force and Infrastructure Category (In Thousands)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Forces					
Expeditionary Forces	0	0	0	0	0
Deterrence & Protection Forces	1	1	1	1	2
Other Forces	10	10	11	11	12
Forces Total	**11**	**11**	**12**	**12**	**13**
Infrastructure					
Force Installations	0	0	0	0	0
Communications & Information	7	7	7	7	6
Science & Technology Program	0	0	0	0	0
Acquisition	17	16	16	15	16
Central Logistics	24	22	22	21	22
Defense Health Program	0	0	0	0	0
Central Personnel Administration	1	1	1	1	1
Central Personnel Benefits Programs	31	30	29	29	29
Central Training	0	0	0	0	0
Departmental Management	25	25	23	22	20
Other Infrastructure	2	2	2	2	2
Infrastructure Total	**106**	**104**	**101**	**97**	**97**
Grand Total	**118**	**115**	**113**	**110**	**110**
Infrastructure as a Percentage of Total	**91%**	**91%**	**90%**	**89%**	**88%**

Source: FY 2005 President's Budget and associated FYDP with Institute for Defense Analyses FYDP normalization adjustments.

Table C-8

Headquarters and Headquarters Support Manpower Compared to Active Duty Military End-Strength (In Thousands)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Management Headquarters and Support Activities	30	29	29	28	27
Active-Duty Military End-strength	1,384	1,387	1,416	1,434	1,391
Headquarters Manning as a Percentage of Military End-Strength	**2.2%**	**2.1%**	**2.0%**	**1.9%**	**1.9%**

Source: FY 2005 President's Budget and associated FYDP with Institute for Defense Analyses FYDP normalization adjustments.

Note: Excludes National Guard and Reserve Personnel.

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APPENDIX D: GOLDWATER-NICHOLS ACT IMPLEMENTATION REPORT

This appendix contains the Department's Joint Officer Management Annual Report for FY 2003. Except for compliance with Section 619a, Title 10, United States Code, Tables D-2, D-5, reasons in Tables D-9 and D-11, and promotion objectives, the Joint Duty Assignment Management Information System (JDAMIS) was used to produce this report.

COMPLIANCE WITH SECTION 619a, TITLE 10, U.S. CODE

Section 931 of the FY 1994 National Defense Authorization Act requires each Military Service to develop and implement personnel plans to permit the orderly promotion of officers to brigadier general or rear admiral (lower half). The following brigadier general/rear admiral (lower half) promotion boards were approved during FY 2003 not including professionals:

	USA	USAF	USMC	USN	Total
Number of Officers Selected for O-7	40	36	5	30	111
Number of officers joint qualified	28	30	4	13	75
Percent of officers joint qualified	78%	83%	80%	43%	67%

COMPLIANCE WITH SECTION 667, TITLE 10, U.S. CODE

Tables B1-B13 comprise the reportable requirements of section 667, title 10, U.S.C. for monitoring Department Joint Officer management and education programs.

Table D-1A

Summary of Joint Specialty Officer (JSO) and JSO Designations for FY 2003

	USA	USAF	USMC	USN	Total
Number of officers designated as JSOs*	626	1543	92	444	2705
Number of officers who meet selection criteria but were not selected	20	3	2	0	25
Number of JSOs designated under standard provisions	495	1045	39	233	1822
Number of JSOs designated under COS provisions	114	425	51	176	766

Note: Designation under section 521(a) of the 2002 National Defense Authorization Act. 593 nominees submitted July 2003; approved by Deputy Secretary of Defense on 29 October 2003.

Table D-1B

Critical Occupational Specialties (COS)

USA	USAF	USMC	USN
Infantry	Pilot	Infantry	Surface
Armor	Navigator	Tanks/AAV	Submariner
Artillery	Command/Control Operations	Artillery	Aviation
Air Defense Artillery	Space/Missile Operations	Air Control/Air Support	SEALS
Aviation		Anti-Air Warfare	Special Operations
Special Operations		Aviation	
Combat Engineers		Engineers	

Table D-2

JSOs by Branch and Grade

USA		USAF		USMC		USN	
O-9	0	O-9	6	O-9	0	O-9	0
O-8	11	O-8	12	O-8	0	O-8	0
O-7	9	O-7	7	O-7	1	O-7	0
O-6	127	O-6	363	O-6	26	O-6	72
O-5	444	O-5	931	O-5	50	O-5	310
O-4	35	O-4	224	O-4	15	O-4	62

Table D-3

Summary of Officers on Active Duty with a Critical Occupational Specialty (as of September 30, 2003)

	USA	USAF	USMC	USN	Total
COS officers designated as JSOs	834	1457	344	900	3535
COS JSOs currently serving in a JDA	492	905	243	846	2486
COS JSOs nominees who completed a JDA and are currently attending JPME	17	11	5	14	47
COS officers who have completed JPME	1213	2147	492	1439	5291
COS officers designated as JSO nominees who have not completed JPME	1167	1796	475	1828	5266

Table D-4

Summary of JSOs with Critical Occupational Specialties Who are Serving or Have Served in a Second Joint Assignment (as of September 30, 2003)

	USA	USAF	USMC	USN	Total
Field Grade					
Have Served*	187(75)	216(110)	16(12)	90(37)	509(234)
Are Serving*	79(26)	119(38)	17(4)	95(18)	310(86)
General/Flag					
Have Served*	12(9)	40(17)	9(6)	8(2)	69(34)
Are Serving*	9(5)	13(16)	3(5)	3(5)	28(21)

*Number in parenthesis indicates number of second joint assignments, which were to a critical joint position.

Table D-5

Analysis of the Assignment Where Officers Were Reassigned (in FY 2003) on Their First Assignment Following Designation as a JSO

	USA	USAF	USMC	USN	Total
Assignment Category					
Command	20	92	0	19	131
Service Headquarters	17	39	1	15	72
Joint Staff Critical	1	0	0	0	1
Joint Staff Other	3	9	0	1	13
Other JDA	28	95	2	25	150
Professional Military Education (PME)	15	44	7	2	68
Retirement/separation	4	119	3	0	126
Other Operations	25	100	17	24	166
Other Staff	59	0	15	2	76
Other Shore (Navy)	N/A	N/A	N/A	57	57

Table D-6

Average Length of Tour of Duty in Joint Duty Assignments (FY 2003) (in months)

	USA	USAF	USMC	USN	DoD Avg
General/Flag Officers					
Joint Staff	26.00	21.50	20.50	29.00	23.21
Other Joint	28.33	28.15	23.67	30.45	28.20
Joint Total	28.00	26.62	22.88	30.33	27.32
Field Grade Officers					
Joint Staff	34.35	31.15	36.14	36.05	33.53
Other Joint	37.20	36.85	38.51	38.10	37.30
Joint Total	36.92	36.39	38.32	37.94	36.98

Table D-7

Summary of Tour Length Exclusions for FY 2003

Category	USA	USAF	USMC	USN	Total
Retirement	65	71	9	46	191
Separation	0	2	0	7	9
Suspension from duty	5	3	3	1	12
Compassionate/Medical	6	5	3	2	15
Other joint after promotion	15	1	1	1	18
Reorganization	3	9	3	1	16
Joint overseas-short tours	155	94	10	31	290
Second tours	36	37	8	40	121
Joint accumulation	13	4	14	5	36
COS reassignment	83	87	35	124	329
Total	401	338	87	272	1098

Table D-8

Joint Duty Position Distribution by Service (as of September 30, 2003)

	USA	USAF	USMC	USN	Total
Joint Staff Positions Assigned	258	255	65	197	775
Joint Staff Positions Filled	262	206	67	180	715
Other Joint Duty Assignment Positions Assigned	2904	3102	514	1785	8305
Other Joint Duty Assignment Positions Filled	2282	2241	412	1466	6401
Total Joint Duty Assignment Positions Assigned	3162	3357	579	1982	9080
Total Joint Duty Assignment Positions Filled	2544	2447	479	1646	7116
Percent of Total Number of Joint Duty Assignments	35%	37%	6%	22%	100%
Percent of Total Number of Officers*	80%	73%	83%	83%	78%
*Total Commissioned Officers: O-3 through O-10 less professional categories.					

Table D-9A

Critical Position Summary (as of September 30, 2003)

	USA	USAF	USMC	USN	Total
Total number of critical positions	315	290	53	142	800
Number of vacant critical positions	59	48	8	50	265
Number of critical positions filled by JSOs	105	118	13	56	292
Of those positions filled, percent filled by JSOs	41%	49%	29%	60%	54%
Number of critical positions filled by non-JSOs	150	24	32	36	242
Percent of critical positions filled by JSOs&Non-JSOs	65%	83%	85%	64%	67%

Reasons for Filling Critical Positions with Officers Who are Not JSOs	Table D-9B
Position filled by non-JSO incumbent prior to being a joint position	2
Position being converted to a non-critical position or being deleted	3
Joint specialty officer not yet available	1
Best qualified officer not joint specialist	196
Position filled by non-JSO incumbent prior to being a critical position	0
Other	40

The following organizations have joint duty critical positions, which are filled by officers who do not possess the joint specialty	Table D-9C
JFCOM	15
CENTCOM	17
NORTHCOM	2
OSD	8
EUCOM	15
CJCS Activities	7
DOD Agencies	36
Joint Staff	27
STRATCOM	14
General/Flag Officers	29
PACOM	37
SOCOM	10
SOUTHCOM	6
TRANSCOM	4
Cross Department	2
Allied Command Europe	8
Allied Command Atlantic	3
NATO Military Committee	2
Total	242

Comparison of Waiver Usage (FY 2003)					Table D-10
	USA	USAF	USMC	USN	Total
Field Grade					
JSO Designations	606	1518	91	444	2659
JSO Sequence Waivers	13	0	0	0	13
JSO Two-tour Waivers	0	0	0	0	0
JSOs Graduating from JPME	6	14	4	8	32
Post JPME Assignment Waivers Granted	4	2	2	3	11
Field Grade Officers who departed JDAs	907	928	171	546	2552
Field Grade JDA tour length waivers	88	101	7	27	223
General/Flag Officer					
JSO Designations	20	25	1	0	46
JSO Designation Waivers	0	0	0	0	0
General/Flag Officers who departed JDAs	31	33	9	15	88
General/Flag Officer JDA tour length waivers	7	9	0	4	20
Attended CAPSTONE	40	44	7	25	116
CAPSTONE Waivers	0	0	0	0	0
Selected for Promotion to O-7*	40	36	5	30	111
Good of the Service Waivers	3	0	1	2	6
Other Waivers*	8	5	0	14	27
*Does not include professional categories.					

Joint Professional Military Education (PME) Phase II Summary (FY 2003)					Table D-11A
	USA	USAF	USMC	USN	Total
Students graduating from JFSC in FY 2003	212	298	60	158	728
Students who had completed Resident PME	135	76	21	109	341
Percent of Total	63%	25%	35%	69%	47%
Students who had completed non-resident PME	74	216	38	48	376
Percent of Total	35%	72%	63%	30%	52%
Students without resident or non-resident PME	0	0	1	2	3
Percent of Total	0%	0%	.02%	.01%	.4%

Reasons for Students Not Completing Resident PME Prior to Attending Phase II	Table D-11B
Officer completed Phase I by correspondence/seminar	376
Officer completed Phase I equivalent program	8
Officer scheduled to attend a resident PME immediately following Phase II	0
Officer career path did not allow attendance at a resident PME program	0
Other	0

Table D-12A

Temporary Joint Task Force Credit (FY 2003)

Category	USA	USAF	USMC	USN	Total
Full Joint Tour Credit *	0	0	0	0	0
Cumulative Credit *	16	15	2	2	33

*A total of 33 officers applied for Temporary Joint Task Force Credit in FY 2003. Request is pending favorable consideration from the Office of the Secretary of Defense (submitted March 2003).

Table D-12B

Operations for which Joint Task Force Credit has been awarded (FY 2003)

Operation	Date of Operations
Operation NORTHERN WATCH*	01 Aug 92 - TBD
Operation SOUTHERN WATCH*	27 Aug 92 - TBD
Operation ABLE SENTRY*	26 Jun 93 - 28 Feb 99
Operation JOINT ENDEAVOR*	25 Dec 95 - 19 Dec 96
Operation JOINT GUARD*	20 Dec 96 - 20 Jun 98
Operation DESERT THUNDER*	24 Jan 98 - 15 Dec 98
Operation JOINT FORGE*	20 Jun 98 - 10 Jun 99
Operation NOBLE ANVIL*	24 Mar 99 - 20 Jul 99
Operation JOINT GUARDIAN*	11 Jun 99 - TBD

*Note: Approved under section 523, 2002 National Defense Authorization Act.

Table D-12C

Positions for which Joint Task Force Credit has been requested (FY 2003)

Operation/Headquarters Location	Number of Positions Requested
Combined Joint Task Force AFG/180*	106
Bagram, Afghanistan	
Combined Joint Task Force HOA*	100
Camp Lemonier, Djibouti	
Combined Joint Task Force 7*	137
Camp Dohar, Qatar	

*Task Forces submitted in June 2003; approved by Principal Deputy Under Secretary of Defense on 10 October 2003.

Table D-13A

FY 2003 Army Joint Officer Promotion Comparisons

Grade	Category	Are Serving In			Have Served In			Total In Zone			Remarks
		IZ%	BZ%	AZ%	IZ%	BZ%	AZ%	Con[1]	Sel[1]	%	
O-8	Joint Staff	0%	N/A	N/A	100%	N/A	N/A	8	8	100	See 2 & 3
	JSO	0%	N/A	N/A	0%	N/A	N/A	24	10	42	
	Service Hqs	25%	N/A	N/A	43%	N/A	N/A	15	5	33	
	Other Joint	20%	N/A	N/A	63%	N/A	N/A	12	6	50	
	Board Avg							68	30	44	
O-7	Joint Staff	19%	N/A	N/A	10%	N/A	N/A	84	12	14	
	JSO	0%	N/A	N/A	0%	N/A	N/A	580	15	3	
	Service Hqs	7%	N/A	N/A	4%	N/A	N/A	254	14	6	
	Other Joint	1%	N/A	N/A	2%	N/A	N/A	357	6	2	
	Board Avg							1661	40	2	
O-6	Joint Staff	47%	0%	0%	62%	14%	0%	65	44	68	
	JSO	48%	13%	8%	61%	8%	10%	182	117	62	
	Service Hqs	64%	0%	3%	64%	2%	0%	164	102	62	
	Other Joint	56%	2%	0%	46%	4%	4%	218	111	51	
	Board Avg							757	402	53	
O-5	Joint Staff	100%	67%	100%	100%	100%	0%	10	10	100	
	JSO	100%	0%	25%	83%	0%	25%	7	6	86	
	Service Hqs	88%	8%	10%	90%	10%	29%	115	102	89	
	Other Joint	84%	6%	20%	79%	7%	9%	339	280	83	
	Board Avg							1510	1191	79	
O-4	Joint Staff	0%	0%	0%	0%	0%	0%	0	0	0	
	JSO	N/A	N/A	N/A	N/A	N/A	N/A	0	0	0	
	Service Hqs	83%	0%	0%	100%	0%	0%	7	6	86	
	Other Joint	100%	0%	0%	0%	0%	0%	2	2	100	
	Board Avg							1439	1349	94	

Note 1: Con = Considered; Sel = Selected
Note 2: 0% indicates that no officers were selected in this category.
Note 3: N/A indicates that no officers considered were in this category.

Table D-13B

FY 2003 Air Force Joint Officer Promotion Comparisons

Grade	Category	Are Serving In			Have Served In			Total In Zone			Remarks
		IZ%	BZ%	AZ%	IZ%	BZ%	AZ%	Con[1]	Sel[1]	%	
O-8	Joint Staff	50%	N/A	N/A	50%	N/A	N/A	6	3	50	See 2 & 3
	JSO	N/A	N/A	N/A	N/A	N/A	N/A	54	17	31	
	Service Hqs	21%	N/A	N/A	43%	N/A	N/A	21	6	28	
	Other Joint	66%	N/A	N/A	50%	N/A	N/A	8	5	62	
	Board Avg							71	23	32	
O-7	Joint Staff	12%	N/A	N/A	12%	N/A	N/A	51	6	12	
	JSO	N/A	N/A	N/A	N/A	N/A	N/A	485	16	3	
	Service Hqs	5%	N/A	N/A	0%	N/A	N/A	125	5	4	
	Other Joint	1%	N/A	N/A	1%	N/A	N/A	241	3	1	
	Board Avg							1580	36	2	
O-6	Joint Staff	78%	11%	0%	56%	6%	100%	55	38	69	
	JSO	79%	7%	0%	74%	7%	0%	90	68	75	
	Service Hqs	56%	3%	0%	62%	8%	0%	168	101	60	
	Other Joint	48%	1%	0%	31%	1%	0%	247	95	38	
	Board Avg							791	363	46	
O-5	Joint Staff	100%	20%	17%	100%	33%	0%	8	8	100	
	JSO	0%	0%	0%	100%	0%	0%	8	8	100	
	Service Hqs	82%	9%	12%	82%	7%	0%	129	106	82	
	Other Joint	74%	3%	5%	83%	4%	0%	290	223	77	
	Board Avg							1502	1085	72	
O-4	Joint Staff	N/A	N/A	0%	N/A	N/A	0%	0	0	0	
	JSO	N/A	N/A	0%	N/A	N/A	0%	0	0	0	
	Service Hqs	100%	N/A	0%	100%	N/A	0%	20	20	100	
	Other Joint	89%	N/A	0%	100%	N/A	0%	11	12	91	
	Board Avg										

Note 1: Con = Considered; Sel = Selected
Note 2: 0% indicates that no officers were selected in this category.
Note 3: N/A indicates that no officers considered were in this category.

Table D-13C

FY 2003 Marine Corps Joint Officer Promotion Comparisons

Grade	Category	Are Serving In			Have Served In			Total In Zone			Remarks
		IZ%	BZ%	AZ%	IZ%	BZ%	AZ%	Con[1]	Sel[1]	%	
O-8	Joint Staff	N/A	N/A	N/A	N/A	N/A	N/A	0	0	0	See 2 & 3
	JSO	N/A	N/A	N/A	N/A	N/A	N/A	2	2	100	
	Service Hqs	100%	N/A	N/A	N/A	N/A	N/A	1	1	100	
	Other Joint	N/A	N/A	N/A	N/A	N/A	N/A	0	0	0	
	Board Avg							4	3	75	
O-7	Joint Staff	0%	N/A	N/A	22%	N/A	N/A	11	2	18	
	JSO	N/A	N/A	N/A	N/A	N/A	N/A	112	1	1	
	Service Hqs	7%	N/A	N/A	8%	N/A	N/A	54	4	7	
	Other Joint	0%	N/A	N/A	9%	N/A	N/A	18	1	6	
	Board Avg							231	5	2	
O-6	Joint Staff	64%	0%	0%	88%	0%	0%	19	14	74	
	JSO	33	0	0	54%	0%	N/A	26	15	58	
	Service Hqs	40%	0%	0%	52%	0%	0%	38	18	47	
	Other Joint	35%	0%	0%	36%	0%	0%	41	15	37	
	Board Avg							209	107	51	
O-5	Joint Staff	100%	0%	N/A	100%	N/A	N/A	3	3	100	
	JSO	N/A	N/A	0%	67%	N/A	N/A	3	2	67	
	Service Hqs	68%	0%	20%	68%	0%	40%	82	56	68	
	Other Joint	66%	0%	9%	65%	0%	14%	78	52	67	
	Board Avg							538	348	65	
O-4	Joint Staff	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	
	JSO	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	
	Service Hqs	85%	0%	100%	91	0%	0%	33	29	88	
	Other Joint	100%	0%	N/A	N/A	N/A	N/A	1	1	100	
	Board Avg							729	634	87	

Note 1: Con = Considered; Sel = Selected
Note 2: 0% indicates that no officers were selected in this category.
Note 3: N/A indicates that no officers considered were in this category.

Table D-13D

FY 2003 Navy Joint Officer Promotion Comparisons

Grade	Category	Are Serving In			Have Served In			Total In Zone			Remarks
		IZ%	BZ%	AZ%	IZ%	BZ%	AZ%	Con[1]	Sel[1]	%	
O-8	Joint Staff	100%	N/A	0%	100%	N/A	50%	3	3	100	See 2 & 3
	JSO	100%	N/A	0%	100%	N/A	0%	12	6	50	
	Service Hqs	33%	N/A	0%	50%	N/A	0%	11	5	45	
	Other Joint	80%	N/A	0%	0%	N/A	0%	6	4	67	
	Board Avg							43	21	62	
O-7	Joint Staff	43%	N/A	24%	0%	N/A	65	29	2	7	
	JSO	0%	N/A	1%	0%	N/A	0%	102	0	0	
	Service Hqs	0%	N/A	3%	5%	N/A	7%	97	1	1	
	Other Joint	0%	N/A	2%	0%	N/A	3%	72	0	0	
	Board Avg							428	3	2	
O-6	Joint Staff	89%	5%	0%	60%	4%	N/A	34	23	68	
	JSO	6%	0%	0%	62%	0%	N/A	120	73	62	
	Service Hqs	64%	2%	3%	25%	4%	4%	108	67	62	
	Other Joint	38%	1%	2%	31%	0%	0%	126	48	38	
	Board Avg							640	328	51	
O-5	Joint Staff	86%	0%	N/A	100%	0%	100%	10	9	90	
	JSO	N/A	N/A	0%	100%	0%	N/A	2	2	100	
	Service Hqs	70%	0%	9%	66%	0%	7%	43	31	72	
	Other Joint	65%	0%	6%	63%	1%	3%	108	71	65	
	Board Avg							1071	757	70	
O-4	Joint Staff	N/A	N/A	N/A	N/A	0%	0%	0	0	0	
	JSO	N/A	N/A	N/A	N/A	N/A	N/A	0	0	0	
	Service Hqs	66%	0%	0%	100%	0%	0%	13	11	84	
	Other Joint	88%	0%	0%	93%	0%	3%	31	28	90	
	Board Avg							1480	1243	84	

Note 1: Con = Considered; Sel = Selected
Note 2: 0% indicates that no officers were selected in this category.
Note 3: N/A indicates that no officers considered were in this category.

COMPLIANCE WITH SECTION 721, TITLE 10, U.S. CODE

In accordance with section 721(d)(2), title 10, U.S.C. the following table reports the number of general and flag officers who have simultaneously held both a position external to that officer's armed force and another position not external to that officer's armed force.

Table D-14A

General and Flag Officers Holding Multiple Positions

Multiple Positions Counted as External to Their Armed Force	
Joint Position	Service Position
Commander in Chief, United States Transportation Command	Commander, Air Mobility Command
Deputy Commander, Canadian NORAD Region	Commander, 722 Support Squadron, Air Combat Command
Assistant Chief of Staff, C/J-5, United Nations Command/Combined Forces Command/United States Forces Korea	Commander, Marine Forces Korea
Chief of Staff, Naval Striking and Support Forces, Southern Europe	Deputy Commanding General, Fleet Marine Force, Europe
Assistant Chief of Staff, J-3, United Nations Command/Combined Forces Command/United States Forces Korea	Deputy Commanding General, 8th Army
Assistant Chief of Staff, J-4, United Nations Command/Combined Forces Command/United States Forces Korea	Commanding General, (Support), 8th Army
Commander, United States Defense Forces, Iceland, United States Joint Forces Command	Commander, Fleet Air, Keflevik

Table D-14B

Multiple Positions Counted as Internal to Their Armed Force

Joint Position	Service Position
Member, Joint Chiefs of Staff	Chief of Staff, United States Air Force
Commander, Air North	Commander, United States Air Forces in Europe
Commander, United States Forces Japan	Commander, 5th Air Force
Deputy Commander in Chief, United Nations Command/Combined Forces Command/Deputy Commander, United States Forces Korea	Commander, 7th Air Force
Commander, Allied Air Forces Southern Europe	Commander, 16th Air Force
Commander, Alaskan Command, United States Pacific Command	Commander, 11th Air Force
Member, Joint Chiefs of Staff	Commandant of the Marine Corps
Member, Joint Chiefs of Staff	Chief of Staff, United States Army
Chief of Staff, United Nations Command/Combined Forces Command/United States Forces Korea	Commanding General, 8th Army
Member, Joint Chiefs of Staff	Chief of Naval Operations
Commander, Regional Command, South	Commander, United States Naval Forces, Europe
Commander, Naval Striking and Support Forces, Southern Europe	Commander, SIXTH Fleet
Commander, Striking Fleet, Atlantic	Commander, SECOND Fleet
Commander, Submarine, Allied Command, Atlantic	Commander, Submarine Force, United States Atlantic Fleet
Commander, United States Naval Forces United States Central Command	Commander, FIFTH Fleet
Commander, Maritime Air Forces, Mediterranean	Commander, Fleet Air Mediterranean
United States Pacific Command Representative, Guam	Commander, United States Naval Forces, Marianas
Commander, Allied Submarines, Mediterranean	Commander, Submarine Group 8/Commander Task Force 69

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