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DEPARTMENT OF THE NAVY JUSTIFICATION OF ESTIMATES
AMENDED FISCAL YEAR 190. (U) OFFICE OF THE COMPTROLLER
(NAVY) WASHINGTON DC FEB 80

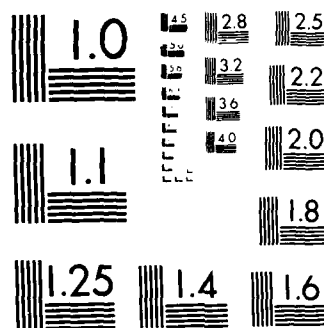
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MICROCOPY RESOLUTION TEST CHART
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**DEPARTMENT OF THE NAVY
JUSTIFICATION OF ESTIMATES
AMENDED FY 1988/1989 BIENNIAL
BUDGET**

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SUBMITTED TO CONGRESS FEBRUARY 1988

OPERATION & MAINTENANCE, NAVY

BOOK 4 OF 4

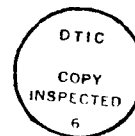
DEPARTMENT OF NAVY INDUSTRIAL FUND

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Department of the Navy
Navy Industrial Fund
Summary of Operations

Industrial Fund Functions: The Navy Industrial Fund includes the majority of the Navy's depot level repair facilities (such as shipyards, aviation depots, and ordnance facilities), base service centers, research and engineering facilities, and the Military Sealift Command. The forty-nine different Navy Industrial Fund activities are funded under the following activity groups:

Aeronautical Engineering Centers: Provides research development, test and evaluation, as well as engineering support, for various weapon systems.

Air Test Centers: Provides engineering services in support of various aircraft and weapon systems. Also conducts tests and evaluation of such systems.

Aviation Depots: Performs a complex range of depot level rework operations on designated weapon systems, accessories, and equipment.

Data Automation Center: Provides regional automated data processing services.

Military Sealift Command: Provides transportation services over the water, as well as other at sea logistical and scientific support services.

Naval Research Laboratories: Provides multidisciplined scientific research programs and advanced technological development in emerging areas. Also provides research efforts in support of shore facilities.

Ordnance Facilities: Provides technical, engineering and logistics support for various combat systems, components, support systems, and related equipment.

Publication and Printing Service: Serves as the central organization for publication and printing of Navy documents.

Public Works Centers: Provides utilities, base housing, transportation services, engineering services and other logistics and support services for shore facilities.

Shipyards: Provides logistics support for ships, including conversion, overhaul, repair, alteration, and outfitting.

Space and Naval Warfare Research and Development Centers: Conducts research, development, test and evaluations as requested by its customers (primarily the Research, Development, Test and Evaluation, Navy appropriation).

Budget Highlights: Approximately 91% of new customer orders for the Navy Industrial Fund in FY 1988 and FY 1989 are anticipated to come from Navy customers, with approximately 54% from Operation and Maintenance appropriations.

Rates for FY 1989 have been established at anticipated costs plus a surcharge for the Asset Capitalization Program. Transfers of \$163.2 million to the Department's Operation and Maintenance appropriations are provided for in FY 1988 in accordance with Congressional direction. Because of losses at the end of FY 1987, a passthrough of \$191.1 million from the Operation and Maintenance, Navy appropriation was requested for FY 1988. Although the Congress recognized the need for the passthrough, the request was denied because of affordability. The losses at the end of FY 1988 are projected to be \$818.6 million. The budget provides for a passthrough of \$397.8 million in FY 1989 with the remaining \$420 million loss to be recovered in FY 1990.

Costs of operations (without military costs) are expected to decrease by .3% in FY 1989. The decrease reflects the continued strides in improving productivity at our depots, public works centers and shipyards and a stock fund rate reduction. These decreases are offset by increases for general inflation and civilian pay raise. Additionally, the planned conversion of three engineering activities from the Navy Industrial Fund has been delayed until FY 1990.

Since 1987 the Department has budgeted at the Shipyards, Aviation Depots, Ordnance Stations and the Public Works Centers for savings of approximately \$1 billion. While this was an ambitious plan, The Department is achieving most of these projected savings.

The FY 1989 Asset Capitalization Program (ACP), because of deficiencies noted by the GAO in its report on the Naval Aviation Depots, has been reduced by \$171.3 million beyond the reduction directed by Congress in FY 1988. This reduction will enable the Navy Industrial Fund activities to correct the deficiencies noted and put the total program in a better managed basis and still satisfying the more urgent needs for equipment.

Last year the Department of Defense determined that various activity groups and functions should be funded via direct appropriations rather than through the industrial fund. Although, last year's budget submission provided for the transition of three activities in FY 1989, the change in financing methods has been delayed until FY 1990 to allow for a more orderly transition. However in FY 1989 the overhead costs will still be centrally funded out of Operation and Maintenance, Navy (Budget Activity 7) and the equipment will be funded by the Other Procurement, Navy appropriation. The remainder of the Research and Engineering activity groups, the Space and Naval Warfare Research and Development Centers, the Air Test Centers, and the Naval Research Laboratories are planned to be transitioned from the Navy Industrial Fund in FY 1991 and FY 1992.

Department of the Navy
Navy Industrial Fund
Summary of Operations

Summary of Financial Operations:

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Revenue *	14,465.5	14,392.2	14,495.7
Cost of Goods & Services Sold *	<u>14,110.1</u>	<u>14,246.6</u>	<u>14,388.8</u>
Revenue Less Costs	355.4	145.6	106.9
ACP Surcharges	-467.3	-232.2	-106.9
Refunds & Passthroughs (Net)	-1,158.0	-0-	-0-
Inventory Adjustments	-33.2	-0-	-0-
Net Operating Results	-1,303.1	-86.6	-0-
Prior Year & Other Adjustments	176.4	-16.0	-16.0
Transfers & Passthroughs (Net)	-0-	-163.2	397.9
Accumulated Operating Results	-552.8	-818.6	-436.7

* Includes amounts of \$229.0 million in FY 1989 paid from DoD Military Personnel appropriations. These amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Summary of Operations

Summary of Changes in Operations:

	(Dollars in Millions)		
	FY 1987 <u>Estimate</u>	FY 1987 <u>Actual</u>	<u>Variance</u>
Revenue	14,420.4	14,465.5	45.1
Cost of Goods & Services Sold	<u>13,709.1</u>	<u>14,110.1</u>	<u>401.0</u>
Revenue Less Costs	711.3	355.4	-355.9
ACP Surcharges	-467.3	-467.3	-0-
Refunds & Passthroughs (Net)	-1,161.8	1,158.0	+3.8
Inventory Adjustments	<u>-4.0</u>	<u>-33.2</u>	<u>-29.2</u>
Net Operating Results	-921.8	-1,303.1	-381.3

Variances in Net Operating
Results by Activity Group:

Aeronautical Engineering Centers	-26.6	-54.1	-27.5
Air Test Centers	-8.1	-15.7	-7.6
Aviation Depots	-174.6	-186.2	-11.6
Data Automation Center	-11.4	-21.0	-9.6
Military Sealift Command	-359.9	-524.6	-164.7
Naval Research Laboratories	-12.3	-20.8	-8.5
Ordnance Facilities	-69.4	-109.5	-40.1
Publication and Printing Service	-3.5	-0.9	2.6
Public Works Centers	20.7	17.6	-3.1
Shipyards	-183.7	-303.0	-119.3
Space and Naval Warfare Research and Development Centers	<u>-93.0</u>	<u>-84.9</u>	<u>8.1</u>
Total	-921.8	-1,303.1	-389.5

Increased costs in FY 1987 resulted from a less favorable cost environment than that envisioned at the time budgeted amounts were estimated. The variance of \$3.8 million in refunds and passthroughs represents the impact of actual costs relative to the Federal Employees Retirement System. Other refunds in FY 1987 were equal to budgeted amounts in total. During actual budget execution, however, it became apparent that some of the activity groups could not make budgeted refunds as initially expected. Thus, a redistribution of refund amounts by activity group was necessary. Inventory adjustments occurred in both the Naval Shipyards and Naval Aviation Depots activity groups.

Department of the Navy
Navy Industrial Fund
Summary of Operations

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
1. FY 1988 Estimate in FY 1988 President's Budget	13,534.5	13,887.8	13,887.8	191.0
2. Congressional Adjustments:	<u>-191.0</u>	-	<u>-142.7</u>	<u>-48.3</u>
a. ACP Surcharges	-	-	-71.1	71.1
b. Overhead	-	-	-35.5	35.5
c. Inflation Assumptions	-	-	-35.5	35.5
d. Passthroughs	-191.0	-	-	-191.0
3. Estimated Impact in FY 1988 of Actual FY 1987 Experience	<u>204.5</u>	<u>164.4</u>	<u>354.8</u>	<u>-190.4</u>
4. Pricing Adjustments:	<u>33.9</u>	<u>37.6</u>	<u>-132.6</u>	<u>170.2</u>
a. Revised General Inflation	-	-	-5.7	5.7
b. Revised Fuel Prices	33.9	37.6	37.6	-
c. Other	-	-	-164.5	164.5
5. Productivity Initiatives and Other Efficiencies:	<u>-43.7</u>	<u>-43.7</u>	<u>-61.2</u>	<u>17.5</u>
Military Sealift Command	-	-	-1.6	1.6
Ordnance Facilities	-	-	-1.0	1.0
Publication and Printing Service	-	-	-.2	.2
Public Works Centers	-	-	-7.2	7.2
Shipyards	-43.7	-43.7	-50.9	7.2
Space and Naval Warfare Research and Development Centers	-	-	-.3	.3
6. Program Changes:	<u>-75.3</u>	<u>535.5</u>	<u>553.3</u>	<u>-17.8</u>
Aeronautical Engineering Centers	71.6	19.4	9.1	10.3
Air Test Centers	80.6	44.4	42.7	1.7
Aviation Depots	100.8	97.7	92.2	5.5
Data Automation Center	49.4	49.4	51.0	-1.6
Military Sealift Command	2.0	2.7	43.9	-46.6
Naval Research Laboratories	-2.5	2.7	2.4	.3
Ordnance Facilities	19.9	19.9	18.8	1.1
Publication and Printing Service	.8	.8	.8	-
Public Works Centers	-15.0	12.1	5.2	6.9
Shipyards	-562.3	80.3	168.9	-88.6
Space and Naval Warfare Research and Development Centers	330.0	206.1	206.1	-

Department of the Navy
Navy Industrial Fund
Summary of Operations

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
7. Other Changes:	-34.4	-189.4	19.4	-208.8
a. Depreciation Expenses	-	-	-19.5	19.5
d. Other	-34.4	-189.4	38.9	-228.3
8. FY 1988 Current Estimate	13,428.5	14,392.2	14,478.8	-86.6
9. Pricing Adjustments:	<u>310.4</u>	<u>539.4</u>	<u>539.4</u>	-
a. Pay Raise				
1. FY 1989 Pay Raise	130.2	130.2	130.2	-
2. Annualization of FY 1988 Pay Raise	42.5	42.5	42.5	-
b. Stock Fund - Fuel	3.6	3.6	3.6	-
c. Stock Fund - Nonfuel	-62.1	-62.1	-62.1	-
d. Purchases From Other Industrial Funds	4.9	4.9	4.9	-
e. General Inflation	188.4	188.4	188.4	-
g. Military Personnel Notional Amounts *	-	229.0	229.0	-
h. Other	2.9	2.9	2.9	-
10. Productivity Initiatives and Other Efficiencies:	-77.7	-77.7	-77.7	-
Aviation Depots	-10.0	-10.0	-10.0	-
Military Sealift Command	-10.0	-10.0	-10.0	-
Naval Research Laboratories	-.6	-.6	-.6	-
Ordnance Facilities	-19.1	-19.1	-19.1	-
Publication and Printing Service	-2.0	-2.0	-2.0	-
Public Works Centers	-8.0	-8.0	-8.0	-
Shipyards	-19.2	-19.2	-19.2	-
Space and Naval Warfare Research and Development Centers	-8.8	-8.8	-8.8	-

Department of the Navy
Navy Industrial Fund
Summary of Operations

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
11. Program Changes:				
Aeronautical Engineering Centers	2.5	2.5	2.5	-
Air Test Centers	16.1	6.3	6.3	-
Aviation Depots	74.5	74.5	74.5	-
Data Automation Center	7.6	7.6	7.6	-
Military Sealift Command	5.4	5.4	5.4	-
Naval Research Laboratories	-.5	-.5	-.5	-
Ordnance Facilities	-104.2	-102.1	-102.1	-
Publication and Printing Service	.6	.6	.6	-
Public Works Centers	19.2	-14.2	-14.2	-
Shipyards	-627.0	-293.5	-293.5	-
Space and Naval Warfare Research and Development Centers	-60.4	-67.7	-67.7	-
12. Other Changes in:	453.3	-22.3	-108.9	86.6
a. Depreciation Expenses	59.9	59.9	59.9	-
b. ACP Surcharges	-125.3	-125.3	-125.3	-
c. Passthrough	398.0	-	-	-
d. Other Rate Changes	86.6	86.6	-	86.6
e. Other	34.1	-43.5	-43.5	-
13. FY 1989 Current Estimate	13,516.4	14,495.7	14,495.3	-

Department of the Navy
Navy Industrial Fund
Summary of Operations

Summary of New Customer Orders:

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Navy Appropriations and Funds:			
Operation and Maintenance	6,496.6	6,560.7	7,285.1
RDT&E	1,708.7	1,943.0	1,849.2
Procurement	1,086.6	1,777.4	1,210.2
Stock Funds	628.8	662.7	578.9
Other Navy Customers	1,187.1	1,334.2	1,341.7
Other DoD Customers	1,300.3	1,035.0	1,134.3
Non-DoD Customers	218.3	115.5	119.0
Total All Customers	<u>12,626.4</u>	<u>13,428.5</u>	<u>13,518.4</u>

Summary of Personnel Resources:

	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Civilian Personnel:			
End Strength:	<u>180,110</u>	<u>172,568</u>	<u>167,293</u>
Aeronautical Engineering Centers	5,700	5,319	5,381
Air Test Centers	7,494	7,022	6,988
Aviation Depots	23,507	22,290	21,879
Data Automation Center	2,839	2,822	2,822
Military Sealift Command	5,481	5,433	5,465
Naval Research Laboratories	4,022	3,911	3,877
Ordnance Facilities	20,332	19,921	19,545
Publication and Printing Service	1,742	1,741	1,740
Public Works Centers	12,577	11,990	11,613
Shipyards	72,366	68,900	64,850
Space and Naval Warfare Research and Development Centers	24,050	23,219	23,133
Workyears:	<u>178,024</u>	<u>177,923</u>	<u>173,013</u>
Aeronautical Engineering Centers	5,526	5,476	5,452
Air Test Centers	7,567	7,129	7,091
Aviation Depots	23,817	22,985	22,368
Data Automation Center	2,534	2,848	2,825
Military Sealift Command	5,318	5,143	5,240
Naval Research Laboratories	3,875	4,051	4,025
Ordnance Facilities	20,347	20,315	19,986
Publication and Printing Service	1,746	1,788	1,793
Public Works Centers	14,017	14,008	13,702
Shipyards	69,804	70,687	67,118
Space and Naval Warfare Research and Development Centers	23,473	23,493	23,413

Department of the Navy
Navy Industrial Fund
Summary of Operations

Summary of Personnel Resources (Continued):

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
<u>Military Personnel:</u>			
<u>End Strength:</u>	<u>6,490</u>	<u>6,632</u>	<u>6,607</u>
Aeronautical Engineering Centers	243	348	348
Air Test Centers	1,193	1,150	1,145
Aviation Depots	233	265	262
Data Automation Center	372	410	409
Military Sealift Command	860	905	923
Naval Research Laboratories	160	180	181
Ordnance Facilities	1,117	1,272	1,261
Publication and Printing Service	-	-	-
Public Works Centers	107	99	97
Shipyards	764	669	661
Space and Naval Warfare Research and Development Centers	1,381	1,334	1,320
 <u>Workyears:</u>	 <u>6,490</u>	 <u>6,632</u>	 <u>6,607</u>
Aeronautical Engineering Centers	243	348	348
Air Test Centers	1,193	1,150	1,145
Aviation Depts	233	265	262
Data Automation Center	372	410	409
Military Sealift Command	860	905	923
Naval Research Laboratories	160	180	181
Ordnance Facilities	1,177	1,272	1,261
Publication and Printing Service	-	-	-
Public Works Centers	107	99	97
Shipyards	764	669	661
Space and Naval Warfare Research and Development Centers	1,381	1,334	1,320

Department of the Navy
Navy Industrial Fund
Summary of Operations

Summary of Purchases of Capital Assets:

	(Obligations, Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Equipment:			
Available Amounts, Beginning of the Year	74.5	330.9	-
New Program Amounts	630.7	460.4	379.6
Total Available Program	<u>705.2</u>	<u>791.3</u>	<u>379.6</u>
Purchases of Equipment	374.3	791.3	379.6
Available Amounts, End of the Year	<u>330.9</u>	-	-
Unspecified Minor Construction Projects	42.6	59.8	47.2
Management Information Systems	61.7	33.7	18.0
Total New Program for Capital Assets	735.0	553.9	444.8
(Total Outlays)	511.9	731.0	633.5
Financing of Total New Program Amounts	735.0	553.9	444.8
Amounts Financed By:	695.4	528.4	444.8
Depreciation	228.2	296.2	338.1
Surcharge	467.3	232.2	106.7

Department of the Navy
Navy Industrial Fund
Program and Financing Summary

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Fund Balance (Unobligated Balance Available) Start of Year	2,969.5	1,393.1	347.6
New Customer Orders:			
Federal Funds	12,519.1	13,250.1	13,320.9
Trust Funds	60.6	104.6	109.6
Non-Federal Funds	<u>46.7</u>	<u>73.8</u>	<u>87.9</u>
Total New Customer Orders	12,626.4	13,428.5	13,518.4
Obligations:			
Aeronautical Engineering Centers	423.8	444.9	424.8
Air Test Centers	869.7	767.3	823.3
Aviation Depts	1,783.7	1,867.7	1,783.6
Data Automation Center	228.5	244.5	248.7
Military Sealift Command	1,656.1	2,031.3	2,027.7
Naval Research Laboratories	377.0	359.5	368.9
Ordnance Facilities	1,581.6	1,415.4	1,233.1
Publication and Printing Service	243.6	225.7	227.8
Public Works Centers	1,077.7	1,083.1	1,079.7
Shipyards	3,704.9	3,718.3	3,404.0
Space and Naval Warfare Research and Development Centers	<u>2,256.3</u>	<u>2,153.1</u>	<u>2,211.2</u>
Total Obligations	14,202.8	14,310.7	13,832.7
Unobligated Balances			
Transferred to the Operation and Maintenance, Navy Appropriation	-	163.2	-
Fund Balance (Unobligated Balance Available) End of Year	1,393.1	347.6	33.2

Department of the Navy
Navy Industrial Fund
Statement of Financial Condition

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Assets:			
Selected Assets:			
Cash *	1,141.7	1,141.7	1,141.7
Accounts Receivable	628.1	556.0	635.5
Advances Made	58.9	58.9	58.9
Inventories	1,605.8	1,574.3	1,479.2
Other Assets	1,557.5	668.6	817.2
Capital Property (Net)	<u>4,964.5</u>	<u>5,923.3</u>	<u>6,584.6</u>
Total Assets	9,956.5	9,922.8	10,717.1
Liabilities:			
Selected Liabilities:			
Accounts Payable	953.7	842.4	833.2
Accrued Liabilities	2,478.5	2,137.9	2,177.2
Advances Received	120.0	110.2	110.3
Unfunded Liabilities	10.6	10.8	10.4
Other Liabilities	<u>76.1</u>	<u>78.3</u>	<u>80.5</u>
Total Liabilities	3,638.9	3,179.6	3,211.6
Government Equity:			
Appropriations/Reappropriations	283.8	283.8	283.8
Paid-in Capital (Assets Capitalized Less			
Liabilities Assumed)	4,801.5	5,260.7	5,534.3
Earnings Used for Operations	1,785.1	2,017.3	2,124.2
Accumulated Operating Results	<u>-552.8</u>	<u>-818.6</u>	<u>-436.8</u>
Total Government Equity	6,317.6	6,743.2	7,505.5
Total Liabilities and Equity	9,956.5	9,922.8	10,717.1
 * Includes Cash:			
Available for Operations	564.5	615.8	704.1
Required for ACP Program	414.0	525.9	437.6
Required for Transfers	163.2	-	-

Department of the Navy
Navy Industrial Fund
Statement of Revenue and Expense

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Revenue *	14,465.5	14,392.2	14,495.7
Expenses:			
Salaries and Wages			
Military Personnel *	-	-	229.0
Civilian Personnel	6,016.2	6,213.2	6,165.7
Materials, Supplies and Parts	2,114.0	2,194.1	2,202.8
Fuel	332.5	312.4	306.2
Depreciation	228.2	296.2	356.1
Contractual Services	5,205.6	4,938.3	4,884.1
Other Expenses	<u>262.1</u>	<u>251.8</u>	<u>255.8</u>
Subtotal, Cost of Goods and Services Produced	14,158.6	14,206.1	14,399.7
Work in process:			
Beginning of Year (+)	2,030.4	2,078.9	2,038.4
End of Year (-)	<u>2,078.9</u>	<u>2,038.4</u>	<u>2,049.2</u>
Cost of Goods and Services Sold (Total Expenses)	14,110.1	14,246.6	14,388.9
Revenue Less Expenses	355.4	145.6	106.8
ACP Surcharge (-)	<u>-467.3</u>	<u>-232.2</u>	<u>-106.8</u>
Revenue Less Expenses and Surcharges	-111.9	-86.6	-
Refunds & Passthroughs (Net)	-1,158.0	-	-
Inventory Adjustments (+/-)	-33.2	-16.0	-16.0
Net Operating Results	-1,303.1	-102.6	-16.0

* Includes amounts of \$229.0 million in FY 1989 paid from DoD Military Personnel appropriations. These amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Analysis of Changes in Government Equity

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
<u>Appropriations/Reappropriations:</u>			
Opening Balance	283.8	283.8	283.8
Transactions:	<u>-</u>	<u>-</u>	<u>-</u>
Closing Balance	283.8	283.8	283.8
<u>Paid-in Capital:</u>			
Opening Balance	4,116.7	4,801.5	5,260.7
Transactions:			
Assets and liabilities capitalized and decapitalized	<u>684.8</u>	<u>459.2</u>	<u>273.6</u>
Closing Balance	4,801.5	5,260.7	5,534.3
<u>Earnings Used for Operations:</u>			
Opening Balance	1,460.0	1,785.1	2,017.3
Transactions:			
ACP Surcharges	467.4	232.2	106.8
Other Adjustments	<u>-142.3</u>	<u>-</u>	<u>-</u>
Closing Balance	1,785.1	2,017.3	2,124.1
<u>Accumulated Operating Results:</u>			
Opening Balance	573.9	-552.8	-818.6
Transactions:			
Net Operating Results	-1,303.1	-102.6	-
Prior Year and Other Adjustments	176.4	-	-16.0
Transfers to O&M, Navy	-	-163.2	-
Passthroughs from O&M, Navy	-	-	397.9
Closing Balance	<u>-552.8</u>	<u>-818.6</u>	<u>-436.7</u>
Total Government Equity End of the Year	6,317.6	6,743.2	7,505.5

Department of the Navy
Navy Industrial Fund
Aeronautical Engineering Centers

Activity Group Function: The Aeronautical Engineering Centers provide services involving research, development, test and evaluation; manufacturing; engineering system integration; and ship suitability; as well as engineering support to the fleet for assigned weapon systems. Limited production and procurement of aircraft catapult and arresting systems, missile, spaceborne, and undersea and surface weapons systems is also provided.

Activity Group Composition:

<u>Activities</u>	<u>Location</u>
Naval Air Engineering Center (NAEC)	Lakehurst, New Jersey
Naval Avionics Center (NAC)	Indianapolis, Indiana

Budget Highlights: Approximately 98% of new customer orders in FY 1988 are anticipated to be from Navy customers, with 43% from Operation and Maintenance appropriations.

The dollar value of work increases by 3.0% from FY 1987 to FY 1988 and FY 1989 is expected to remain constant with FY 1988. Overhead costs will be funded directly from the O&M,N appropriation beginning in FY 1989 as a result of the conversion from Industrial Funding to appropriation funding scheduled to commence in FY 1990. Equipment funding by OPN will also begin in FY 1989.

Purchases of capital assets through the Asset Capitalization Program are budgeted at \$27.9 million for FY 1988. Purchases of equipment constitute 67% of this obligation authority. The program for FY 1988 contains funding for equipment to modernize manufacturing technology at NAC and replace aging vehicles, industrial plant equipment and test equipment at NAEC.

Productivity improvements and other savings are being pursued through the purchase of new equipment, the quality circles program, the beneficial suggestion program, and other cost reduction actions. Examples of these initiatives are the purchase of engineering workstations which provide engineers with computer aided design and simulation capabilities and can reduce the cost of designing a circuit in half; the Data Package Validation program which validates manufacturing specifications in the support of low risk competitive procurements; and "Should Cost" studies which have resulted in savings on sole source procurements.

Department of the Navy
Navy Industrial Fund
Aeronautical Engineering Centers

Summary of Financial Operations:

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Revenue *	409.2	451.3	444.3
Cost of Goods & Services Sold *	<u>394.6</u>	<u>419.9</u>	<u>444.3</u>
Revenue Less Costs	14.6	31.4	-
ACP Surcharges	-33.1	-14.2	-
Refunds & Passthroughs (Net)	<u>-35.6</u>	<u>-</u>	-
Net Operating Results	-54.1	17.2	-
Prior Year & Other Adjustments	20.4	-	-
Transfers and Passthroughs (Net)	-	-4.6	-
Accumulated Operating Results	-22.6	-10.0	-10.0

* Includes amounts of \$11.5 million in FY 1989 paid from DoD Military Personnel appropriations. These amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Aeronautical Engineering Centers

Summary of Changes in Operations:

	(Dollars in Millions)		
	FY 1987 <u>Estimate</u>	FY 1987 <u>Actual</u>	<u>Variance</u>
Revenue	455.7	409.2	-46.5
Cost of Goods & Services Sold	<u>412.3</u>	<u>394.6</u>	<u>-17.7</u>
Revenue Less Costs	43.4	14.6	-28.8
ACP Surcharges	-33.1	-33.1	-
Refunds and Passthroughs (Net)	<u>-36.9</u>	<u>-35.6</u>	<u>1.3</u>
Net Operating Results	-26.6	-54.1	-27.5

Revenue and Cost of Goods Sold variances are primarily the result of unplanned decreases in workload. In addition, actual Federal Employees Retirement (FERS) costs were higher than budgeted and resulted in a larger FERS passthrough than originally budgeted.

Department of the Navy
Navy Industrial Fund
Aeronautical Engineering Centers

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
1. FY 1988 Estimate in FY 1988 President's Budget	301.5	431.6	431.6	7.3
2. Congressional Adjustments:				
a. ACP Surcharges	-	-	-1.5	1.5
b. Overhead	-	-	-1.9	1.9
c. Inflation Assumptions	-	-	-1.0	1.0
d. Passthroughs	-7.3	-	-	-7.3
3. Estimated Impact in FY 1988 of Actual FY 1987 Experience	-	-	-	-
4. Pricing Adjustments:				
a. General Inflation	-	-	4.7	-4.7
b. Revised Fuel Prices	.3	.3	.3	-
c. FERS	-	-	-7.2	7.2
5. Productivity Initiatives and Other Efficiencies:	-	-	-	-
6. Program Changes:				
a. Additional Unbudgeted Workload	71.6	19.4	9.1	10.3
7. Other Changes:	-	-	-	-
8. FY 1988 Current Estimate	366.1	451.3	434.1	17.2

Department of the Navy
Navy Industrial Fund
Aeronautical Engineering Centers

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
8. FY 1988 Current Estimate	366.1	451.3	434.1	17.2
9. Pricing Adjustments:				
a. Pay Raise				
1. FY 1989 Pay Raise	2.7	2.7	2.7	-
2. Annualization of FY 1988 Pay Raise	1.2	1.2	1.2	-
b. Stock Fund - Fuel	.1	.1	.1	-
c. Stock Fund - Nonfuel	-.4	-.4	-.4	-
d. General Inflation	6.7	6.7	6.7	-
e. Military Personnel				
Notional Amounts	-	11.5	11.5	-
f. FERS	.1	.1	.1	-
10. Productivity Initiatives and Other Efficiencies:	-	-	-	-
11. Program Changes:				
a. Additional Unbudgeted Workload	29.3	2.5	2.5	-
12. Other Changes:				
a. Depreciation Expenses	4.0	4.0	4.0	-
b. ACP Surcharges	-14.2	-14.2	-14.2	-
c. Other Rate Changes	-17.2	-17.2	-	-17.2
d. Other	-4.0	-4.0	-4.0	-
13. FY 1989 Current Estimate	374.4	444.3	444.3	-

* Military personnel amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Aeronautical Engineering Centers

Summary of Workload Indicators:

	<u>FY 1987</u>	(Workyears) <u>FY 1988</u>	<u>FY 1989</u>
Manufacturing & Assembly	1,495	1,546	1,539
Overhaul & Alteration	609	630	627
Research & Development	665	687	684
Fleet Support	1,385	1,431	1,425
Acquisition Support	719	744	740
Engineering Services	388	401	398
Other	265	37	39
Total	<u>5,526</u>	<u>5,476</u>	<u>5,452</u>

Summary of New Customer Orders:

	<u>FY 1987</u>	(Dollars in Millions) <u>FY 1988</u>	<u>FY 1989</u>
Navy Appropriations and Funds:			
Operation and Maintenance	38.4	84.2	159.2
RDT&E	30.4	38.2	28.8
Procurement	139.0	190.5	136.2
Stock Funds	33.6	27.1	17.7
Other Navy Customers	24.7	19.1	20.6
Other DoD Customers	15.5	6.5	6.4
Non-DoD Customers	1.1	.5	5.5
Total All Customers	<u>282.7</u>	<u>366.1</u>	<u>374.4</u>

Summary of Personnel Resources:

	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
<u>Civilian Personnel:</u>			
End Strength	5,700	5,319	5,381
Workyears	5,526	5,476	5,452
<u>Military Personnel:</u>			
End Strength	243	348	348
Workyears	243	348	348

Department of the Navy
Navy Industrial Fund
Aeronautical Engineering Centers

Summary of Purchases of Capital Assets:

	(Obligations, Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Equipment:			
Available Amounts, Beginning of the Year	3.5	5.9	-
New Program Amounts	34.4	18.8	-
Total Available Program	<u>37.9</u>	<u>24.7</u>	-
Purchases of Equipment	32.0	24.7	-
Available Amounts, End of the Year	<u>5.9</u>	-	-
Unspecified Minor Construction Projects	1.6	2.7	-
Management Information Systems	4.2	6.4	-
Total New Program for Capital Assets	40.2	27.9	-
(Total Outlays)	(14.5)	(50.0)	(3.6)

Financing of Total New Program
for Capital Assets

Total New Program Amounts	40.2	27.9	-
Amounts Financed By:			
Depreciation	9.6	12.5	-
Surcharge	33.1	14.2	-

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Department of the Navy
Navy Industrial Fund
Naval Air Test Centers

Activity Group Function: The mission of the Naval Air Laboratories is to provide engineering support for naval weapons, weapons systems, and air breathing-propulsion systems for fleet users and other Department of Defense and government agencies. The laboratories conduct tests and evaluation of aircraft, weapon systems and their components and assist in the determination of corrective action for resolution of operational service problems. All of these activities are either wholly or partially operational as major range and test facility bases.

Activity Group Composition:

<u>Activities</u>	<u>Location</u>
Naval Air Propulsion Center	Trenton, New Jersey
Naval Air Test Center	Patuxent River, Maryland
Pacific Missile Test Center	Point Mugu, California

Budget Highlights: Over 94% of customer orders are projected to be funded from Navy programs in FY 1988 and FY 1989. The principal appropriation is Research, Development, Test and Evaluation, Navy, which accounts for 45% of the total orders in FY 1988. The cost of work decreases by 2.0% in FY 1988 and increases by 2.0% in FY 1989, reflecting stable workload with increased costs due to pay raises and general price inflation.

The Test Center's have undertaken various initiatives in the areas of productivity enhancement and cost reductions. These projects involve acquisition of high technology equipment and computers through the Asset Capitalization Program (ACP) to facilitate research, improve quality control and test and evaluation functions. In addition, these programs provide for the general upgrading of facilities through maintenance and repair projects, as well as improvement and modernization projects.

Planned purchases of capital assets under the ACP program are \$12.8 million in FY 1988 and \$6.2 million in FY 1989. These purchases relate only to those functions which are not a part of the range operations of the Pacific Missile Test Center. Overhead cost and associated equipment at major range and test facilities are financed by the Research, Development, Test and Evaluation, Navy appropriation, rather than by the ACP program.

Department of the Navy
Navy Industrial Fund
Naval Air Test Centers

Summary of Financial Operations:

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Revenue *	855.3	856.0	887.8
Cost of Goods & Services Sold *	<u>851.0</u>	<u>835.3</u>	<u>887.8</u>
Revenue Less Costs	4.3	20.7	-
ACP Surcharges	-8.0	-8.1	-
Refunds & Passthroughs (Net)	<u>-12.0</u>	<u>-</u>	-
Net Operating Results	-15.7	12.6	-
Prior Year & Other Adjustments	-6.9	-	-
Transfers and Passthroughs (Net)	-	-4.9	16.4
Accumulated Operating Results	-29.6	-21.9	-5.5

* Includes amounts of \$36.0 million in FY 1989 paid from DoD Military Personnel appropriations. These amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Naval Air Test Centers

Summary of Changes in Operations:

	(Dollars in Millions)		
	FY 1987 <u>Estimate</u>	FY 1987 <u>Actual</u>	<u>Variance</u>
Revenue	765.1	855.3	90.2
Cost of Goods & Services Sold	<u>752.1</u>	<u>851.0</u>	<u>98.9</u>
Revenue Less Costs	13.0	4.3	-8.7
ACP Surcharges	-8.0	-8.0	-
Refunds and Passthroughs (Net)	<u>-13.1</u>	<u>-12.0</u>	<u>1.1</u>
Net Operating Results	-8.1	-15.7	-7.6

Revenue and Cost of Goods Sold variances are the result of programmatic changes caused by unbudgeted workload increases. In addition, actual Federal Employee Retirement (FERS) costs were higher than budgeted and resulted in a larger passthrough than originally budgeted.

Department of the Navy
Navy Industrial Fund
Naval Air Test Centers

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
1. FY 1988 Estimate in FY 1988 President's Budget	737.1	810.5	810.5	7.4
2. Congressional Adjustments:				
a. ACP Surcharges	-	-	-.7	.7
b. Overhead	-	-	-1.2	1.2
c. Inflation Assumptions	-	-	-2.1	2.1
d. Passthroughs	-7.4	-	-	-7.4
3. Estimated Impact in FY 1988 of Actual FY 1987 Experience	-	-	-	-
4. Pricing Adjustments:				
a. Revised General Inflation	-	-	3.2	-3.2
b. Revised Fuel Prices	1.1	1.1	1.1	-
c. FERS	-	-	-10.1	10.1
5. Productivity Initiatives and Other Efficiencies:	-	-	-	-
6. Program Changes:				
a. Additional Unbudgeted Workload	80.6	44.4	42.7	1.7
7. Other Changes:	-	-	-	-
8. FY 1988 Current Estimate	811.4	856.0	843.4	12.6

Department of the Navy
Navy Industrial Fund
Naval Air Test Centers

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
8. FY 1988 Current Estimate	811.4	856.0	843.4	12.6
9. Pricing Adjustments:				
a. Pay Raise				
1. FY 1989 Pay Raise	4.4	4.4	4.4	-
2. Annualization of FY 1988 Pay Raise	1.5	1.5	1.5	-
b. Stock Fund - Fuel	1.4	1.4	1.4	-
c. Stock Fund - Nonfuel	-9.8	-9.8	-9.8	-
d. General Inflation	11.2	11.2	11.2	-
e. Military Personnel Notional Amounts	-	36.0	36.0	-
f. FERS	.1	.1	.1	-
10. Productivity Initiatives and Other Efficiencies:	-	-	-	-
11. Program Changes:				
a. Additional Workload	16.1	6.3	6.3	-
12. Other Changes:				
a. Depreciation Expenses	1.5	1.5	1.5	-
b. ACP Surcharges	-8.2	-8.2	-8.2	-
c. Other Rate Changes	-12.6	-12.6	-	-12.6
d. Transfers & Passthroughs	16.4	-	-	-
13. FY 1989 Current Estimate	833.4	887.8	887.8	-

* Military personnel amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Naval Air Test Centers

Summary of Workload Indicators:

	<u>FY 1987</u>	(Workyears) <u>FY 1988</u>	<u>FY 1989</u>
Research & Development	3,506	3,239	3,261
Major Range & Test Facility Base (MRTFB)	2,482	2,395	2,411
Other	<u>1,579</u>	<u>1,495</u>	<u>1,419</u>
Total	7,567	7,129	7,091

Summary of New Customer Orders:

	<u>FY 1987</u>	(Dollars in Millions) <u>FY 1988</u>	<u>FY 1989</u>
Navy Appropriations and Funds:			
Operation and Maintenance	197.4	169.9	174.8
RDT&E	307.5	385.7	372.0
Procurement	146.3	161.2	185.9
Stock Funds	.2	-	.1
Other Navy Customers	45.5	50.5	56.1
Other DoD Customers	42.3	41.8	42.1
Non-DoD Customers	4.5	2.3	2.4
Total All Customers	<u>743.7</u>	<u>811.4</u>	<u>833.4</u>

Summary of Personnel Resources:

	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
<u>Civilian Personnel:</u>			
End Strength	7,494	7,022	6,988
Workyears	7,567	7,129	7,091
<u>Military Personnel:</u>			
End Strength	1,193	1,150	1,145
Workyears	1,193	1,150	1,145

Department of the Navy
Navy Industrial Fund
Naval Air Test Centers

Summary of Purchases of Capital Assets:

	(Obligations, Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Equipment:			
Available Amounts, Beginning of the Year	-	7.7	-
New Program Amounts	21.0	10.9	5.6
Total Available Program	21.0	18.6	5.6
Purchases of Equipment	13.3	18.6	5.6
Available Amounts, End of the Year	7.7	-	-
Unspecified Minor Construction Projects	1.0	1.0	.6
Management Information Systems	2.9	.9	-
Total New Program for Capital Assets	24.9	12.8	6.2
(Total Outlays)	(21.1)	(18.3)	(15.6)

Financing of Total New Program
for Capital Assets

Total New Program Amounts	24.9	12.8	6.2
Amounts Financed By:			
Depreciation	3.9	4.6	6.2
Surcharge	8.0	8.2	-

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Department of the Navy
Navy Industrial Fund
Naval Aviation Depots

The formal title of this activity group was changed from Naval Air Rework Facilities to Naval Aviation Depots in FY 1987.

Activity Group Function: To maintain and operate facilities required to perform a complex range of depot level maintenance and rework operations on designated airframes, engines, components, weapon systems, accessories and equipment; manufacture parts and assemblies as required; provide engineering services for the development of changes in hardware design; furnish technical and other professional services on aviation maintenance and logistics problems; perform, upon specific request or assignment, other levels of aircraft maintenance for eligible activities; and perform other functions as directed by the Commander, Naval Air Systems Command (COMNAVAIRSYSCOM).

Activity Group Composition:

<u>Activities</u>	<u>Location</u>
NAVAVNDEPOT Alameda	Alameda, California
NAVAVNDEPOT North Island	San Diego, California
NAVAVNDEPOT Norfolk	Norfolk, Virginia
NAVAVNDEPOT Cherry Point	Cherry Point, North Carolina
NAVAVNDEPOT Jacksonville	Jacksonville, Florida
NAVAVNDEPOT Pensacola	Pensacola, Florida

Budget Highlights: Approximately 92% of new customer orders projected for FY 1988 and FY 1989 will be from Navy customers. The major funding sources are from the Operations & Maintenance, Navy appropriation which provides 59% of the FY 1988 total and the Navy Stock Fund which provides 24%. Funding from the U.S. Air Force is the next largest source with 7%.

A refund of \$261.8 million was made to the O&M,N appropriation in FY 1987. This was offset by a passthrough of \$11.5 million provided to cover the increased costs of the Federal Employees Retirement System. Transfers of \$37.5 million and \$49.4 million are budgeted for FY 1988 and FY 1989 respectively.

Obligational authority under the Asset Capitalization Program is \$65.7M for FY 1988 and \$63.3M for FY 1989. Purchases of equipment are 72% of this obligational authority in FY 1988 and 77% in FY 1989.

Total costs will grow by only .4% in FY 1988, but are expected to increase by 4.2% in FY 1989. This increase is caused mainly by the fact that Depots will pay for Aviation Depot Level Repairable Material (AVDLR) from operations. This material was previously issued without charge through the Navy Stock Fund. The increased costs for material are offset to some extent by reductions for personnel costs. By the end of FY 1989, end strength will be reduced by 1671 or 7% below FY 1987 levels.

Department of the Navy
Navy Industrial Fund
Naval Aviation Depots

Economies and Efficiencies have been budgeted for \$200 million in FY 1988 and \$210 million for FY 1989. These reductions have been realized through close control of overtime use, efficiencies in production, reduction in cost center allocations for travel and training, workyear reduction, and better inventory control. During FY 1987 \$210.4 million in savings were achieved. However, only \$172 million was achieved through efficiencies. The remaining \$38.4 million resulted from cost avoidance due to reduced workload.

As a result of an effort to assure that industrial fund charges only represent the actual cost of performing assigned work selected, non-product related costs were removed from the rates and are being funded by NAVAIR in FY 1988 and FY 1989. These cost transfers amount to \$24.5 million in FY 1988 and \$25.4 million in FY 1989. The costs associated with this transfer are in the area of Base Operating Support, Mandated Navy Programs and Mobilization Planning.

Additionally, as a result of Congressional direction, the Depots are competing with private industry for some of their workload in FY 1989. The two current competitions are for the P-3C Update III avionics package and for F-14 standard depot level maintenance rework.

Department of the Navy
Navy Industrial Fund
Naval Aviation Depots

Summary of Financial Operations:

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Revenue *	1,924.6	1,878.7	1,834.4
Cost of Goods & Services Sold *	<u>1,764.6</u>	<u>1,749.9</u>	<u>1,822.1</u>
Revenue Less Costs	160.0	128.8	12.3
ACP Surcharges	-87.9	-12.5	-12.3
Refunds & Passthroughs (Net)	<u>-250.3</u>	<u>-</u>	<u>-</u>
Inventory Adjustments	-8.0	-	-
Net Operating Results	-186.2	116.3	-
Prior Year & Other Adjustments	75.7	-1.7	-
Transfers and Passthroughs (Net)	-	-37.5	-49.4
Accumulated Operating Results	-27.7	49.4	-

* Includes amounts of \$10.6 million in FY 1989 paid from DoD Military Personnel appropriations. These amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Naval Aviation Depots

Summary of Changes in Operations:

	(Dollars in Millions)		
	FY 1987 <u>Estimate</u>	FY 1987 <u>Actual</u>	<u>Variance</u>
Revenue	1,997.0	1,924.6	-72.4
Cost of Goods & Services Sold	<u>1,778.4</u>	<u>1,764.6</u>	<u>-13.8</u>
Revenue Less Costs	218.6	160.0	-58.6
ACP Surcharges	-87.9	-87.9	-
Refunds and Passthroughs (Net)	-301.3	-250.3	51.0
Inventory Adjustments	<u>-4.0</u>	<u>-8.0</u>	<u>-4.0</u>
Net Operating Results	-174.6	-186.2	-11.6

Revenue was less than budgeted due to changes in billing procedures at the depots. Under prior billing procedures, each component on an order was billed upon completion. Under the new procedures, all components are completed on the order before the final bill is processed. The cost variance is less than 1%. The inventory adjustment of \$4.7 million resulted from the write-off of excess material. The refunds/passthroughs were reduced by \$51.0 million based upon the anticipated operating results for the NAVAVNDEPOTS for FY 1987. These amounts were reallocated to other activity groups.

Department of the Navy
Navy Industrial Fund
Naval Aviation Depots

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
1. FY 1988 Estimate in FY 1988 President's Budget	1,704.9	1,780.7	1,780.7	26.2
2. Congressional Adjustments:				
a. ACP Surcharges	-	-	-27.8	27.8
b. Overhead	-	-	-4.3	4.3
c. Inflation Assumptions	-	-	-4.4	4.4
d. Passthroughs	-26.2	-	-	-26.2
3. Estimated Impact in FY 1988 of Actual FY 1987 Experience:	-	-	-	-
4. Pricing Adjustments:				
a. Revised General Inflation	-	-	-22.9	22.9
b. Revised Fuel Prices	.3	.3	.3	-
c. FERS	-	-	-29.5	29.5
5. Productivity Initiatives and Other Efficiencies:	-	-	-	-
6. Program Changes:				
a. Increased Component rework for the Air Force.	12.0	12.0	12.0	-
b. Charge for Air Force Stock Fund material previously issued without cost.	29.6	29.6	29.6	-
c. Additional Unbudgeted Workload	59.2	56.1	50.6	5.5
7. Other Changes:				
a. Depreciation Expenses	-	-	-8.8	8.8
b. Navy Stock Fund Purchases	-	-	-13.1	-13.1

Department of the Navy
Navy Industrial Fund
Naval Aviation Depots

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
8. FY 1988 Current Estimate	1,779.8	1,878.7	1,762.4	116.3
9. Pricing Adjustments:				
a. Pay Raise				
1. FY 1989 Pay Raise	9.3	9.3	9.3	-
2. Annualization of FY 1988 Pay Raise	5.8	5.8	5.8	-
b. Stock Fund - Fuel	.3	.3	.3	-
c. Stock Fund - Nonfuel	-34.7	-34.7	-34.7	-
d. Purchases from Other Industrial Funds	1.1	1.1	1.1	-
e. General Inflation	7.1	7.1	7.1	-
f. Military Personnel Notional Amounts	-	10.6	10.6	-
g. FERS	1.5	1.5	1.5	-
10. Productivity Initiatives and Other Efficiencies:				
a. Additional cost savings generated from reduced overhead expenses and better material controls.	-10.0	-10.0	-10.0	-
11. Program Changes:				
a. Changes in customer workload resulting from reduced component rework.	-6.0	-26.8	-26.8	-
b. Civilian personnel reductions generated from cost efficiencies and reduction in manning requirements.	-25.5	-25.5	-25.5	-
c. Purchase of AVDLR material rather than free issue from Navy Stock Fund.	126.8	126.8	126.8	-

Department of the Navy
Navy Industrial Fund
Naval Aviation Depots

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
12. Other Changes:				
a. Depreciation Expenses	6.7	6.7	6.7	-
b. ACP Surcharges	-.2	-.2	-.2	-
c. Other Rate Changes	-116.3	-116.3	-	-116.3
13. FY 1989 Current Estimate	1,745.7	1,834.4	1,834.4	-

* Military personnel amounts are included for illustrative purposes only.
Actual revenue, cost, and rates, as well as amounts reflected in DoD customer
accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Naval Aviation Depots

Summary of Workload Indicators:

	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Aircraft (Units Completed)	592	586	727
Engine (Units Completed)	2,602	2,230	2,385
Other (Direct Workyears)	7,601	6,648	6,617

Summary of New Customer Orders:

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Navy Appropriations and Funds:			
Operation and Maintenance	829.7	963.9	1,022.1
RDT&E	5.7	23.7	22.6
Procurement	100.9	114.1	111.6
Stock Funds	507.2	492.4	425.9
Other Navy Customers	38.8	26.8	25.4
Other DoD Customers	164.8	154.1	132.9
Non-DoD Customers	7.3	4.8	5.2
Total All Customers	<u>1,654.4</u>	<u>1,779.8</u>	<u>1,745.7</u>

Summary of Personnel Resources:

	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
<u>Civilian Personnel:</u>			
End Strength	23,507	22,290	21,879
Workyears	23,817	22,985	22,368
<u>Military Personnel:</u>			
End Strength	233	265	262
Workyears	233	265	262

Department of the Navy
Navy Industrial Fund
Naval Aviation Depots

Summary of Purchases of Capital Assets:

	(Obligations, Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Equipment:			
Available Amounts, Beginning of the Year	20.5	53.8	-
New Program Amounts	<u>65.1</u>	<u>49.3</u>	<u>49.0</u>
Total Available Program	85.6	103.1	49.0
Purchases of Equipment	<u>31.8</u>	<u>103.1</u>	<u>49.0</u>
Available Amounts, End of the Year	53.8	-	-
 Unspecified Minor Construction Projects	4.5	9.2	5.9
Management Information Systems	10.5	9.0	8.4
Total New Program for Capital Assets	80.1	67.5	63.3
(Total Outlays)	(79.6)	(93.2)	(101.5)

Financing of Total New Program
for Capital Assets

Total New Program Amounts	80.1	67.5	63.3
Amounts Financed By:			
Depreciation	38.8	44.4	51.0
Surcharge	87.9	12.5	12.3

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Department of the Navy
Navy Industrial Fund
Navy Regional Data Automation Centers

Activity Group Function: Navy Regional Data Automation Centers (NARDACs) and Navy Data Automation Facilities (NAVDAFs) provide regional information systems (IS) services to customers. These services include performing a wide variety of computer jobs and time-sharing computer services with data processing installation (Data processing installation) equipment and personnel; managing and directing of remote terminals and facilities owned by others; providing local IS technical support in coordination with the regional center; and designing, developing, testing, and maintaining standard Navy automated systems.

Activity Group Composition:

<u>Activities</u>	<u>Location</u>
NARDAC, Washington	Washington, D.C.
NARDAC, Pensacola	Pensacola, Florida
NARDAC, Norfolk	Norfolk, Virginia
NARDAC, San Diego	San Diego, California
NARDAC, San Francisco	San Francisco, California
NARDAC, Jacksonville	Jacksonville, Florida
NARDAC, New Orleans	New Orleans, Louisiana
NARDAC, Pearl Harbor	Pearl Harbor, Hawaii
NARDAC, Newport	Newport, Rhode Island

Budget Highlights: Projected FY 1988 and FY 1989 budgeted workload estimates and associated revenue reflect substantial increases over FY 1987 levels. These increases represent a continuation of past trends of budgeted workload. Also reflected in the current budget estimates are execution increases experienced in the past years where historically NARDAC customers have exceeded previously budgeted levels.

The FY 1988 and FY 1989 budgeted costs increase as a result of increased civilian pay costs which reflect staffing levels to satisfy customer workload requirements.

In FY 1988, a program increase of \$11.8 million in civilian pay costs is associated with annualization of FY 1987 hires (230 workyears) and the functional transfer of USDA Washington Computer Center (WCC) to NARDAC Washington (67 workyears). The assumption of the WCC operations creates further cost growth in FY 1988 of \$14.4 million.

In addition, budgeted costs increase in FY 1988 and FY 1989 by \$14.2 million and \$15.3 million, respectively, in the areas of equipment maintenance and depreciation associated with hardware purchases under the ACP program from equipment replacements-upgrades associated with the Data Processing Installation Equipment Transition (DPIET) project began in FY 1987.

Department of the Navy
Navy Industrial Fund
Navy Regional Data Automation Centers

Summary of Financial Operations:

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Revenue *	199.7	249.0	259.2
Cost of Goods & Services Sold *	<u>197.3</u>	<u>242.1</u>	<u>259.2</u>
Revenue Less Costs	2.4	6.9	-
ACP Surcharges	-.2	-	-
Refunds & Passthroughs (Net)	<u>-23.2</u>	<u>-</u>	-
Net Operating Results	-21.0	6.9	-
Prior Year & Other Adjustments	-28.5	1.8	-
Transfers and Passthroughs (Net)	-	-8.4	16.7
Accumulated Operating Results	-22.7	-22.4	-5.7

* Includes amounts of \$14.1 million in FY 1989 paid from DoD Military Personnel appropriations. These amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Navy Regional Data Automation Centers

Summary of Changes in Operations:

	(Dollars in Millions)		
	FY 1987 <u>Estimate</u>	FY 1987 <u>Actual</u>	<u>Variance</u>
Revenue	193.6	199.7	6.1
Cost of Goods & Services Sold	<u>181.6</u>	<u>197.3</u>	<u>15.7</u>
Revenue Less Costs	12.0	2.4	-9.6
ACP Surcharges	-.2	-.2	-
Refunds and Passthroughs (Net)	<u>-23.2</u>	<u>-23.2</u>	<u>-</u>
Net Operating Results	-11.4	-21.0	-9.6

The growth in actual revenue and cost is attributable to emergent customer workload requirements over and above the budgeted level. During FY 1987 NARDAC's additional customer workload requirements resulting in the hiring of 335 end-strength at a cost of \$3.0 million. An additional \$6.1 million of FY 1987 revenue was generated from these emergent requirements. Cost increases in travel, telecommunication, and supplies/materials also occurred to accommodate the increased workload requirement. Further, savings projected to occur as a result of the purchase of equipment and termination of leases did not occur as planned because of a delay in the contract.

Department of the Navy
Navy Industrial Fund
Navy Regional Data Automation Centers

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
1. FY 1988 Estimate in FY 1988 President's Budget	205.9	199.6	199.6	7.3
2. Congressional Adjustments:				
a. ACP Surcharges	-	-	-5.1	5.1
b. Overhead	-	-	-1.8	1.8
c. Inflation Assumptions	-	-	-.6	.6
d. Passthroughs	-7.3	-	-	-7.3
3. Estimated Impact in FY 1988 of Actual FY 1987 Experience	-	-	-	-
4. Pricing Adjustments:				
a. Revised General Inflation	-	-	-.1	.1
5. Productivity Initiatives and Other Efficiencies:	-	-	-	-
6. Program Changes:				
a. Increase is attributed to the merger of USDA computer complex with NARDAC Washington and to meet increased customer work load mandates the augmen- tation of hardware, materials/ supplies (tapes, disks, paper, books, etc.), travel, additional rental floor space, training, and real property maintenance to improve operational effectiveness.	5.6	5.6	5.6	-
b. Increase in ADP services and Information Tech Services and equipment maintenance are attributed to contractual arrangements associated with the merger of USDA's Computer Center with NARDAC Washington and increased maintenance costs associated with the buyouts of major suite of hardware.	33.2	33.2	33.2	-

Department of the Navy
Navy Industrial Fund
Navy Regional Data Automation Centers

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
c. Anticipated revenue from increased customer workload requirements.	10.6	10.6	12.2	-1.6
7. Other Changes:				
a. Depreciation Expenses	-	-	-.9	.9
b. Other	-22.0	-	-	-
8. FY 1988 Current Estimate	226.0	249.0	242.1	6.9
9. Pricing Adjustments:				
a. Pay Raise				
1. FY 1989 Pay Raise	.6	.6	.6	-
2. Annualization of FY 1988 Pay Raise	.4	.4	.4	-
b. Stock Fund - Nonfuel	-.4	-.4	-.4	-
c. Purchases from Other Industrial Funds	.4	.4	.4	-
d. General Inflation	3.9	3.9	3.9	-
e. Military Personnel Notional Amounts	-	14.1	14.1	-
f. FERS Assumptions	-2.0	-2.0	-2.0	-
10. Productivity Initiatives and Other Efficiencies:	-	-	-	-
11. Program Changes:				
a. Customer workload acceleration and expansion in NALCOMIS, NAVSCIPS, IDAFMS and PASS/SDS necessitate increases in industrial fund communication and equipment maintenance costs.	4.7	4.7	4.7	-
b. Anticipated revenue generated by increased customer workload requirements.	25.9	2.9	2.9	-

Department of the Navy
Navy Industrial Fund
Navy Regional Data Automation Centers

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
12. Other Changes:				
a. Depreciation Expenses	2.5	2.5	2.5	-
b. Other Rate Changes	-6.9	-6.9	-	-6.9
c. Transfers & Passthroughs	16.8	-	-	-
d. Decrease in Paid Workdays	-2.4	-2.4	-2.4	-
e. Reduction for unattainable workyear cost and associated materials/supplies, and rental equipment.	-7.6	-7.6	-7.6	-
13. FY 1989 Current Estimate	261.9	259.2	259.2	-

* Military personnel amounts are included for illustrative purposes only.
Actual revenue, cost, and rates, as well as amounts reflected in DoD customer
accounts, exclude amounts paid from Military Personnel appropriations.

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Navy Industrial Fund
Navy Regional Data Automation Centers

Summary of Workload Indicators:

		(In Thousands)	
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Computers (Jobs)	7,663.2	10,061.8	10,544.7
Labor Hours	1,125.0	1,477.2	1,548.1

Summary of New Customer Orders:

		(Dollars in Millions)	
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Navy Appropriations and Funds:			
Operation and Maintenance	139.8	168.1	191.1
RDT&E	1.0	2.2	2.8
Other Navy Customers	39.9	34.2	43.7
Other DoD Customers	12.0	21.5	24.3
Total All Customers	<u>192.7</u>	<u>226.0</u>	<u>261.9</u>

Summary of Personnel Resources:

	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
<u>Civilian Personnel:</u>			
End Strength	2,839	2,822	2,822
Workyears	2,534	2,848	2,825
<u>Military Personnel:</u>			
End Strength	372	410	409
Workyears	372	410	409

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Navy Industrial Fund
Navy Regional Data Automation Centers

Summary of Purchases of Capital Assets:

	(Obligations, Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Equipment:			
Available Amounts, Beginning of the Year	.2	-	-
New Program Amounts	<u>38.3</u>	<u>16.4</u>	<u>19.7</u>
Total Available Program	<u>38.5</u>	<u>16.4</u>	<u>19.7</u>
Purchases of Equipment	<u>38.5</u>	<u>16.4</u>	<u>19.7</u>
Available Amounts, End of the Year	-	-	-
Management Information Systems	.1	-	-
Total New Program for Capital Assets	38.4	16.4	19.7
(Total Outlays)	(26.6)	(22.3)	(20.3)
 <u>Financing of Total New Program for Capital Assets</u>			
Total New Program Amounts	38.4	16.4	19.7
 Amounts Financed By:			
Depreciation	7.3	17.2	19.7
Surcharge	.2	-	-

Department of the Navy
Navy Industrial Fund
Military Sealift Command

Activity Group Function: As the single manager operating agency for sealift services, the Military Sealift Command's primary mission is to provide sealift support for the Department of Defense in an emergency, a mission which is prepared for by the worldwide delivery of military dry cargo and petroleum in peacetime. Additionally, support services are provided through the Naval Fleet Auxiliary Force (NFAF) which utilizes civilian-manned noncombatant ships for support of the U.S. Navy, Special Mission Ships (SMS) which provide unique seagoing platforms to the military services and other government agencies, and the Afloat Prepositioned/Fast Sealift Ships (AP/FSS) which comprise sealift platforms for forward deployment and early on-site availability.

Activity Group Composition: The Military Sealift Command is composed of four area commands located in Bayonne, New Jersey; Oakland, California; London, England; and Yokohama, Japan; two subarea commands, Naples and Subic Bay, and sixteen port offices.

Budget Highlights: The MSC actual operating results for FY 1987 reflect a loss of \$27.2 million based on revenues of \$1,932.0 million and costs of \$1,959.2 million. This loss coupled with the FY 1987 net refund/passthrough of \$489.6 million and surcharge of \$7.8 million results in a negative FY 1987 Net Operating Result of \$524.6 million. Additionally, a positive AOR adjustment of \$43.2 million for decapitalization/adjustment to ACP Reserves leaves a negative Accumulated Operating Result (AOR) of \$128.0 million by the end of FY 1987.

The 1988 current estimate forecasts a loss of \$311.9 million based on revenues of \$1,614.1 million and costs of \$1,926.0 million. This results from revenue being less than anticipated. The AOR at the end of FY 1988 which incorporates the FY 1988 loss of \$311.9 million, the surcharge of \$5.4 million and a \$2.6 million transfer is projected to be a negative \$447.9 million.

The FY 1989 operations are estimated to break even, based on revenues of \$2,057.6 million and costs of \$2,055.5 million. The major reason for the variance from FY 1988 is that approved rates are set so that revenue equals costs plus surcharge. The AOR at the end of FY 1989, which incorporates a passthrough of \$150.0 million is projected to be a negative \$297.9 million.

Factors accounting for the variance in FY 1989 AOR from the FY 1988/1989 Approved Budget (\$0) and the MSC Current Estimate (-\$297.9 million) are:

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Military Sealift Command

- 1) Change in FY 1987 AOR of a negative \$122 million attributable to additional refund of \$141 million, additional costs of \$24 million primarily due to commercial container rate increases, both offset by a decapitalization of ACP Reserves of \$43 million.
- 2) Changes in FY 1988 Net Operating Results (NOR) of a negative \$326 million attributable to revenue being less than anticipated (-\$142 million); commercial container and berth term cargo rate increases (-\$122 million); and approved expense reductions in FY 1988 anticipated not to materialize (-\$62 million).
- 3) Changes in FY 1989 in Accumulated Operating Results (AOR) of a positive \$150 million are attributable to a passthrough.

Major program changes included in the MSC FY 1988/1989 Current Estimate are the shift of headquarters costs in FY 1988 from NIF to O&M,N, the inclusion of four additional T-AO 187 Class Oilers and five additional T-AGOS Class 1 ships in the NFAF Program, and the inclusion of one Auxiliary Crane ship in the AP/FSS Program.

Department of the Navy
Navy Industrial Fund
Military Sealift Command

Summary of Financial Operations:

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Revenue *	1,932.0	1,614.1	2,057.6
Cost of Goods & Services Sold *	<u>1,959.2</u>	<u>1,926.0</u>	<u>2,055.5</u>
Revenue Less Costs	-27.2	-311.9	2.1
ACP Surcharges	-7.8	-5.4	-2.1
Refunds & Passthroughs (Net)	<u>-489.6</u>	<u>-</u>	-
Net Operating Results	-524.6	-317.3	-
Prior Year & Other Adjustments	43.2	-	-
Transfers and Passthroughs (Net)	-	-2.6	150.0
Accumulated Operating Results	-128.0	-447.9	-297.9

* Includes amounts of \$30.0 million in FY 1989 paid from DoD Military Personnel appropriations. These amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Military Sealift Command

Summary of Changes in Operations:

	(Dollar in Millions)		
	FY 1987 <u>Estimate</u>	FY 1987 <u>Actual</u>	<u>Variance</u>
Revenue	1,889.8	1,932.0	42.2
Cost of Good & Services Sold	<u>1,893.7</u>	<u>1,959.2</u>	<u>65.5</u>
Revenue Less Costs	-3.9	-27.2	-23.2
ACP Surcharges	-7.8	-7.8	-
Refunds and Passthroughs (Net)	<u>348.2</u>	<u>-489.6</u>	<u>-141.4</u>
Net Operating Results	-359.9	-524.6	-164.7

Variances in FY 1987 operating results are the net of various factors including: increased workloads; increased amounts charged by the commercial sector for the movement of cargo containers (\$65.7 million); increased costs associated with the purchase of prepositioned containers initially scheduled to be procured in FY 1986 (\$12.4 million); decreased cost resulting from the deferral of ship maintenance and repair expenses (\$39.2 million); decreased fuel consumption due to fewer days at sea (\$12.5 million); as well as other changes.

Refunds from the Military Sealift Command were \$141.4 million greater than initially projected. As a whole, refunds made by the Navy Industrial Fund in FY 1987 were equal to budgeted amounts. Total refunds directed by the Congress in FY 1987, however, exceeded profits available for that purpose. The FY 1988/FY 1989 President's budget attempted to spread this "hurt" to those activities which could best afford to absorb the resultant loss associated with making refunds in excess of actual profits. During actual budget execution, however, it became apparent that some of the activity groups could not afford to make refunds initially scheduled. Thus, a redistribution of the refund amounts by activity group was necessary. The Military Sealift Command was one of a few activity groups which could sustain the near term loss which would occur by making refunds in excess of resources.

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Navy Industrial Fund
Military Sealift Command

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
1. FY 1988 Estimate in FY 1988 President's Budget	1,723.8	1,725.7	1,725.7	6.4
2. Congressional Adjustments:				
a. ACP Surcharges	-	-	-1.2	1.2
b. Overhead	-	-	-0.1	0.1
c. Inflation Assumptions	-	-	-4.8	4.8
d. Passthroughs	-6.4	-	-	-6.4
3. Estimated Impact in FY 1988 of Actual FY 1987 Experience:				
a. Commercial container and breakbulk cargo shipping agreements increased 14% and 13%, respectively, during the second cycle of FY 1987. Accordingly, first cycle FY 1988 cost estimates were increased 10% in both categories as opposed to 0% contained in the President's Budget.	-	-	183.2	-183.2
b. Three MPS overhauls scheduled in FY 1987 slipped to FY 1988. The slip in delivery from new construction of USNS COMFORT (T-AH 20) caused delivery costs to slip to FY 1988.	-	-	8.5	-8.5
c. Twelve oceanographic ships became contract operated in late FY 1986 and early FY 1987. Original budget had more days of use than actually experienced.	-	-	-1.9	1.9
4. Pricing Adjustments:				
a. Revised General Inflation	-	-	2.9	-2.9
b. Revised Fuel Prices	28.0	28.0	28.0	-
c. Federal Employees Health Benefit	-	-	1.3	-1.3
d. FERS	-	-	-2.6	2.6
e. Contract Tanker Ships	-	-	20.6	20.6

Department of the Navy
Navy Industrial Fund
Military Sealift Command

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
f. Long term interest rates on the MSP ships and T-5 Tankers leveraged leases were contracted at a level higher than the short term rates assumed in the President's Budget (+10M), while previously unplanned principal payments are scheduled in FY 1988.	-	-	17.3	-17.3
5. Productivity Initiatives and Other Efficiencies:				
a. Savings associated with decisions to convert to contractor performance, or in-house efficiencies resulting from Commercial Activity (CA) studies.	-	-	-1.6	1.6
6. Program Changes:				
a. Higher than anticipated Department of Energy crude oil acquisition/fill plan for the Strategic Petroleum Reserve.	6.2	6.2	6.2	0.0
b. Fleet Modernization Program (FMP) and Ship Construction Navy (SCN) reimbursable funding received for correction of deficiencies on new construction ships of the NPAF program.	5.8	6.5	6.5	0.0
c. A 6% decrease in commercial breakbulk requirements is reflected in reduced customer orders, revenue and costs.	-4.2	-4.2	-4.2	0.0
d. The slip in delivery from conversion of two oceanographic survey ships and the retention of one older ship is reflected in lower customer orders, revenue and costs.	-4.5	-4.5	-4.5	0.0

Department of the Navy
Navy Industrial Fund
Military Sealift Command

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
e. An FY 1987 debilitating accident to an oceanographic survey ship caused her early retirement.	-1.3	-1.3	-1.3	0.0
f. Deferral of ship maintenance and repair to FY 1989.	-	-	-42.2	42.2
g. Change in fuel consumption.	-	-	-4.4	4.4
h. Other re-estimates	-133.3	-142.3	-	-142.3
8. FY 1988 Current Estimate	1,614.1	1,614.1	1,931.4	-317.3
9. Pricing Adjustments:				
a. Pay Raise				
1. FY 1989 Pay Raise	3.0	3.0	3.0	-
2. Annualization of FY 1988 Pay Raises	1.7	1.7	1.7	-
b. General Inflation	57.9	57.9	57.9	-
c. Military Personnel Notional Amounts	-	30.0	30.0	-
10. Productivity Initiatives and Other Efficiencies:				
a. Savings associated with decisions to convert to contractor performance, or in-house efficiencies resulting from Commercial Activity (CA) studies.	-10.0	-10.0	-10.0	-
11. Program Changes:				
a. Two major reimbursable efforts, the material and readiness upgrade of the USNS MARSHFIELD and the new environmental limits modifications on the USNS GRAND CANYON STATE are to be completed in FY 1988.	-12.8	-12.8	-12.8	-
b. Reflects the continued introduction of the new construction T-AO 187 Class Oilers and the T-AGOS Class ships.	25.9	25.9	25.9	-
c. Reduction in requirements associated with the FMP and SCN new construction program.	-2.8	-2.8	-2.8	-

Department of the Navy
Navy Industrial Fund
Military Sealift Command

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
d. The contract for the time charter vessel LETITIA LYKES which served as a fleet hospital ship is not scheduled to be continued in FY 1989.	-2.5	-2.5	-2.5	-
e. The Fast Sealift ships are scheduled for 67 fewer full operating status days associated with JCS exercises.	-2.4	-2.4	-2.4	-
f. Ships' Maintenance and Repairs delayed from FY 1988 are scheduled for FY 1989.	44.9	44.9	44.9	-
12. Other Changes:				
a. Depreciation Expenses	-.1	-.1	-.1	-
b. ACP Surcharges	-3.3	-3.3	-3.3	-
c. Other Rate Changes	317.3	317.3	-	317.3
d. Transfers & Passthroughs	150.0	-	-	-
e. Paid Days. Two less for civilian personnel in FY 1989 than in FY 1988.	-3.3	-3.3	-3.3	-
13. FY 1989 Current Estimate	2,177.6	2,057.6	2,057.6	-

* Military personnel amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Military Sealift Command

Summary of Workload Indicators:

	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
<u>Ship-days:</u>			
Cargo	1,569	1,576	1,835
Petroleum, Oil, Lubes	7,976	8,822	8,786
Special Mission Ships	8,561	8,461	8,395
Fleet Auxiliary Ships	18,072	19,761	22,401
Afloat Prepositioned Force	12,328	12,870	12,775
Totals	48,506	51,490	54,192

Measurement Tons:

Point to Point (Cargo Program)	8,557	8,062	8,098

Summary of New Customer Orders:

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
<u>Navy Appropriations and Funds:</u>			
Operation and Maintenance	506.8	872.4	1,178.6
Procurement	-	2.9	2.9
Other Navy Customers	108.2	304.0	379.4
Other DoD Customers	693.1	430.3	610.5
Non-DoD Customers	106.7	4.5	6.2
Total All Customers	1,414.8	1,614.1	2,177.6

Summary of Personnel Resources:

	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
<u>Civilian Personnel:</u>			
End Strength	5,481	5,433	5,465
Workyears	5,318	5,143	5,240
<u>Military Personnel:</u>			
End Strength	860	905	923
Workyears	860	905	923

Department of the Navy
Navy Industrial Fund
Military Sealift Command

Summary of Purchases of Capital Assets:

	(Obligations, Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Equipment:			
Available Amounts, Beginning of the Year	10.1	.5	-
New Program Amounts	-	2.7	.5
Total Available Program	<u>10.1</u>	<u>3.2</u>	<u>.5</u>
Purchases of Equipment	9.6	3.2	.5
Available Amounts, End of the Year	.5	-	-
Unspecified Minor Construction Projects	.5	.2	.1
Management Information Systems	1.9	5.3	4.1
Total New Program for Capital Assets	2.4	8.2	4.7
(Total Outlays)	(11.6)	(8.7)	(6.6)
 <u>Financing of Total New Program for Capital Assets</u>			
Total New Program Amounts	2.4	8.2	4.7
 Amounts Financed By:			
Depreciation	1.5	2.7	2.6
Surcharge	7.8	5.4	2.1

Department of the Navy
Navy Industrial Fund
Military Sealift Command

Summary of Sealift Operations: The Military Sealift Command provides a number of different services with rates established independently for each type of service. A brief description and a summary of financial operations for each of these services is contained below:

o Cargo Operations: MSC Dry Cargo operations provides sealift services for the world wide movement of DoD dry cargoes and for participation in JCS exercises. Dry cargoes are moved via the MSC controlled fleet and commercially through arrangements made between MSC and commercial companies. In FY 1989, 76% of the dry cargo lift will be carried by commercial sources.

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Revenue*	588.2	499.7	737.4
Cost*	666.7	689.7	736.9
ACP Surcharge	-3.9	-.6	-.5
Revenue less Costs & Surcharges	-82.4	-191.6	-

* Includes amounts of \$5.1 million in FY 1989 paid from DoD Military Personnel appropriations. These amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

o Fleet Auxiliary: Consists of civilian-manned noncombatant ships providing underway replenishment of fuel, stores and supplies, and ammunition to deployed fleets. Also provides towing and salvage operations, as necessary, and the resupply of missiles, and undersea surveillance.

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Revenue*	353.3	360.8	436.3
Cost*	330.9	360.1	405.1
ACP Surcharge	-1.9	-1.3	-.8
Revenue less Costs & Surcharges	20.5	-1.1	30.4

* Includes amounts of \$18.3 million in FY 1989 paid from DoD Military Personnel appropriations. These amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Military Sealift Command

o Special Mission Ships: Consists of research, scientific and special purpose ships used in support of oceanography mapping, charting and geodesy, tracking of space vehicles, maintenance of undersea cables, and missile firings.

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Revenue*	186.6	132.9	135.0
Cost of Services*	151.4	136.9	134.6
ACP Surcharge	-1.1	-1.4	-.4
Revenue less Costs & Surcharges	-34.1	-5.4	-

* Includes amounts of \$1.2 million in FY 1989 paid from DoD Military Personnel appropriations. These amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

o Afloat Prepositioned and Fast Sealift Ships: Afloat Prepositioned Forces consist of ships loaded with military cargo and located in predetermined areas such as the Indian Ocean, Mediterranean Sea, Phillipines, and Guam. Prepositioning these cargo ships in such areas is intended to significantly decrease the time that would otherwise be required to deliver necessary military cargo to potential deployment areas in an emergency. Fast Sealift Ships are high speed (32 knots) ships designed to permit the rapid loading and unloading of combat equipment and the transportation of such equipment between the continental United States and forward deployed areas.

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Revenue*	504.9	400.9	493.2
Cost of Services*	519.1	494.2	523.4
ACP Surcharge	-4	-6	-.2
Revenue less Costs & Surcharges	-14.6	-93.9	-30.4

* Includes amounts of \$3.6 million in FY 1989 paid from DoD Military Personnel appropriations. These amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Military Sealift Command

o Tanker Operations: Tanker ships are used to transport refined petroleum products to overseas areas in the Department of Defense.

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Revenue*	210.0	197.3	233.0
Cost of Services*	202.1	222.6	232.8
ACP Surcharge	<u>- .5</u>	<u>- .6</u>	<u>- .2</u>
Revenue less Costs & Surcharges	7.4	-25.9	-

* Includes amounts of \$1.6 million in FY 1989 paid from DoD Military Personnel appropriations. These amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

o Strategic Petroleum Reserve and Other Reimbursable Programs: Consists of ships that transport unrefined petroleum products to be added to the United States' Strategic Petroleum Reserve. Also included are miscellaneous services provided on a cost reimbursable basis.

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Revenue*	89.0	22.6	22.7
Cost of Services*	<u>89.0</u>	<u>22.6</u>	<u>22.7</u>
Revenue less Costs & Surcharges	-	-	-

* Includes amounts of \$.2 million in FY 1989 paid from DoD Military Personnel appropriations. These amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

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Department of the Navy
Navy Industrial Fund
Naval Research Laboratories

Activity Group Function: Naval Research Laboratories consists of two activities; the Naval Research Laboratory and the Naval Civil Engineering Laboratory.

The Naval Research Laboratory's mission is to conduct a broadly based multi-discipline program of scientific research and advanced technological development directed toward new and improved materials, equipment, techniques, systems, and related operational procedures. The Naval Research Laboratory is responsible for Navy-wide leadership in the performance of primary in-house research for the physical, engineering, and environmental sciences; the conduct of a broadly based exploratory and advanced development program in response to identified and anticipated Navy needs; and the development of space systems for the Navy.

The mission of the Naval Civil Engineering Laboratory is to be the principal research, development, test and evaluation center for Navy shore facilities, fixed surface and subsurface ocean facilities and for the Navy and Marine Corps Construction Force. The Naval Civil Engineering Laboratory is scheduled to be converted to an appropriated fund activity at the end of FY 1989.

Activity Group Composition: The Naval Research Laboratory is a single activity headquartered in Washington, D.C.. Other facilities of the laboratory are located at Orlando, Florida and at ten other detachments located in Maryland and Florida. The Naval Civil Engineering Laboratory is a single activity located in Port Hueneme, sixty miles northwest of Los Angeles, California.

Budget Highlights: Approximately 81% of the research services provided by these activities are requested by Navy customers. Anticipated cost of operations for both activities in FY 1989 is expected to be greater than FY 1987, primarily due to inflation and estimated pay raise costs.

FY 1989 is expected to be greater than FY 1988, primarily due to inflation and estimated pay raise costs.

Overhead costs will be funded directly from the O&M,N appropriation beginning in FY 1989 as a result of the conversion from Industrial Funding to appropriation funding scheduled to commence in FY 1990. Equipment funding by OPN will also begin in FY 1989.

Department of the Navy
Navy Industrial Fund
Naval Research Laboratories

Summary of Financial Operations:

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Revenue *	424.4	375.7	372.6
Cost of Goods & Services Sold *	<u>413.6</u>	<u>359.4</u>	<u>370.2</u>
Revenue Less Costs	10.8	16.3	2.4
ACP Surcharges	-16.8	-4.5	-2.4
Refunds & Passthroughs (Net)	<u>-14.8</u>	<u>-</u>	-
Net Operating Results	-20.8	11.8	-
Prior Year & Other Adjustments	-1.0	-	-
Transfers and Passthroughs (Net)	-	-3.6	15.0
Accumulated Operating Results	-28.3	-20.1	-5.1

* Includes amounts of \$6.9 million in FY 1989 paid from DoD Military Personnel appropriations. These amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Naval Research Laboratories

Summary of Changes in Operations:

	(Dollars in Millions)		
	FY 1987 <u>Estimate</u>	FY 1987 <u>Actual</u>	<u>Variance</u>
Revenue	435.4	424.4	-11.0
Cost of Goods & Services Sold	<u>415.3</u>	<u>413.6</u>	<u>-1.7</u>
Revenue Less Costs	20.1	10.8	-9.3
ACP Surcharges	-16.8	-16.8	-
Refunds and Passthroughs (Net)	<u>-15.6</u>	<u>-14.8</u>	<u>-.8</u>
Net Operating Results	-12.3	-20.8	-8.5

Revenue and Cost of Goods Sold variances are primarily the result of unplanned decreases in workload. In addition, actual Federal Employees Retirement System (FERS) costs were lower than budgeted and resulted in a smaller FERS passthrough than originally budgeted.

Department of the Navy
Navy Industrial Fund
Naval Research Laboratories

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
1. FY 1988 Estimate in FY 1988 President's Budget	412.9	420.3	420.3	5.6
2. Congressional Adjustments:				
a. ACP Surcharges	-	-	-.8	0.8
b. Overhead	-	-	-1.2	1.2
c. Inflation Assumptions	-	-	-.9	0.9
d. Passthroughs	-5.6	-	-	-5.6
3. Estimated Impact in FY 1988 of Actual FY 1987 Experience			-4.1	4.1
4. Pricing Adjustments:				
a. Revised General Inflation	-	-	.6	-.6
b. FERS participation revised assumption for changing from CSRS to FERS	-	-	-.3	.3
c. Other	-	-	-4.8	4.8
5. Productivity Initiatives and Other Efficiencies:	-	-	-	-
6. Program Changes:				
a. Workload Changes - Orders Received. Decrease in budgeted workload.	-5.2	-	-	-
b. Workload changes - increase based on new program requirements.	2.9	2.9	2.6	.3
c. Industrial Fund Purchases Decrease in Navy Publications purchases.	-.2	-.2	-.2	-
7. Other Changes:				
a. Estimated impact of reduction in reimbursable funded con- tractual effort. Instead, NRL will receive direct cite funding for the contracts.	-36.8	-47.3	-47.3	-

Department of the Navy
Navy Industrial Fund
Naval Research Laboratories

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	Customer Orders	Revenue	Cost & Sur- charge	Net Operating Results
8. FY 1988 Current Estimate	368.0	375.7	363.9	11.8
9. Pricing Adjustments:				
a. Pay Raise				
1. FY 1989 Pay Raise	2.6	2.6	2.6	-
2. Annualization of FY 1988 Pay Raise	.9	.9	.9	-
b. General Inflation	3.8	3.8	3.8	-
c. Military Personnel Notional Amounts	-	6.9	6.9	-
10. Productivity Initiatives and Other Efficiencies:				
a. Anticipated savings due to efficiency reviews and contractor assumption of facility support functions.	-.6	-.6	-.6	-
11. Program Changes:				
a. Workload Changes - Orders Received. Decrease in workload.	-2.0	-2.0	-2.0	-
b. Workload Changes - Increase based on workload requirements for new program initiatives.	1.5	1.5	1.5	-
12. Other Changes:				
a. Depreciation Expenses	-1.3	-1.3	-1.3	-
b. ACP Surcharges	-2.1	-2.1	-2.1	-
c. Transfers/Passthroughs	15.0	-	-	-
d. Other Rate Changes	-11.8	-11.8	-	-11.8
e. Other	3.7	-1.0	-1.0	-
13. FY 1989 Current Estimate	377.7	372.6	372.6	-

* Military personnel amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Naval Research Laboratories

Summary of Workload Indicators:

	<u>FY 1987</u>	(Workyears) <u>FY 1988</u>	<u>FY 1989</u>
<u>Naval Research Laboratories:</u>	1,906	2,032	2,075
Direct Research	1,820	1,941	1,981
Direct Products & Services	86	91	94
<u>Civil Engineering Laboratories:</u>	401	437	437
Offshore Facilities	80	87	87
Shore Facilities	108	118	118
Amphibious/Advanced Base	87	96	96
Energy/Environment	84	92	92
Other	42	44	44
 Total	 2,307	 2,469	 2,512

Summary of New Customer Orders:

	<u>FY 1987</u>	(Dollars in Millions) <u>FY 1988</u>	<u>FY 1989</u>
<u>Navy Appropriations and Funds:</u>			
Operation and Maintenance	7.4	16.9	41.0
RDT&E	185.0	221.8	210.1
Procurement	9.0	8.1	9.5
Other Navy Customers	76.7	48.6	46.8
Other DoD Customers	47.6	45.2	43.7
Non-DoD Customers	21.1	27.4	26.6
Total All Customers	346.8	368.0	377.7

Summary of Personnel Resources:

	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
<u>Civilian Personnel:</u>			
End Strength	4,022	3,911	3,877
Workyears	3,875	4,051	4,025
 <u>Military Personnel:</u>			
End Strength	160	180	181
Workyears	160	180	181

Department of the Navy
Navy Industrial Fund
Naval Research Laboratories

Summary of Purchases of Capital Assets:

	(Obligations, Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Equipment:			
Available Amounts, Beginning of the Year	.8	1.4	-
New Program Amounts	<u>21.8</u>	<u>16.2</u>	<u>12.1</u>
Total Available Program	<u>22.6</u>	<u>17.6</u>	<u>12.1</u>
Purchases of Equipment	<u>21.2</u>	<u>17.6</u>	<u>12.1</u>
Available Amounts, End of the Year	<u>1.4</u>	-	-
Unspecified Minor Construction Projects	2.4	2.4	1.8
Management Information Systems	2.7	.3	-
Total New Program for Capital Assets	26.9	18.9	13.9
(Total Outlays)	(24.4)	(24.2)	(15.2)

Financing of Total New Program
for Capital Assets

Total New Program Amounts	26.9	18.9	13.9
Amounts Financed By:			
Depreciation	7.1	9.9	11.5
Surcharge	16.8	4.5	2.4

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Department of the Navy
Navy Industrial Fund
Ordnance Facilities

Activity Group Function: The Naval Ordnance Facilities are responsible for providing technical engineering and logistics support for combat systems, components and support systems and equipment. This includes In-Service Engineering for combat systems in Fleet Operation; development and acquisition support for assigned systems; proofing, testing, and evaluating underwater weapons; exercising design cognizance of underwater acoustic ranges and range equipment; and providing direct ordnance support to the Fleet. In carrying out direct ordnance support, the activities load, assemble, maintain and repair a vast variety of weapons and/or components; fire control systems; air to ground, air to air, and surface to air guided missiles; gun ammunition up to 16 inch; underwater sound signals; demolition explosives and materials; underwater mines and components; cartridge actuated devices; aircraft rockets explosives and solid propellants; miscellaneous ammunition components and containers; small arms and landing force ammunition; torpedoes and components. The assembly, maintenance and repair facilities contain capabilities for Intermediate and Depot Level maintenance and are updated as necessary to support new weapons' programs and systems, such as SMII, CRUISE (TOMAHAWK) and AMRAM missiles. The weapons stations provide storage and off and onloading of waterfront facilities for servicing operating Fleet vessels and support of other shipboard ordnance requirements. Ordnance activities also provide proofing and testing of new weapons before the introduction into the Fleet.

Activity Group Composition:

<u>Activities</u>	<u>Location</u>
Naval Ordnance Station	Indian Head, Maryland
Naval Ordnance Station	Louisville, Kentucky
Naval Weapons Station	Yorktown, Virginia
Naval Undersea Warfare Engineering Station	Keyport, Washington
Naval Weapons Station	Charleston, South Carolina
Naval Weapons Station	Concord, California
Naval Weapons Support Center	Crane, Indiana
Naval Weapons Station, Earle	Colts Neck, New Jersey
Naval Weapons Station	Seal Beach, California
Naval Ship Weapons Systems Engineering Station	Port Hueneme, California

Budget Highlights: Approximately 96% of FY 1989 customer orders for the Naval Ordnance Activity Group are projected to be from Navy customers including: 60% from Operations and Maintenance, Navy; 12% from Weapons Procurement, Navy; 8% from Other Procurement, Navy; 6% from Research, Test, Development & Evaluation, Navy; 4% from Shipbuilding & Construction, Navy; and 7% from other Navy customers. The Army and Air Force are expected to account for 2% and 1% of customer orders, respectively.

Department of the Navy
Navy Industrial Fund
Ordnance Facilities

This submission reflects continuing efforts at the ordnance activities to provide a high level to their customers at reduced costs. From FY 1987 to FY 1988, the customer rates decrease an average of 10.5%, while from FY 1988 to FY 1989 they decrease an average of .8%. The FY 1988 decrease is largely a result of overhead reductions at the activities.

Overhead costs are being reduced in three ways: (1) by reducing overhead labor, (2) by reducing non-labor overhead costs and (3) by reducing material inventory levels. In addition, direct labor productivity efforts are resulting in fewer direct hours being required in FY 1988 than in previous years. Additional savings for indirect costs are included in the FY 1989 estimate, and the activities are pursuing additional direct labor productivity savings.

Revenue decreases by \$97 million from FY 1988 to FY 1989. The change includes increased revenue for a 2% pay raise and general inflation costs, and decreased revenue for additional reductions in the overhead costs, decreased direct contracts, and decreased surcharge for the Asset Capitalization Program.

Department of the Navy
Navy Industrial Fund
Ordnance Facilities

Summary of Financial Operations:

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Revenue *	1,564.2	1,528.6	1,470.8
Cost of Goods & Services Sold *	<u>1,518.0</u>	<u>1,486.9</u>	<u>1,448.1</u>
Revenue Less Costs	46.2	41.7	22.7
ACP Surcharges	-69.7	-45.6	-22.7
Refunds & Passthroughs (Net)	-86.4	-	-
Inventory Adjustments	<u>.4</u>	<u>-</u>	-
Net Operating Results	-109.5	-3.9	-
Prior Year & Other Adjustments	7.9	-	-
Transfers and Passthroughs (Net)	-	-17.0	68.7
Accumulated Operating Results	-71.0	-91.9	-23.2

* Includes amounts of \$39.0 million in FY 1989 paid from DoD Military Personnel appropriations. These amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Ordnance Facilities

Summary of Changes in Operations:

	(Dollars in Millions)		
	<u>FY 1987</u> <u>Estimate</u>	<u>FY 1987</u> <u>Actual</u>	<u>Variance</u>
Revenue	1,412.8	1,564.2	151.4
Cost of Goods & Services Sold	<u>1,286.3</u>	<u>1,518.0</u>	<u>231.7</u>
Revenue Less Costs	126.5	46.2	-80.3
ACP Surcharges	-69.7	-69.7	-
Refunds and Passthroughs (Net)	-126.2	-86.4	39.8
Inventory Adjustments	<u>-</u>	<u>.4</u>	<u>.4</u>
Net Operating Results	-69.4	-109.5	-40.1

Because customer requests for goods and services exceeded estimated amounts, actual revenue and cost in FY 1987 was greater than budgeted amounts. In large part, the increased workload resulted from a greater portion of work being accomplished by Naval Ordnance Facilities, and less being accomplished by contractors, than initially estimated. The increase in costs exceeded the increase in revenue by \$80.3 million due to substantial losses at both the Naval Underwater Warfare Engineering Station in Keyport, Washington and the Naval Ordnance Station in Indian Head, Maryland. Due to issues of affordability, the actual refund made by the Naval Ordnance Facilities activity group was less than that initially estimated. This difference between budgeted and actual refunds, however, was offset by other activity groups which made refunds in excess of budgeted amounts. The adjustment to inventory was caused by a write-off of utilities accruals at the Naval Weapons Support Center in Crane, Indiana.

Department of the Navy
Navy Industrial Fund
Ordnance Facilities

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
1. FY 1988 Estimate in FY 1988 President's Budget	1,072.6	1,343.6	1,343.6	32.2
2. Congressional Adjustments:				
a. ACP Surcharges	-	-	-6.3	6.3
b. Overhead	-	-	-4.9	4.9
c. Inflation Assumptions	-	-	-3.7	3.7
d. Passthroughs	-32.2	-	-	-32.2
3. Estimated Impact in FY 1988 of Actual FY 1987 Experience				
a. Direct contracts and Materials	204.3	164.4	169.1	-4.7
4. Pricing Adjustments:				
a. Revised General Inflation	-	-	.9	-.9
b. Revised Fuel Prices	.7	.7	.7	-
c. FERS Assumptions	-	-	-13.2	13.2
d. Increases in Federal Employee Health Benefits.	-	-	4.5	-4.5
5. Productivity Initiatives and Other Efficiencies:				
a. Personnel Contracting Savings associated with decisions to convert to contractor performance or in-house efficiencies resulting from Commercial Activities studies.	-	-	-1.0	1.0
6. Program Changes:				
a. Emergent Workload Reflects an additional 141 workyears for efforts previously performed by other industrial activities.	3.5	3.5	2.4	1.1

Department of the Navy
Navy Industrial Fund
Ordnance Facilities

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
b. Increases to Direct Materials Includes increases for several customer programs, including TERRIER, CIWS, Standard Missile, and Mk 152 Emulation.	16.4	16.4	16.4	-
7. Other Changes:				
a. Depreciation Expenses	-	-	-.4	.4
b. Other. Automation efforts reflect largest share of increase as well as some additional contractor data processing support. Some increase also included for emergent repair projects: railroad and water and sewer distribution systems.	-	-	24.4	-24.4
8. FY 1988 Current Estimate	1,265.3	1,528.6	1,532.5	-3.9
9. Pricing Adjustments:				
a. Pay Raise				
1. FY 1989 Pay Raise	12.7	12.7	12.7	-
2. Annualization of FY 1988 Pay Raise	4.9	4.9	4.9	-
b. Stock Fund - Nonfuel	-.5	-.5	-.5	-
c. Purchases from Other Industrial Funds	.2	.2	.2	-
d. General Inflation	17.0	17.0	17.0	-
e. Military Personnel Notional Amounts	-	39.0	39.0	-

Department of the Navy
Navy Industrial Fund
Ordnance Facilities

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
10. Productivity Initiatives and Other Efficiencies:				
a. Asset Capitalization Program (ACP) productivity efficiencies resulting from ACP purchases.	-7.1	-7.1	-7.1	-
b. Reduced Overhead Costs Reflects reductions in overhead staffing, contract effort and non-labor areas to improve efficiency of operations.	-12.0	-12.0	-12.0	-
11. Program Changes:				
a. Increased Direct Workload Reflects increased direct workyears for high priority efforts.	7.2	7.2	7.2	-
b. Reduced Other Direct Costs Largely reflects reduction in direct contracts due to a more flexible funding document which allows direct cite of customer funding as appropriate.	-111.4	-109.3	-109.3	-
12. Other Changes:				
a. Depreciation Expenses	9.1	9.1	9.1	-
b. ACP Surcharges	-22.9	-22.9	-22.9	-
c. Other Rate Changes	3.9	3.9	-	3.9
d. Transfers & Passthroughs	68.7	-	-	-
e. Other	29.5	-	-	-
13. FY 1989 Current Estimate	1,264.6	1,470.8	1,470.8	-

* Military personnel amounts are included for illustrative purposes only.
Actual revenue, cost, and rates, as well as amounts reflected in DoD customer
accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Ordnance Facilities

Summary of Workload Indicators:

	(Direct Production Workyears)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Surface Launched Missiles	1,794	1,522	1,632
Torpedoes/Mines	1,355	1,388	1,449
RSS&I	708	713	682
Combat Systems Engr. & Other Depot Maintenance	4,334	4,964	5,010
Air Launched Missiles	561	627	674
Countermeasures, Test & Evaluation	782	804	815
Depot Maintenance for Supply System	772	785	803
TRIDENT Support, Electronics Centers of Excellence	612	599	591
Shipyards & Tenants Support	948	1,000	1,006
Army/Air Force	484	547	512
Marine Corps Missiles	24	29	29
Amphibious Warfare	44	47	44
FMS & Other Documentation, Spares	<u>67</u>	<u>73</u>	<u>74</u>
Total	12,485	13,098	13,321

Department of the Navy
Navy Industrial Fund
Ordnance Facilities

Summary of New Customer Orders:

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Navy Appropriations and Funds:			
Operation and Maintenance	710.2	645.6	769.7
RDT&E	71.4	90.8	69.1
Procurement	334.9	339.9	295.5
Stock Funds	47.5	45.6	32.8
Other Navy Customers	83.7	74.0	52.0
Other DoD Customers	66.9	62.4	39.0
Non-DoD Customers	4.8	7.0	6.5
Total All Customers	<u>1,319.4</u>	<u>1,265.3</u>	<u>1,264.6</u>

Summary of Personnel Resources:

	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
<u>Civilian Personnel:</u>			
End Strength	20,332	19,921	19,545
Workyears	20,347	20,315	19,986
<u>Military Personnel:</u>			
End Strength	1,177	1,272	1,261
Workyears	1,177	1,272	1,261

Department of the Navy
Navy Industrial Fund
Ordnance Facilities

Summary of Purchases of Capital Assets:

	(Obligations, Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Equipment:			
Available Amounts, Beginning of the Year	7.5	59.8	-
New Program Amounts	<u>91.4</u>	<u>72.3</u>	<u>58.6</u>
Total Available Program	<u>98.9</u>	<u>132.6</u>	<u>58.6</u>
Purchases of Equipment	<u>39.1</u>	<u>132.6</u>	<u>58.6</u>
Available Amounts, End of the Year	<u>59.8</u>	-	-
Unspecified Minor Construction Projects	6.0	6.4	6.8
Management Information Systems	5.5	5.3	4.4
Total New Program for Capital Assets	102.9	84.0	69.8
(Total Outlays)	(66.7)	(96.0)	(105.8)
 Financing of Total New Program for Capital Assets			
Total New Program Amounts	102.9	84.0	69.8
Amounts Financed By:			
Depreciation	28.1	38.0	47.1
Surcharge	69.7	45.6	22.

Department of the Navy
Navy Industrial Fund
Navy Publication and Printing Service

Activity Group Function: The mission of the Navy Publications and Printing Service (NPPS) is to serve as the Department of the Navy's central publishing and printing management organization. Responsibilities include controlling the acquisition, production, and distribution of publications and printing. The Secretary of the Navy requires that all Navy printing requirements be forwarded to the NPPS to assure compliance with the Federal Printing Program. The NPPS in-house equipment capability is strictly controlled by the Congressional Joint Committee on Printing (JCP) and work that cannot be performed by NPPS must be forwarded to the Government Printing Office (GPO). This work generally consists of unclassified printing which does not require a quick turnaround; such as, technical, training, and maintenance manuals. NPPS, unlike other NIF activities, does not contract for services. All NPPS customers are required to use the DoD Printing Requisition/Order (DoD Form 282) regardless of who ultimately performs the printing requirement; therefore, central management of the Navy's printing requirements is assured.

Activity Group Composition: NPPS is currently comprised of a Headquarters element located in the Washington Navy Yard Annex (in Washington D.C.), four field areas, a total of 17 Detachment Offices, 39 Branch Office, 5 Printing Acquisition Branches, and 102 other Reprographic Facilities.

Budget Highlights: Approximately 75% of orders are generated by Navy customers. The increase in orders received and revenue in FY 1988 from the FY 1988 President's Budget is due primarily to increased workload on electronic page printing systems in support of Logistics Applications of Automated Marking and Reading Symbols (LOGMARS), automated publishing systems, output from ADP systems and forms print on demand; and increased workload at the new Trident Submarine Base at King's Bay. The decrease in costs in FY 1988 from the FY 1988 President's Budgets is due to a reduction in the participation assumption for individuals converting from the CSRC to FERS. The decrease in orders received, costs and revenue in FY 1989 from the FY 1988 President's Budget is due to a reduction in the FY 1989 ACP surcharge and in the participation assumption for individuals converting from the CSRC to FERS.

Significant productivity improvements have been incorporated into the FY 1988/1989 Budget as a result of management initiatives and capital investments in electronic printing technology. Production standards have been adjusted to reflect this new technology as well as increased productivity goals for conventional equipment. These improvements will benefit NPPS customers through annual cost reductions/avoidances of \$2.0 million.

End strength and workyear increases are due to the increased workload mentioned above and functional transfers.

Department of the Navy
Navy Industrial Fund
Navy Publication and Printing Service

Continuing expansion of our commitment to electronic demand printing continues to characterize the NPPS Capital Equipment Program. NPPS will accelerate its acquisition of high speed laser printers as well as the acquisition of automated publishing systems programmed in support of the Navy Second CAD/CAM acquisition and demand printing of technical manuals. Demonstration efforts to reduce shipboard paper are underway; such as, the paperless ship and logistic tech data automation for Trident submarines. Other items scheduled for acquisition include large format and fold out printers in support of Shipyard and other repository automation efforts. The DoD LOGMARS (Bar Coding) Program at Subic and Guam came on-line in FY 1987. A recent prototype demonstration of forms printing on demand (FPODS) at NPPS San Diego using "off the shelf" equipment with networking capability was highly satisfactory. FPODS will ultimately eliminate preprinting and warehousing of flatsheet forms at nine major locations. FPODS will be operational at all eight primary sites by October 1988 with the overseas sites operational by December 1988. A considerable amount of FY 1988 and FY 1989 capital equipment funds will be used to convert from less cost effective ADP leases. Although obsolete printing equipment is continually being eliminated throughout NPPS, valid requirements for traditional printing remain, and a carefully selected base of this necessary equipment will remain.

Department of the Navy
Navy Industrial Fund
Navy Publication and Printing Service

Summary of Financial Operations:

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Revenue *	208.3	230.9	229.0
Cost of Goods & Services Sold *	<u>202.0</u>	<u>217.4</u>	<u>226.8</u>
Revenue Less Costs	6.3	13.5	2.2
ACP Surcharges	-6.5	-10.7	-2.2
Refunds & Passthroughs (Net)	<u>-.7</u>	<u>-</u>	-
Net Operating Results	-.9	2.8	-
Prior Year & Other Adjustments	1.8	-	-
Transfers and Passthroughs (Net)	-	-1.7	-1.9
Accumulated Operating Results	.8	1.9	-

* NPPS has no military assigned; therefore, there are no FY 1989 military costs included in the revenue and cost amounts.

Department of the Navy
Navy Industrial Fund
Navy Publication and Printing Service

Summary of Changes in Operations:

	(Dollars in Millions)		
	FY 1987 <u>Estimate</u>	FY 1987 <u>Actual</u>	<u>Variance</u>
Revenue	211.0	208.3	-2.7
Cost of Goods & Services Sold	<u>207.3</u>	<u>202.0</u>	<u>-5.3</u>
Revenue Less Costs	3.7	6.3	2.6
ACP Surcharges	-6.5	-6.5	-
Refunds and Passthroughs (Net)	<u>-.7</u>	<u>-.7</u>	<u>-</u>
Net Operating Results	-3.5	-.9	2.6

The revenue, costs and net operating results variance is due to lower than anticipated customer orders for technical manuals; lower than anticipated FERS costs; increased productivity; and lower than anticipated depreciation expense.

Department of the Navy
Navy Industrial Fund
Navy Publication and Printing Service

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
1. FY 1988 Estimate in FY 1988 President's Budget	229.8	230.1	230.1	1.7
2. Congressional Adjustments:				
a. ACP Surcharges	-	-	-.9	.9
b. Overhead	-	-	-.6	.6
c. Inflation Assumptions	-	-	-.5	.5
d. Passthroughs	-1.7	-	-	-1.7
3. Estimated Impact in FY 1988 of Actual FY 1987 Experience	-	-	-	-
4. Pricing Adjustments:				
a. Revised General Inflation	-	-	.3	-.3
b. FERS	-	-	-.9	.9
5. Productivity Initiatives and Other Efficiencies:				
a. Capital Equipment Improvements	-	-	-.2	.2
6. Program Changes:				
a. Increased workload on electronic page printing systems and at the new Trident Submarine Base at King's Bay.	.8	.8	.8	-
7. Other Changes:				
a. Other	3.6	-	-	-

Department of the Navy
Navy Industrial Fund
Navy Publication and Printing Service

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	Customer <u>Orders</u>	<u>Revenue</u>	Cost & Sur- <u>charge</u>	Net Operating <u>Results</u>
8. FY 1988 Current Estimate	232.5	230.9	228.1	2.8
9. Pricing Adjustments:				
a. Pay Raise				
1. FY 1989 Pay Raise	1.0	1.0	1.0	-
2. Annualization of FY 1988 Pay Raise	.4	.4	.4	-
b. Stock Fund - Nonfuel	-.2	-.2	-.2	-
c. Purchases from Other Industrial Funds	.1	.1	.1	-
d. General Inflation	5.7	5.7	5.7	-
10. Productivity Initiatives and Other Efficiencies:	-2.0	-2.0	-2.0	-
11. Program Changes:	-	-	-	-
a. Increased Workload	.6	.6	.6	-
12. Other Changes:				
a. Depreciation Expenses	2.4	2.4	2.4	-
b. ACP Surcharges	-8.5	-8.5	-8.5	-
c. Other Rate Changes	-2.8	-2.8	-	-2.8
d. Transfers & Passthroughs	-1.9	-	-	-
e. Other	-4.9	1.4	1.4	-
13. FY 1989 Current Estimate	222.4	229.0	229.0	-

* Military personnel amounts are included for illustrative purposes only.
Actual revenue, cost, and rates, as well as amounts reflected in DoD customer
accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Navy Publication and Printing Service

Summary of Workload Indicators:

	(Units of Production)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
IN-HOUSE PRINTING UNITS	4,640	4,780	4,853

Note: Units of production are comprised of press units, microfiche, microfilm, engineering drawings, blueprints, and related printing services and products.

Summary of New Customer Orders:

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Navy Appropriations and Funds:			
Operation and Maintenance	96.9	107.5	101.2
RDT&E	.3	.4	.4
Procurement	2.6	3.5	3.4
Stock Funds	3.3	4.1	4.2
Other Navy Customers	48.9	60.1	58.6
Other DoD Customers	29.9	35.3	34.1
Non-DoD Customers	21.6	21.7	20.5
Total All Customers	<u>203.5</u>	<u>232.6</u>	<u>222.4</u>

Summary of Personnel Resources:

	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
<u>Civilian Personnel:</u>			
End Strength	1,742	1,741	1,740
Workyears	1,746	1,788	1,793
<u>Military Personnel:</u>			
End Strength	-	-	-
Workyears	-	-	-

Department of the Navy
Navy Industrial Fund
Navy Publication and Printing Service

Summary of Purchases of Capital Assets:

	(Obligations, Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Equipment:			
Available Amounts, Beginning of the Year	4.0	3.0	-
New Program Amounts	<u>11.1</u>	<u>10.1</u>	<u>10.0</u>
Total Available Program	15.1	13.1	10.0
Purchases of Equipment	<u>12.1</u>	<u>13.1</u>	<u>10.0</u>
Available Amounts, End of the Year	3.0	-	-
Unspecified Minor Construction Projects	.7	1.4	.6
Management Information Systems	.6	5.4	.1
Total New Program for Capital Assets	12.4	16.9	10.7
(Total Outlays)	(11.1)	(17.0)	(12.0)
 <u>Financing of Total New Program for Capital Assets</u>			
Total New Program Amounts	12.4	16.9	10.7
 Amounts Financed By:			
Depreciation	3.8	6.1	8.5
Surcharge	6.5	10.7	2.2

Department of the Navy
Navy Industrial Fund
Public Works Center

Activity Group Function: The Naval Facilities Engineering Command's Public Works Centers provide utilities, base housing, transportation support, engineering services, shore facilities planning support, and logistics support required by operating forces and other activities.

Activity Group Composition:

<u>Activities</u>	<u>Location</u>
PWC Norfolk	Norfolk, Virginia
PWC Pensacola	Pensacola, Florida
PWC Great Lakes	Great Lakes, Illinois
PWC San Diego	San Diego, California
PWC San Francisco	San Francisco, California
PWC Pearl Harbor	Pearl Harbor, Hawaii
PWC Guam	Angana, Guam, Mariana Islands
PWC Subic Bay	Subic Bay, Phillipines

Budget Highlights: The FY 1989 submission incorporates the Navy's revised expectations in achieving PWC productivity savings. The manpower portion of these savings has been slower to develop than first anticipated. A time-phase plan based on reinvesting the labor savings will allow PWCs to provide both reduced costs and improved responsiveness to our customers. The PWCs plan to attack two main areas of concern: reducing the unacceptable backlog of specific maintenance work, and accommodating the increased maintenance caused by more facilities.

The PWC's are involved in several productivity initiatives. The Naval Industrial Improvement Program (NIIP) Model PWC Demonstration Project at PWC Norfolk has concluded, with the exception of testing an "off the shelf" commercial financial management software package. Overhead savings in excess of one million dollars were identified through a management review of the centers' operations. Through this review and other budgeted labor improvements, PWCs will be able to provide more maintenance and repair services to customer activities for their facilities dollar. All PWCs have installed a version of the highly successfully "company concept". PWCs are achieving significant improvements in response time for specific maintenance work under this concept.

The PWC Asset Capitalization Program (ACP) has concentrated on upgrading the aged transportation fleet to reduce excessive maintenance costs. In FY 1988, the major emphasis will be on selective replacement of transportation assets and Civil Engineering Support Equipment (CESE). Last year's Congressional Submission provided for a five year vehicle replacement cycle and contained moderate age reductions. These reductions reflected the anticipated impact of previous Asset Capitalization Program deliveries. Total ACP authority for FY 1988 and FY 1989 has been significantly reduced. These ACP authority reductions do not impact maintenance and productivity savings contained in the previous submission.

Department of the Navy
Navy Industrial Fund
Public Works Center

Summary of Financial Operations:

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Revenue *	1,084.8	1,141.9	1,095.3
Cost of Goods & Services Sold *	<u>1,037.0</u>	<u>1,061.3</u>	<u>1,082.1</u>
Revenue Less Costs	47.8	80.6	13.2
ACP Surcharges	-35.3	-23.5	-13.2
Refunds & Passthroughs (Net)	<u>5.1</u>	<u>-</u>	<u>-</u>
Net Operating Results	17.6	57.1	-
Prior Year & Other Adjustments	57.5	-	-
Transfers and Passthroughs (Net)	-	-4.7	-35.1
Accumulated Operating Results	-17.3	35.1	-

* Includes amounts of \$5.9 million in FY 1989 paid from DoD Military Personnel appropriations. These amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Public Works Center

Summary of Changes in Operations:

	(Dollars in Millions)		
	FY 1987 <u>Estimate</u>	FY 1987 <u>Actual</u>	<u>Variance</u>
Revenue	1,143.8	1,084.8	-59.0
Cost of Goods & Services Sold	<u>1,092.4</u>	<u>1,037.0</u>	- <u>55.4</u>
Revenue Less Costs	51.4	47.8	-3.6
ACP Surcharges	-35.3	-35.3	-
Refunds and Passthroughs (Net)	<u>4.6</u>	<u>5.1</u>	<u>.5</u>
Net Operating Results	20.7	17.6	-3.1

Revenue and Cost of Goods Sold variances are the result of programmatic changes caused by originally budgeted customer workload migrating to commercial contract. In addition, actual Federal Employee Retirement (FERS) costs were higher than budgeted resulting in a larger passthrough than originally budgeted.

Department of the Navy
Navy Industrial Fund
Public Works Center

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
1. FY 1988 Estimate in FY 1988 President's Budget	1,201.0	1,126.1	1,126.1	71.7
2. Congressional Adjustments:				
a. ACP Surcharges	-	-	.8	-.8
b. Overhead	-	-	-3.0	3.0
c. Inflation Assumptions	-	-	-2.7	2.7
d. Passthroughs	-71.7	-	-	-71.7
3. Estimated Impact in FY 1988 of Actual FY 1987 Experience	-	-	-	-
4. Pricing Adjustments:				
a. Revised General Inflation	-	-	1.4	-1.4
b. Revised Fuel Prices	3.7	3.7	3.7	-
c. FERS Cost Assumptions. Provides for a significant reduction in the partici- pation assumption for individuals converting from CSRS to FERS.	-	-	-5.7	5.7
d. Electricity Costs. Provides for a significant reduction in purchased electricity costs due to lower commercial rates.	-	-	-39.5	39.5
5. Productivity Initiatives and Other Efficiencies:				
a. Navy Industrial Improvement Plan (NIIP). Savings associated with reductions in overhead costs.	-	-	-6.0	6.0
b. Energy Conservation Initiatives. Reduction in utility and associated costs due to facility energy- conservation initiatives.	-	-	-1.2	1.2

Department of the Navy
Navy Industrial Fund
Public Works Center

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
6. Program Changes:				
a. Workload Changes - Orders Received. Decline is a result of programmatic changes due to migration of workload to commercial contract	-15.0	-	-	-
b. Workload Changes - Revenue and Costs. Increase due to increased direct workyears to reduce maintenance backlog.	-	12.1	5.2	6.9
7. Other Changes:				
a. NIIP Implementation Costs	-	-	5.7	-5.7
8. FY 1988 Current Estimate	1,118.0	1,141.9	1,084.8	57.1
9. Pricing Adjustments:				
a. Pay Raise				
1. FY 1989 Pay Raise	9.8	9.8	9.8	-
2. Annualization of FY 1988 Pay Raise	1.4	1.4	1.4	-
b. Stock Fund - Nonfuel	-1.9	-1.9	-1.9	-
c. General Inflation	21.2	21.2	21.2	-
d. Military Personnel Notional Amounts	-	5.9	5.9	-
e. Other	3.2	3.2	3.2	-

Department of the Navy
Navy Industrial Fund
Public Works Center

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
10. Productivity Initiatives and Other Efficiencies:				
a. Navy Industrial Improvement Plan. Savings associated with reductions in overhead labor.	-6.0	-6.0	-6.0	-
b. Energy Conservation Initiatives. Reduction in utility and associated costs due to facility energy con- servation initiatives.	-2.0	-2.0	-2.0	-
11. Program Changes:				
a. Workload Changes. Orders Received, Revenue and Costs growth due to increase in facilities requiring maintenance.	19.2	13.6	13.6	-
b. Workload Changes. Revenue and Costs reduction due to a decrease of 182 direct workyears.	-	-27.8	-27.8	-
12. Other Changes:				
a. Depreciation Expenses	4.1	4.1	4.1	-
b. ACP Surcharges	-10.3	-10.3	-10.3	-
c. Other Rate Changes	-57.1	-57.1	-	-57.1
d. Transfers & Passthroughs	-35.0	-	-	-
e. Paid Days. Two less paid days for civilian personnel in FY 1989 than FY 1988.	-.7	-.7	-.7	-
13. FY 1989 Current Estimate	1,063.9	1,095.3	1,095.3	-

* Military personnel amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

AD-A195 764 DEPARTMENT OF THE NAVY JUSTIFICATION OF ESTIMATES
AMENDED FISCAL YEAR 190.. (U) OFFICE OF THE COMPTROLLER
(NAVY) WASHINGTON DC FEB 88

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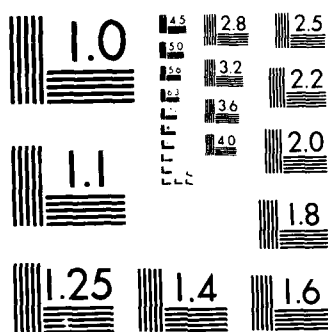
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Department of the Navy
Navy Industrial Fund
Public Works Center

Summary of Workload Indicators:
Workyears (WY)/Units

	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
AC Electricity (WY)	1,125	1,115	1,102
Megawatt Hours	2,600,701	2,720,142	3,083,119
Steam (WY)	315	312	307
Millions of BTUs	7,319,592	7,862,300	8,248,925
Other Utilities (WY)	787	780	767
Energy/Service Maintenance (WY)	1,181	1,171	1,152
Work orders/Small jobs	842,487	883,057	872,883
Recurring Maintenance (WY)	1,462	1,455	1,426
Actions Initiated	42,529	44,500	45,000
Specific Maintenance (WY)	2,007	1,990	1,958
Work orders/Large jobs	7,462	8,823	8,700
Transportation Ops. (WY)	1,439	1,427	1,404
Equipment Hours	2,987,952	3,150,000	3,150,000
Transportation Maint. (WY)	326	323	318
Millions of Miles Driven	66,811	67,400	67,400
Engineering (WY)	702	696	685
Other (WY)	<u>1,956</u>	<u>1,940</u>	<u>1,908</u>
TOTAL Direct Workyears	11,300	11,209	11,027

Department of the Navy
Navy Industrial Fund
Public Works Center

Summary of New Customer Orders:

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Navy Appropriations and Funds:			
Operation and Maintenance	665.2	706.0	678.8
RDT&E	2.6	1.7	1.7
Procurement	-	.6	.7
Stock Funds	.4	.5	.1
Other Navy Customers	297.6	296.7	288.8
Other DoD Customers	83.8	84.2	64.9
Non-DoD Customers	29.3	28.3	28.9
Total All Customers	<u>1,078.9</u>	<u>1,118.0</u>	<u>1,063.9</u>

Summary of Personnel Resources:

	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
<u>Civilian Personnel:</u>			
End Strength	12,577	11,990	11,613
Workyears	14,017	14,008	13,702
<u>Military Personnel:</u>			
End Strength	107	99	97
Workyears	107	99	97

Department of the Navy
Navy Industrial Fund
Public Works Center

Summary of Purchases of Capital Assets:

	(Obligations, Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Equipment:			
Available Amounts, Beginning of the Year	5.4	21.7	-
New Program Amounts	<u>51.0</u>	<u>36.4</u>	<u>31.4</u>
Total Available Program	<u>56.4</u>	<u>58.1</u>	<u>31.4</u>
Purchases of Equipment	<u>34.7</u>	<u>58.1</u>	<u>31.4</u>
Available Amounts, End of the Year	<u>21.7</u>	-	-
Unspecified Minor Construction Projects	9.2	12.2	10.8
Management Information Systems	.6	-	-
Total New Program for Capital Assets	60.8	48.6	42.2
(Total Outlays)	(12.0)	(61.5)	(56.0)

Financing of Total New Program
for Capital Assets

Total New Program Amounts	60.8	48.6	42.2
Amounts Financed By:			
Depreciation	18.3	25.0	29.1
Surcharge	35.3	23.5	13.1

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Department of the Navy
Navy Industrial Fund
Naval Shipyards

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

Activity Group Composition:

<u>Activities</u>	<u>Location</u>
Portsmouth Naval Shipyard	Kittery, Maine
Philadelphia Naval Shipyard	Philadelphia, Pennsylvania
Norfolk Naval Shipyard	Portsmouth, Virginia
Charleston Naval Shipyard	Charleston, South Carolina
Long Beach Naval Shipyard	Long Beach, California
Mare Island Naval Shipyard	Vallejo, California
Puget Sound Naval Shipyard	Bremerton, Washington
Pearl Harbor Naval Shipyard	Pearl Harbor, Hawaii

Budget Highlights: The Naval Shipyards have been actively involved in introducing efficiencies and institutionalizing improvements on the waterfront to reduce cost of operations. The shipyards also completed overhead budget management studies, implemented many of the improvements identified in phase one of the Navy's Management study and are embarking on phase two whereby improvement actions identified at one activity in the first phase are introduced to the remaining shipyards. This budget submission reflects savings/cost reductions due to the management and cost control initiatives as well as the on-going productivity enhancement programs that have been established in each shipyard. Many of the improvements are reflected in reduced direct production mandays for customer-funded work resulting in reduced customer costs. The advent of competition with the private sector has further challenged the Naval Shipyards to become more cost effective. The shipyards have met this challenge successfully as evidenced by the several availabilities won through the competitive process. A combination of more effective utilization of manpower and increased fiscal restraint in overhead areas has made this possible.

Approximately 99.6% of FY 1989 customer orders for the Naval Shipyard Activity Group are projected to be from Navy customers, including 88% from Operations & Maintenance, Navy.

Department of the Navy
Navy Industrial Fund
Naval Shipyards

In FY 1988, revenue and costs increase by 8% and 6% respectively over FY 1987 actual levels. Due in part to increases related to Federal Employees Retirement System (FERS) and the impact of increased direct workload. In FY 1989, revenue and costs are expected to decrease by 6% each below FY 1988 estimates, due primarily to a significant drop in direct workload.

An operating loss of \$95.3 million is anticipated in FY 1988. This loss is due to: the cumulative effect of workload changes, including losses on prior year work being billed in FY 1988; the disposal of material inventory which is excess to requirements; and transfers totaling \$56.9 million. Neither a net operating gain or loss is anticipated in FY 1989 due to normal operations. A \$16.0 million loss is estimated, however, due to the continued disposal of material in excess of requirements.

An increase in accumulated operating results is planned in FY 1989 as a result of a passthrough of \$177.3 million. This passthrough is intended to partially recoup losses incurred in FY 1987 and estimated in FY 1988. Planned purchases of capital equipment are \$134.1 million in FY 1988 and \$110.3 million in FY 1989. Significant purchases include continuation of a multi-year crane procurement program.

Further progress has been made in implementing a Cost Schedule Control System (C/SCS). This system relates the organizational structure to the cost and work breakdown structures to quantify the performance of individual managers against the unique cost and work functions for which each is responsible. This system defines the impact of performance to variances between actual resource consumption (time, material, manpower and cost) and planned consumption, thus highlighting the area where corrective action is required. Long Beach has reduced production direct labor mandays by an average of 20 percent using C/SCS over the last three years. C/SCS is also partially operational at several other shipyards. Every shipyard will have an operational system by April 1988.

Department of the Navy
Navy Industrial Fund
Naval Shipyards

Summary of Financial Operations:

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Revenue *	3,516.9	3,795.3	3,601.2
Cost of Goods & Services Sold *	<u>3,524.1</u>	<u>3,740.2</u>	<u>3,549.3</u>
Revenue Less Costs	-7.2	55.1	51.9
ACP Surcharges	-147.0	-77.5	-51.9
Refunds & Passthroughs (Net)	-123.7	-	-
Inventory Adjustments	<u>-25.1</u>	<u>-16.0</u>	<u>-16.0</u>
Net Operating Results	-303.0	-38.4	-16.0
Prior Year & Other Adjustments	22.6	-	-
Transfers and Passthroughs (Net)	-	-56.9	177.3
Accumulated Operating Results	-141.9	-237.2	-75.9

* Includes amounts of \$29.9 million in FY 1989 paid from DoD Military Personnel appropriations. These amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Naval Shipyards

Summary of Changes in Operations:

	(Dollars in Millions)		
	FY 1987 <u>Estimate</u>	FY 1987 <u>Actual</u>	<u>Variance</u>
Revenue	3,660.1	3,516.9	-143.2
Cost of Goods & Services Sold	<u>3,523.0</u>	<u>3,524.1</u>	<u>1.1</u>
Revenue Less Costs	137.1	-7.2	-144.3
ACP Surcharges	-147.0	-147.0	-
Refunds and Passthroughs (Net)	<u>-173.8</u>	<u>-131.9</u>	<u>41.9</u>
Inventory Adjustments	-	-25.1	-25.1
Net Operating Results	-183.7	-311.2	-127.5

Actual FY 1987 revenue was less than budgeted due to a combination of factors, including fewer work days than anticipated. This decrease in work days resulted from slippages in scheduled starts, as well as delays in the completion of various overhauls and availabilities. Losses (of \$134 million) on prior year work billed in FY 1988 at FY 1987 rates also contributed to a decrease in net revenue in FY 1987. Additionally, inventory adjustments of \$25.1 million were incurred associated with the disposal of excess material and outstanding material accounts for which no credit was received. These transactions were not provided for in the previous budget estimate.

Actual refunds in FY 1987 were \$50.1 million less than budgeted. This variance occurred primarily because the Naval Shipyards could not afford to make budgeted refunds as initially planned. As indicated in the Navy Industrial Fund Summary of Operations, while the Navy Industrial Fund accomplished the total amount of refunds budgeted in FY 1987, in some instances amounts the actual distribution of this refund by Navy Industrial Fund activity group varied from that in the previous budget estimate.

Department of the Navy
Navy Industrial Fund
Naval Shipyards

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
1. FY 1988 Estimate in FY 1988 President's Budget	3,993.7	3,756.5	3,756.5	4.4
2. Congressional Adjustments:				
a. ACP Surcharges	-	-	-21.8	21.8
b. Overhead	-	-	-9.6	9.6
c. Inflation Assumptions	-	-	-9.3	9.3
d. Passthroughs	-4.4	-	-	-4.4
3. Estimated Impact in FY 1988 of Actual FY 1987 Experience	-	-	-	-
4. Pricing Adjustments:				
a. Revised General Inflation	-	-	1.5	-1.5
b. Revised Fuel Prices	2.2	2.2	2.2	-
c. FERS Assumptions Provides for a significant reduction in the partici- pation assumption for individuals converting from the CSRS to FERS.	-	-	-44.7	44.7
d. Increase in Federal Employees Health Benefits	-	-	15.4	-15.4
5. Productivity Initiatives and Other Efficiencies:				
a. Workforce Management Improvements Savings attributed to direct manday efficiencies encouraged by competition, workload leveling efforts for more effective use of workforce, more accurate charging, increased attention on lost time, sick leave and injury compensation, as well as elimination of the third shift at Mare Island and Pearl Harbor.	-27.3	-27.3	-30.8	3.5

Department of the Navy
Navy Industrial Fund
Naval Shipyards

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
b. Improvement Material Better management of inventories has resulted in ordering less material at the beginning of avail- abilities and better using excess material.	-16.4	-16.4	-16.4	-
c. Overhead Studies Overhead Budget Management Studies have resulted in decreased overhead costs.	-	-	-3.7	3.7
6. Program Changes:				
a. Changes in Workload Orders reflect a net reduction of five ships being advanced to FY 1987 program year. Revenue and costs increase due to increased direct workyear requirements for FY 1986/1987 avail- abilities not yet completed.	-555.7	86.9	175.5	-88.6
b. Travel Off-site workload has decreased.	-6.6	-6.6	-6.6	-
7. Other Changes:				
a. Depreciation Expenses	-	-	-7.6	7.6
b. Fuel - Scheduled completion of the power plant at Puget Sound has been delayed. Charleston's shore steam costs increase for additional homeported ships and longer in-port periods.	-	-	5.3	-5.3

Department of the Navy
Navy Industrial Fund
Naval Shipyards

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
c. Utilities - Purchased utilities increase at Norfolk for the Refuse Derived Power Plant for contract costs as well as additional costs to comply with EPA standards.	-	-	9.7	-9.7
d. Communications - Additional costs for Consolidated Area Telephone System at Mare Island.	-	-	2.1	-2.1
8. FY 1988 Current Estimate	3,385.5	3,795.3	3,817.7	-22.4
9. Pricing Adjustments:				
a. Pay Raise				
1. FY 1989 Pay Raise	67.5	67.5	67.5	-
2. Annualization of FY 1988 Pay Raises	19.5	19.5	19.5	-
b. Stock Fund - Fuel	1.8	1.8	1.8	-
c. Stock Fund - Nonfuel	-12.0	-12.0	-12.0	-
d. Purchases from Other Industrial Funds	.3	.3	.3	-
e. General Inflation	19.9	19.9	19.9	-
f. Military Personnel Notional Amounts	-	29.9	29.9	-
10. Productivity Initiatives and Other Efficiencies:				
a. Asset Capitalization Program (ACP) Productivity efficiencies resulting from ACP purchases.	-19.2	-19.2	-19.2	-

Department of the Navy
Navy Industrial Fund
Naval Shipyards

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
11. Program Changes:				
a. Changes in Workload				
Orders received declines				
due to fewer overhauls				
scheduled. Revenue and				
costs decrease for				
reduction of 3,315 workyears.	-683.7	-302.9	-302.9	-
b. Travel				
Increased Number of off-site				
availabilities.	9.3	9.3	9.3	-
12. Other Changes:				
a. Depreciation Expenses	8.5	8.5	8.5	-
b. ACP Surcharges	-25.6	-25.6	-25.6	-
c. Other Rate Changes	22.4	22.4	-	22.4
d. Transfers & Passthroughs	177.4	-	-	-
e. Communications				
Decrease due to one-time				
installation costs of				
CATS at Mare Island.	-3.7	-3.7	-3.7	-
f. Fuel - New power plants				
at Norfolk and Puget				
Sound become fully				
operational in FY 1989.	-2.3	-2.3	-2.3	-
g. Other	-4.2	-4.2	-4.2	-
13. FY 1989 Current Estimate	2,958.1	3,601.2	3,601.2	-

* Military personnel amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Naval Shipyards

Summary of Workload Indicators:

	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Service Life Extension Program	-	1	-
Regular/Complex Overhauls	26	15	7
Depot Maintenance Period	-	-	6
Selected Restricted Availability	48	38	54
Total Ships	<u>74</u>	<u>54</u>	<u>67</u>

The work load indicators represent actual/planned ship availability starts in each year. It should be noted that the basic shift in maintenance strategy is from longer and larger overhauls to a larger number of short duration availabilities with substantially fewer mandays. For example in FY 1989, six submarines originally due for Regular Overhaul will receive Depot Maintenance Period (DMP); which are currently planned for approximately one third the duration and manday package of a Regular Overhaul. Additionally, as a result of efficiencies, the same work will be performed with fewer direct labor mandays.

Summary of New Customer Orders:

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Navy Appropriations and Funds:			
Operation and Maintenance	3,065.3	2,491.5	2,593.4
RDT&E	8.1	11.3	9.7
Procurement	2.5	567.8	76.3
Stock Funds	34.9	91.3	96.5
Other Navy Customers	228.4	211.4	170.6
Other DoD Customers	6.1	3.9	3.8
Non-DoD Customers	6.3	8.3	7.8
Total All Customers	<u>3,351.6</u>	<u>3,385.5</u>	<u>2,958.1</u>

Summary of Personnel Resources:

	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
<u>Civilian Personnel:</u>			
End Strength	72,366	68,900	64,850
Workyears	69,804	70,687	67,118
<u>Military Personnel:</u>			
End Strength	764	669	661
Workyears	764	669	661

Department of the Navy
Navy Industrial Fund
Naval Shipyards

Summary of Purchases of Capital Assets:

	(Obligations, Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Equipment:			
Available Amounts, Beginning of the Year	19.9	164.7	-
New Program Amounts	<u>195.3</u>	<u>138.9</u>	<u>114.0</u>
Total Available Program	215.2	303.6	114.0
Purchases of Equipment	<u>50.5</u>	<u>303.6</u>	<u>114.0</u>
Available Amounts, End of the Year	164.7	-	-
 Unspecified Minor Construction Projects	 5.1	 6.8	 7.2
Management Information Systems	.9	1.1	1.0
Total New Program for Capital Assets	201.3	146.8	122.2
(Total Outlays)	(97.9)	(205.1)	(195.9)
 <u>Financing of Total New Program for Capital Assets</u>			
Total New Program Amounts	201.3	146.8	122.2
 Amounts Financed By:			
Depreciation	54.4	61.8	70.3
Surcharge	147.0	77.5	51.9

Department of the Navy
Navy Industrial Fund
Space and Naval Warfare Research and Development Centers

Activity Group Function: The mission of the Space and Naval Warfare Systems (SPAWAR) Command managed Research and Development Centers (Laboratories) is to conduct research, development, tests and evaluations and related services. The technical effort of the centers encompasses technology base programs, advanced and engineering development, in-service engineering and fleet support in all areas of naval technology.

Activity Group Composition:

<u>Activities</u>	<u>Location</u>
David W. Taylor Naval Ship Research & Development Center	Bethesda, Maryland
Naval Air Development Center	Warminster, Pennsylvania
Naval Coastal System Center	Panama City, Florida
Naval Ocean Systems Center	San Diego, California
Naval Surface Weapons Center	Dahlgren, Virginia
Naval Underwater Systems Center	Newport, Rhode Island
Naval Weapons Center	China Lake, California

Budget Highlights: Approximately 93% of the services provided by these SPAWAR Centers are furnished to Navy customers, primarily the Research Development Test, and Evaluation, Navy appropriation, with the balance provided to other DoD, but also other Federal customers.

This budget incorporates productivity savings and efficiencies experienced to date as well as those projected as a result of the commercial activities (CA) program; most efficient organization (MEO) studies; energy conservation; fraud, waste, and abuse (FWA); value engineering (VE); and material recovery programs. At the Naval Weapons Center (NAVWPNCEN), beginning in FY 1987, significant utility savings are being experienced and have been reflected in this budget from the Coso Geothermal Development Project which furnishes electrical energy to the southwest California grid and results in an approximate 20% savings in NAVWPNCEN'S electrical bill.

The Asset Capitalization Program (ACP) provides the principle source of savings in the direct labor area. Emphasis in the ACP in the budget years is placed on tools to enhance engineering productivity, particularly in the area of mechanical electrical analysis, and in equipment and facilities which enhance laboratory capabilities in the simulation of full-scale testing resulting in reduced aircraft and ship operating costs and related laboratory support costs. One example of productivity enhancing ACP projects is the Naval Surface Warfare Center's (NAVSWC) Center Wide Area Network (CWAN) which when finished will be the largest operational terminal-to-host network in the Navy, serving 2000 customers across six geographically separated sites. Related is NAVSWC's integrated office automation system now operational for

Department of the Navy
Navy Industrial Fund
Space and Naval Warfare Research and Development Centers

over 1200 management, technical, and support personnel. User surveys indicate that this system enhances the productivity of each class of users by at least 20%. A second example is the video teleconferencing (VTC) facility installed at two major sites of the Naval Underwater Systems Center. Savings from reduced travel time, travel costs, and the ability to get quicker decisions have more than paid for the facility in the less than one year it has been operational. Under ACP, similar VTC facilities are planned in FY 1988 and FY 1989 for the other SPAWAR Centers for communications among the Centers and with headquarters commands.

Summary of Financial Operations:

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Revenue *	2,346.1	2,270.5	2,243.1
Cost of Goods & Services Sold *	<u>2,248.7</u>	<u>2,208.3</u>	<u>2,243.1</u>
Revenue Less Costs	97.4	62.2	-
ACP Surcharges	-55.0	-30.0	-
Refunds & Passthroughs (Net)	<u>-126.8</u>	<u>-</u>	-
Net Operating Results	-84.4	32.2	-
Prior Year & Other Adjustments	-25.2	-	-
Transfers and Passthroughs (Net)	-	-21.3	40.0
Accumulated Operating Results	-64.3	-53.5	-13.4

* Includes amounts of \$45.0 million in FY 1989 paid from DoD Military Personnel appropriations. These amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Space and Naval Warfare Research and Development Centers

Summary of Changes in Operations:

	(Dollars in Millions)		
	FY 1987 <u>Estimate</u>	FY 1987 <u>Actual</u>	<u>Variance</u>
Revenue	2,256.0	2,346.1	90.1
Cost of Goods & Services Sold	<u>2,166.6</u>	<u>2,248.7</u>	<u>82.1</u>
Revenue Less Costs	89.4	97.4	8.0
ACP Surcharges	-55.0	-55.0	-
Refunds and Passthroughs (Net)	<u>-127.4</u>	<u>-126.8</u>	<u>.6</u>
Net Operating Results	-93.0	-84.4	8.6

FY 1987 actual Revenue and Cost of Goods Sold exceeded the estimate by 4.0% and 3.8%, respectively, primarily because more customer costs were funded through the NIF instead of by direct citation of customer funds than budgeted. The estimate was based on projections that the Centers would use less reimbursable funding and more direct cite funding for major contracts. Although less reimbursable funding was received in FY 1987 than in prior years, the levels were not as low as projected; consequently the NIF costs and revenue were higher. Customer programs were not impacted by this minor variance since this was merely a shift in the method of funding efforts at the SPAWAR Centers.

In FY 1987 a NIF refund of \$142.2 million was paid equal to the budget estimate. However, the passthrough for funding of the Federal Employees Retirement System (FERS) was budgeted for \$14.8 million, but was revised to \$15.4 million when updated estimates of actual FERS costs were available.

Department of the Navy
Navy Industrial Fund
Space and Naval Warfare Research and Development Centers

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
1. FY 1988 Estimate in FY 1988 President's Budget	1,951.3	2,063.1	2,063.1	20.8
2. Congressional Adjustments:				
a. ACP Surcharges	-	-	-5.8	5.8
b. Overhead	-	-	-6.9	6.9
c. Inflation Assumptions	-	-	-5.5	5.5
d. Passthroughs	-20.8	-	-	-20.8
3. Estimated Impact in FY 1988 of Actual FY 1987 Experience	-	-	-	-
4. Pricing Adjustments:				
a. Revised General Inflation	-	-	1.8	-1.8
b. Revised Fuel Prices	1.3	1.3	1.3	-
c. FERS Cost Assumption. Provides for a significant reduction in the participation assumption for individuals converting from the CSRS to FERS.	-	-	-34.7	34.7
d. Provides for increased employer costs for Federal Employee Health Benefits.	-	-	6.2	-6.2
5. Productivity Initiatives and Other Efficiencies:				
a. Personnel Contracting. Savings associated with decisions to convert to contractor performance and in-house efficiencies resulting from Commercial Activities (CA) studies.	-	-	-.3	.3
6. Program Changes:				
a. Additional Unbudgeted Workload	330.0	206.1	206.1	-

Department of the Navy
Navy Industrial Fund
Space and Naval Warfare Research and Development Centers

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
7. Other Changes:				
a. Depreciation Expenses	-	-	-1.8	1.8
b. Civilian personnel compensation costs. Provides minor adjustments (1.2%) to costs for labor mix differences.	-	-	10.2	-10.2
c. Other	-	-	4.6	-4.6
8. FY 1988 Current Estimate	2,261.8	2,270.5	2,238.3	32.2
9. Pricing Adjustments:				
a. Pay Raise				
1. FY 1989 Pay Raise	16.6	16.6	16.6	-
2. Annualization of FY 1988 Pay Raise	4.8	4.8	4.8	-
b. Stock Fund - Nonfuel	-2.2	-2.2	-2.2	-
c. Purchases from Other Industrial Funds	2.8	2.8	2.8	-
d. General Inflation	34.0	34.0	34.0	-
e. Military Personnel Notional Amounts	-	45.0	45.0	-
10. Productivity Initiatives and Other Efficiencies:				
a. Personnel Contracting. Savings associated with decisions to convert to contractor performance and in-house efficiencies resulting from Commercial Activities (CA) studies.	- .6	- .6	- .6	-
b. Asset Capitalization Program (ACP) Efficiencies and cost reductions as a result of purchases of new and modern equipment.	-8.2	-8.2	-8.2	-

Department of the Navy
Navy Industrial Fund
Space and Naval Warfare Research and Development Centers

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
11. Program Changes:				
a. Continued decrease in customer costs funded in NIF; since FY 1986 have increased use of direct cite funding for major contracts.	-58.8	-66.1	-66.1	-
b. Functional transfer of AEGIS Combat Systems Center from Naval Surface Warfare Center.	-1.6	-1.6	-1.6	-
12. Other Changes:				
a. Depreciation Expenses	18.1	18.1	18.1	-
b. ACP Surcharges	-30.0	-30.0	-30.0	-
c. Other Rate Changes	-32.2	-32.2	-	-32.2
d. Transfers & Passthroughs	40.0	-	-	-
e. Paid Days. Two less paid days for civilian personnel in FY 1989 than FY 1988.	-7.8	-7.8	-7.8	-
13. FY 1989 Current Estimate	2,236.7	2,243.1	2,243.1	-

* Military personnel amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Navy Industrial Fund
Space and Naval Warfare Research and Development Centers

Summary of Workload Indicators:

		(Workyears)	
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Technology Base	2,318	2,363	2,209
Systems Development	6,682	6,886	6,484
Production Support	3,326	3,102	3,678
Operational Support	<u>2,073</u>	<u>2,146</u>	<u>2,166</u>
Total	14,399	14,497	14,537

Summary of New Customer Orders:

		(Dollars in Millions)	
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Navy Appropriations and Funds:			
Operation and Maintenance	239.5	334.7	375.2
RDT&E	1,096.7	1,167.2	1,132.0
Procurement	351.4	388.8	388.2
Stock Funds	1.7	1.7	1.7
Other Navy Customers	194.8	208.9	197.6
Other DoD Customers	138.3	149.8	132.6
Non-DoD Customers	15.6	10.7	9.4
Total All Customers	<u>2,038.0</u>	<u>2,261.8</u>	<u>2,236.7</u>

Summary of Personnel Resources:

	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
<u>Civilian Personnel:</u>			
End Strength	24,050	23,219	23,133
Workyears	23,473	23,493	23,413
<u>Military Personnel:</u>			
End Strength	1,381	1,334	1,320
Workyears	1,381	1,334	1,320

Department of the Navy
Navy Industrial Fund
Space and Naval Warfare Research and Development Centers

Summary of Purchases of Capital Assets:

	(Obligations, Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Equipment:			
Available Amounts, Beginning of the Year	2.6	12.4	-
New Program Amounts	<u>101.3</u>	<u>88.4</u>	<u>78.7</u>
Total Available Program	<u>103.9</u>	<u>100.8</u>	<u>78.7</u>
Purchases of Equipment	<u>91.5</u>	<u>100.8</u>	<u>78.7</u>
Available Amounts, End of the Year	<u>12.4</u>	-	-
Unspecified Minor Construction Projects	11.6	17.5	13.4
Management Information Systems	31.8	-	-
Total New Program for Capital Assets	144.7	105.9	92.1
(Total Outlays)	(146.4)	(134.7)	(104.6)
 <u>Financing of Total New Program for Capital Assets</u>			
Total New Program Amounts	144.7	105.9	92.1
Amounts Financed By:			
Depreciation	55.3	74.0	92.1
Surcharge	55.0	30.1	-

Department of the Navy
Marine Corps Industrial Fund
Summary of Operations

Activity Group Function: The Marine Corps Industrial Fund is comprised of one activity group, the Depot Maintenance Activity (DMA) group. This activity group performs depot maintenance and related functions.

Activity Group Composition:

<u>Activities</u>	<u>Location</u>
Albany Depot	Albany, Georgia
Barstow Depot	Barstow, California

Budget Highlights: Operations of the Marine Corps Industrial Fund is projected to require approximately 1,776 workyears in FY 1989. Revenue and cost of operations are based on consistent workload levels in FY 1988 and FY 1989.

At one of the DMA's, four additional workstations were purchased and installed to complement the two existing Computer Aided Drafting (CAD) workstations. These systems eliminate many of the redundant tasks inherent in creating and revising drawings required for depot maintenance. Additionally, these systems input an element of accuracy and precision into the process that is difficult and costly to achieve in a manual mode. Commercial applications of identical CAD systems have commonly boosted draftsman productivity by 700%. These additional systems provide a significant multiplier effect to the benefits gained from the initial two workstations.

The procurement of a gage block calibration system has provides the capability to calibrate 80 sets of gage blocks currently in use throughout the Marine Corps. Prior to this procurement gage block sets were sent to the Navy Gage and Standards Center. The approximate calibration cost was \$520 per set with an expected turnaround time of 90 days. The calibration costs has been reduced 40% and the turnaround time is now less than 30 days.

The conversion program to convert the 5 Ton Truck to the new 900 Series Trucks continues to provide cost savings. At the onset of the program estimated cost savings to the Marine Corps over the life of the program (FY 1983 - FY 1989) were estimated to be \$60 million. An additional cost savings of \$3.1 million will be realized through increased productivity savings of work hours on the cargo and tractor trucks.

Department of the Navy
Marine Corps Industrial Fund
Summary of Operations

Summary of Financial Operations:

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Revenue *	111.6	119.7	130.1
Cost of Goods & Services Sold *	<u>107.3</u>	<u>116.7</u>	<u>127.0</u>
Revenue Less Costs	4.3	3.3	3.1
ACP Surcharges	-7.4	-4.3	3.1
Refunds & Passthroughs (Net)	<u>-1.9</u>	<u>-</u>	<u>-</u>
Net Operating Results	-4.9	-1.0	-
Prior Year & Other Adjustments	-.4	-	-
Transfers and Passthroughs (Net)	-	-1.1	4.4
Accumulated Operating Results	-2.5	-4.6	-.2

* Includes amounts of \$9.7 million in FY 1989 paid from DoD Military Personnel appropriations. These amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Marine Corps Industrial Fund
Summary of Operations

Summary of Changes in Operations:

	(Dollars in Millions)		
	FY 1987	FY 1987	
	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>
Revenue	117.2	111.6	-5.6
Cost of Goods & Services Sold	<u>110.2</u>	<u>107.3</u>	- <u>2.9</u>
Revenue Less Costs	7.0	4.3	-2.7
ACP Surcharges	-7.1	-7.3	.2
Refunds and Passthroughs (Net)	<u>-2.1</u>	<u>-1.9</u>	- <u>.2</u>
Net Operating Results	-2.2	-4.9	-2.7

The Variance in Revenue of (\$5.6M) and in Cost of Goods Sold (\$2.9M) between estimated and actual is based on a reduction of customer orders that occurred during the fiscal year due to a reduction in rebuild requirements for tanks.

Department of the Navy
Marine Corps Industrial Fund
Summary of Operations

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
1. FY 1988 Estimate in FY 1988 President's Budget	113.9	117.9	117.9	-
2. Congressional Adjustments:				
a. ACP Surcharges	-	-	-3.7	3.7
b. Overhead	-	-	-.6	.6
c. Inflation Assumptions	-	-	-2.0	2.0
3. Estimated Impact in FY 1988 of Actual FY 1987 Experience	-	-	-	-
4. Pricing Adjustments:	-	-	-	-
5. Productivity Initiatives and Other Efficiencies:	-	-	-	-
6. Program Changes:				
a. Changes in Customer Workload for such items as generators, trucks and grenade launchers	-7.5	2.9	6.5	-3.6
7. Other Changes:				
a. Depreciation Explanation	-	-	-	-
b. ACP Surcharge	-	-	-	-
c. Changes in Policy Relative to Transfers/Passthroughs	-	-	-	-
d. Other	1.2	-1.1	-	-1.1
8. FY 1988 Current Estimate	107.6	119.7	120.7	-1.0

Department of the Navy
Marine Corps Industrial Fund
Summary of Operations

Summary of Changes in Operations (Continued):

	(Dollars in Millions)			
	<u>Customer Orders</u>	<u>Revenue</u>	<u>Cost & Sur- charge</u>	<u>Net Operating Results</u>
8. FY 1988 Current Estimate	107.6	119.7	120.7	-1.0
9. Pricing Adjustments:				
a. Pay Raise	6.2	15.9	15.9	-
1. FY 1989 Pay Raise	1.0	1.0	1.0	-
2. Annualization of FY 1988 Pay Raise	1.0	1.0	1.0	-
b. Stock Fund - Fuel				
c. Stock Fund - Nonfuel				
d. General Inflation	4.2	4.2	4.2	-
e. Foreign National Indirect Hire				
f. Military Personnel Notional Amounts	-	9.7	9.7	-
f. Other				
10. Productivity Initiatives and Other Efficiencies:	-	-	-	-
11. Program Changes:				
a. Increase in Requirements for such items as Air Conditioners, Tractors, Radion, and Dragon/Tow/ Stinger Weapon Systems	6.7	-5.5	-5.5	-
12. Other Changes:				
a. Depreciation Expenses	.2	.2	1.0	1.0
b. ACP Surcharges	-1.2	-1.2	-	-
c. Other Rate Changes	1.0	1.0	-	1.0
13. FY 1989 Current Estimate	120.5	130.1	130.1	-

* Military personnel amounts are included for illustrative purposes only.
Actual revenue, cost, and rates, as well as amounts reflected in DoD customer
accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Marine Corps Industrial Fund
Summary of Operations

Summary of Workload Indicators:

		(Units)	
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Wheeled Vehicles	615	856	354
Tracked Vehicles	340	264	584
Communications/Electronic Equipment	10,793	14,939	6,667
Missiles	241	142	114
Other Repair/Rebuild Efforts	2,726	2,028	1,434
Supply Support	3,445	2,916	2,544
Installation of Mods	394	284	309
Other	2,933	3,600	1,261

Summary of New Customer Orders:

		(Dollars in Millions)	
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Marine Corps Appropriations and Funds:			
Operation and Maintenance	92.6	97.6	109.6
RDT&E	-	.1	.1
Procurement	5.1	4.7	4.3
Stock Funds	-	.3	.5
Other Marine Corps Customers	3.8	3.2	2.9
Other DoD Customers	.8	1.7	3.1
Non-DoD Customers	-	-	-
Total All Customers	<u>102.3</u>	<u>107.6</u>	<u>120.5</u>

Summary of Personnel Resources:

	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
<u>Civilian Personnel:</u>			
End Strength	1,676	1,744	1,744
Workyears	1,641	1,776	1,776
<u>Military Personnel:</u>			
End Strength	333	383	383
Workyears	323	371	371

Department of the Navy
Marine Corps Industrial Fund
Summary of Operations

Summary of Purchases of Capital Assets:

	(Obligations, Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Equipment:			
Available Amounts, Beginning of the Year	1.6	.3	-
New Program Amounts	<u>2.2</u>	<u>3.9</u>	<u>3.1</u>
Total Available Program	3.8	4.2	3.1
Purchases of Equipment	<u>3.5</u>	<u>4.2</u>	<u>3.1</u>
Available Amounts, End of the Year	.3	-	-
Unspecified Minor Construction Projects	2.3	2.1	1.9
Management Information Systems	3.9	.5	.5
Total New Program for Capital Assets	8.1	6.5	5.5
(Total Outlays)	(4.9)	(11.0)	(8.1)
 <u>Financing of Total New Program for Capital Assets</u>			
Total New Program Amounts	8.4	6.5	5.5
Amounts Financed By:			
Depreciation	2.2	2.2	2.4
Surcharge	7.4	4.3	3.1

Department of the Navy
Marine Corps Industrial Fund
Program and Financing Summary

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Fund Balance (Unobligated Balance Available) Start of Year	50.1	50.0	37.1
New Customer Orders:			
Federal Funds	102.3	107.6	120.5
Trust Funds			
Non-Federal Funds			
Total New Customer Orders	102.3	107.6	120.5
Obligations:			
Total Obligations	102.4	120.5	116.7
Unobligated Balances Transferred to the Operation and Maintenance, Navy Appropriation			
Fund Balance (Unobligated Balance Available) End of Year	50.0	37.1	40.9

Department of the Navy
Marine Corps Industrial Fund
Statement of Financial Condition

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Assets:			
Selected Assets:			
Cash *	18.9	17.3	16.2
Accounts Receivable	3.4	7.5	7.2
Advances Made			
Inventories	7.8	7.9	8.2
Other Assets	3.7	2.7	1.8
Capital Property (Net)	<u>32.9</u>	<u>41.6</u>	<u>45.3</u>
Total Assets	66.7	77.0	78.7
Liabilities:			
Selected Liabilities:			
Accounts Payable	3.1	5.2	4.8
Accrued Liabilities	<u>7.1</u>	<u>6.8</u>	<u>7.6</u>
Total Liabilities	10.2	12.0	12.4
Government Equity:			
Appropriations/Reappropriations	4.6	4.6	4.6
Paid-in Capital (Assets Capitalized Less			
Liabilities Assumed)	28.8	35.1	28.7
Earnings Used for Operations	25.6	29.9	33.2
Accumulated Operating Results	<u>-2.5</u>	<u>-4.6</u>	<u>-.2</u>
Total Government Equity	56.5	65.0	66.3
Total Liabilities and Equity	66.7	77.0	78.7
* Includes Cash:			
Available for Operations	12.1	5.2	8.1
Required for ACP Program	4.9	11.0	8.1
Required for Transfers	1.9	1.1	-

Department of the Navy
Marine Corps Industrial Fund
Statement of Revenue and Expense

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Revenue *	111.6	119.7	130.1
Expenses:			
Salaries and Wages			
Military Personnel *	-	-	9.7
Civilian Personnel	51.7	56.0	9.2
Materials, Supplies and Parts	35.9	42.0	42.2
Fuel	.3	.2	.2
Depreciation	2.2	2.2	2.4
Contractual Services	11.9	7.6	7.3
Other Expenses	<u>5.3</u>	<u>8.4</u>	<u>8.2</u>
Subtotal, Cost of Goods and Services Produced	107.3	116.4	127.0
Work in process:			
Beginning of Year (+)	-	-	-
End of Year (-)	<u>-</u>	<u>-</u>	<u>-</u>
Cost of Goods and Services Sold (Total Expenses)	107.3	116.4	127.0
Revenue Less Expenses	4.3	3.3	3.1
Inventory Adjustments (+/-)			
ACP Surcharge (-)	7.4	4.3	3.1
Revenue Less Expenses and Surcharges	-3.1	-1.0	-
Refunds & Passthroughs (Net)	-1.9	-	-
Net Operating Results	-4.9	-1.0	-

* Includes amounts of \$9.7 million in FY 1989 paid from DoD Military Personnel appropriations. These amounts are included for illustrative purposes only. Actual revenue, cost, and rates, as well as amounts reflected in DoD customer accounts, exclude amounts paid from Military Personnel appropriations.

Department of the Navy
Marine Corps Industrial Fund
Analysis of Changes in Government Equity

	(Dollars in Millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
<u>Appropriations/Reappropriations:</u>			
Opening Balance	4.6	4.6	4.6
Transactions:	<u>-</u>	<u>-</u>	<u>-</u>
Closing Balance	4.6	4.6	4.6
<u>Paid-in Capital:</u>			
Opening Balance	28.4	28.8	35.1
Transactions:			
Assets and liabilities capitalized and decapitalized	<u>.4</u>	<u>6.3</u>	<u>6.4</u>
Closing Balance	28.8	35.1	28.7
<u>Earnings Used for Operations:</u>			
Opening Balance	18.2	25.6	29.9
Transactions:			
ACP Surcharges	7.4	4.3	3.1
Other Adjustments	<u>-</u>	<u>-</u>	<u>.2</u>
Closing Balance	25.6	29.9	33.2
<u>Accumulated Operating Results:</u>			
Opening Balance	2.8	-2.5	-4.6
Transactions:			
Net Operating Results	-4.9	-1.0	-
Prior Year and Other Adjustments	-.4	-	-
Transfers to O&M, Navy	-	-1.1	4.4
Passsthroughs from O&M, Navy	<u>-</u>	<u>-</u>	<u>-</u>
Closing Balance	-2.5	-4.6	-.2
Total Government Equity End of the Year	56.5	65.0	66.3

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