



DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20380

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Office of the Secretary of Defense
Chief, RDD, ESD, WHS
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MEMORANDUM FOR THE SECRETARY OF DEFENSE

Subj: Department of the Navy POM-84 (U) - ACTION MEMORANDUM

In reviewing our DON-84 POM, you will find that our efforts to achieve maritime superiority based on your new definition, and attainment of President Reagan's goal of a 600-ship Navy, are being sorely tested by the reduction in our fiscal guidance. We have had this difficulty greatly increased because of seriously underfunded inflation indices. Coupled with last summer's POM and fall PBD actions, the net effect has been a \$5B decrease in FY-84 fiscal authority relative to POM-83. As a result, the encouraging programs begun in the Reagan defense program for FY-81 and 82 have tended to unravel. I continue, nevertheless, to be optimistic that we will meet our goal of a 600-ship Navy. In the pursuit of that goal, we continue to give top priority to your guidance stressing the importance of readiness, while reweighing each program item to ensure balance and maximum contribution for every dollar allocated.

Major features of POM-84 are as follows:

- Navy major procurement programs reflect PBD dollar totals vice adhering to FY-83 budget indices since these indices arrived without the total dollars to fund them.
- The POM-84 procures 127 ships and 1,639 aircraft, compared to 133 and 1,915 in the previous FYDP of JAN 82. This still underpins progress toward a more powerful, modern, and better equipped Navy and Marine Corps - but at a slower pace.
- Accelerated decommissioning of 23 older ships (13 DD-931/945, 4 DDG-31, 6 LSD-28) was adopted, as it is no longer prudent to retain and support these older ships at the expense of overall readiness and sustainability.
- While RDT&E,N was reduced from the FYDP levels by approximately \$1B, FY-84 has been sustained at the January FYDP level to correct underfunded, high priority programs such as the MK-48 ADCAP, AN/SQS-53C, TOMAHAWK and JVX. Examples of programs deferred or eliminated are the ASW STANDOFF WEAPON, SUBACS, AIRLAUNCHED TOMAHAWK and LIFT FAN DEVELOPMENT.

Other significant POM features:

- The D-5 missile IOC of 1989 is maintained, its backfit accelerated, and strategic communications protected.

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- Marine Corps sustainability and readiness are emphasized. Major equipment replacement, improved combat service support, strengthened firepower, and increased tactical mobility are visible examples of this emphasis.
- An FY-85 MILCON funding wedge has been added to provide for additional CONUS homeports with broader geographic distribution for our expanding fleet.
- Hard-won readiness and sustainability initiatives have been largely sustained, and in some cases enhanced. The most serious effects of outlay-driven reductions have been corrected. Specific examples are: a 5% aircraft mission capable rate (MC) increase over FY-83 levels by FY-88; backlog of Maintenance and Repair (EMAR) held to FY-83 levels in FY-84, and with further reductions over the POM years; ship and aviation training operations funded to requirements in all years; aviation component repair incremented by almost \$300M in FY-84 over the FY-83 level; and achieved the best conditioned ordnance inventory build-up and internal balance in years.
- Our Navy and Marine Reserve force continues to be strengthened. One dramatic example where immediate mobilization capability and commonality is being greatly enhanced is our horizontal integration plan, which will start with the F/A-18 in 1984, and expand to most front-line fleet aircraft.

Aggressive management initiatives have provided much success, building on the progress of last year. Further economies and efficiencies were found, and savings redirected to our highest priority programs. Additional multi-year procurement candidates have been identified and will be nominated for Congressional approval if warranted by action taken on those already submitted to the Congress. Despite concerted effort, however, our goal of far greater savings through economic production rates remains elusive. One bright spot, however, is the D-5 missile approach which promises to yield significant savings that can be channeled to other vital programs. It must be kept in mind, however, that maintaining uneconomic low production rates rather than closing lines is often a worthwhile investment in wartime mobilization capability.

Because of the \$5B reduction from POM-83, specific requirements of the Defense Guidance and other critical needs obviously could not be met in a balanced, coherent, and internally consistent program. Shortfalls have been identified as issues pending resolution. As an example, our R&D technology base programs are supported in FY-84 at the approximate floor levels of the Defense Guidance. They allow 3% real growth instead of 7%. On the other hand, we have ensured that our highest priority R&D programs are fully funded. Lower priority

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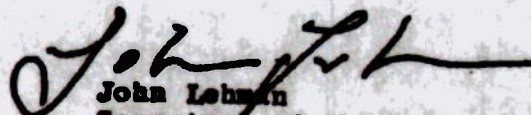
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R&D programs have been carefully screened and new starts limited to the most promising and critical projects. Our projects have been realigned and restructured as necessary to promote an effective management process. Overall, we are continuing to reduce numbers of R&D projects. Quality, not quantity, is the watchword.

(S) Real needs remain above guidance. They span DON program areas and include economic production rates in both APW and SCN, additional aircraft and ships not now fully funded, fleet operations in excess of levels required for training and readiness, TOMAHAWK missile launcher acceleration, and other initiatives in readiness and quality of life areas. In addition, expanding requirements for maritime prepositioning dictate establishment of reimbursable financing methods. Other Service operational costs to be paid by the user Service through the Industrial Fund have been placed in over guidance. Underfunding of escalation indices has also been placed in over guidance per discussions with DEPSECDEF.

(S) In summary, I believe the DON-84 POM total is much too low because the DOD total is much too low. It is not in proportion to the threat, the real defense need, and the President's stated policy. As the DRB proceeds in its preparation of the FY-84 Budget based on this and other Service POMs, we should not relent in pressing the White House to increase the DOD total budget for 1984.


John Lehman
Secretary of the Navy

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