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DEPARTMENT OF THE NAVY  
OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20350-1000

23 May 1985

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MEMORANDUM FOR THE SECRETARY OF DEFENSE

Subj: DEPARTMENT OF THE NAVY POM-87 (U) - ACTION MEMORANDUM

(U) Overview. The realities of ever-demanding fiscal constraints dictate the Department of the Navy Program Objectives Memorandum (POM) for FY-87 be structured austerely for fiscal years 1987 through 1991. POM-87 responds to sharp reductions passed on to the Department of the Navy in the Amended Fiscal Guidance of 10 April, yet maintains the priorities set out by the Administration for the Navy and Marine Corps. This has been accomplished through innovative approaches and procurement initiatives that achieve both significant savings and management efficiencies.

(U) POM-87 represents a \$108.4 billion Navy and Marine Corps program for FY-87, less than a one percent increase in real growth over the President's budget. In keeping with the priorities established by the Defense Guidance, major emphasis has been placed on continuing the present readiness of current forces and maintaining the momentum previously generated toward sustainability. Of necessity the POM accepted some slowdown in our previously programmed modernization and replacement of aging and less capable ships and aircraft.

(U) Business Practices. Particular attention has been paid to achieving economies wherever possible through continuing to correct inefficient business methods and implementing innovative management reforms. We continue toward our goal of 100% fixed priced contracts, resorting to cost-plus only as an absolute last measure for programs that are both high risk and high pay-off. Similarly, we have continued to push for more equitable sharing of costs between the Department and its partner contractors, providing increased incentives for excellent performance and immediate contractor penalties or cancellation for poor performance. As an unprecedented POM achievement, all ship overhauls and ship and aircraft procurement programs, with the exception of the multi-year procurement of the C-2A aircraft, are firm-fixed price. Over 90% of major weapon systems are likewise to be awarded under fixed-price contracts. In those few instances where firm-fixed-pricing is not possible, we intend fixed price, 50-50 share line contracting.

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(U) The major cost-reducing device which drives this POM is true competition. It, together with firm-fixed-price contracting, is the foundation of our programming cost-control policy. We will vigorously adhere to a policy of establishing second sources in every appropriate program. Our intent is to compete every ship, aircraft, and major weapon system we buy. Competition and second sourcing have demonstrated they bring the price down each and every time. Competition in shipbuilding for FY-87 will be 100%, up from 96.4% in FY-86. Spare parts competition will also increase as we have increased our resources for Project Boss. We are proceeding to second sourcing in a manner in which the contractor rather than the Navy is expected to bear tooling and facility costs. Our policy is clear: if a contractor expects to do business with us, he must assume his own money will be used for start-up costs.

(U) We have gold plating firmly on the run. Cost savings are being achieved as we continue to exercise firm discipline on requirements. Necessary changes and modernizations in design will be made sparingly, in class improvements and block upgrades, rather than piecemeal in the middle of production runs. The Navy's Program Management Proposal (PMP) system has assured that no contract or engineering changes will be submitted for negotiation without the signatures of the Commandant of the Marine Corps or the Chief of Naval Operations, and approved by the Secretary of the Navy. These reviews have resulted in a significant decrease in the change orders.

(U) POM-87 continues Navy Department efforts to exact dramatic increases in productivity for each Research and Development (R&D) dollar. The total number of R&D programs for FY-87 has remained the same while resources allocated have been reduced. In all cases where off-the-shelf items are available in the short-term, either here or abroad, we plan to use them rather than investing in costly, time-late R&D. An added principle has been improved commonality of subsystems. Our drive towards increased commonality among aircraft--in engines, avionics, and airframes; in ships--among engines, electronics, and weapons systems; and in missiles-- among components, airframes, seekers, and fuzing, are all recognizable in POM-87.

(U) Personnel. We continue to look hard at ways to achieve cost reductions through better use of our people. Our plans to continue streamlining and decentralizing our organizational structure have as a goal eliminating entire layers of bureaucracy. We intend to use more rationally our mix of personnel: increasing substitutions of contract civilians for military personnel where appropriate, increasing the integration of the Naval Reserve into day-to-day naval operations, replacing afloat contractor technical representatives with uniformed sailors, and achieving a reasonable balance between personnel afloat and ashore. More professional use of our officer corps, especially in material management, is inherent in this plan.

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- Personnel readiness remains high as we continue to provide support for our personnel programs. We reduced funding for new accessions in POM-87 due to higher-than-forecasted retention figures. Reduced OPTEMPO helps ease the burden of excess family separations that has long impacted our retention efforts. We have focused on "quality of life" improvements by supporting MILCON family housing and base operating support to the maximum extent possible in FY-87. We cannot, however, put at risk our hard earned gains by being denied year after year the personnel strength increases required to man and properly support our growing force structure. The risk of future petty officer shortfalls and skill imbalances remain as we lower the accession base from which we develop these future mid-grade petty officers. With increased recruiting resources aimed at advertising we forecast we will be able to meet end-strength goals. We are revisiting our shore requirements, and in POM-87 will convert 2300 active duty billets to civilian manning as an offset to critical requirements in operational and fleet support units.

- We continue to increase the role of the Naval Reserves by pressing forward with Total Force Initiatives. For example, all 14 MCMs are now planned to be transferred to the Naval Reserve Force. Programmed Naval Reserve growth will reach validated wartime requirements in FY-87 for all SELRES, except medical and construction forces, which will attain them in FY-88.

(U) Strategy Underpinnings. As with our previous POM submissions, POM-87 has been developed with regard to the world situation. The Navy Department's Maritime Strategy has acted as the medium for translating the Defense Guidance into the peacetime, crisis, and warfighting program objectives that drive this POM. The Maritime Strategy owes much of its strength to careful attention to the views and responsibilities of the nation's operational commanders. As a result, POM-87 specifically addresses the concerns and deficiencies identified by those commanders.

(U) Likewise, in accordance with our Maritime Strategy, POM-87 seeks to achieve greater levels of interoperability with our sister services and allies, especially in the areas of C<sup>3</sup>I, avionics, weapon commonality, and weapon system co-production development. Many POM-87 programs, especially Strategic Sealift, are designed with the needs of sister services thoroughly in mind. We have been able to reduce the scope of some programs, permitted because similar allied or sister service programs are already in existence. On the other hand, we are sharing the load by taking on programs--such as the land-based tanker--to ease the strain on other services.

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(U) POM-87 also, like the Maritime Strategy, reflects the Lessons Learned from exercises and real-world contingencies, most recently Lebanon and the Red Sea mine clearance operations. It is underpinned by the projected global Soviet naval threat, particularly from submarines, aircraft, and cruise missiles. POM-87 also continues our commitment to Strategic Homeporting out of a need to disperse critical naval forces.

(S) Major Programs. Other major features of POM-87 are:

- Strategic modernization has been preserved. We have continued to program resources to achieve a modern TRIDENT submarine force and an IOC in CY-89 for the TRIDENT II (D-5) missile. We have employed a new and innovative TRIDENT multi-year procurement strategy to develop competition and reduce cost. Operational TRIDENT and POSEIDON forces already at sea make the timeliness of this procurement strategy appropriate. Fiscal constraints have again forced us to plan the inactivation of six older SSBNs in POM-87. TRIDENT submarines now under construction more than adequately compensate for the strategic warfighting capability lost through those inactivations. We have fully funded the EC-130 SLEP and communications upgrades to support the TACAMO mission.

- Readiness of the Fleet and Fleet Marine Forces continues to receive emphasis in POM-87. As last year, fiscal constraints have caused us to look at additional resource-saving initiatives to improve our posture at reduced cost. FLTCINC initiatives have reduced deployed force levels to the lowest point since FY-78, saving fuel and reducing maintenance costs while maintaining readiness ratings and, most importantly, meeting all commitments. We will continue these initiatives while investigating others, including maximum use of the CVBG FLEXOPS concept. Funding reductions have taken us to a level that will require supplemental appropriations to cover major unforeseen contingency operations or additional Navy tasking.

- In flight hours, we are maintaining funding for 25 hours per crew per month in the active forces and 10 hours per crew per month in the reserve forces. We have taken a hard look at major depot maintenance, and have reduced funding for overhauls and extended availabilities by almost \$500 million, based on expected economies from newly directed industrial management efficiencies. It is emphasized that this \$500 million decrease is not a reduction in program scope, but rather increased program efficiency. Retention efforts have resulted in a greatly improved material condition of our ships and in turn permits longer periods between overhauls. We have also reduced the Contractor Engineering Technical Services (CETS) program by two-thirds.

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- The sustainability increases that characterized the last three years have been maintained over the FYDP. We have reduced those few steep ramps in FY-87 and 88, to allow for a more gradual increase in ordnance stocks over the FYDP while maintaining FY-91 "in-bin" targets. We have increased competition through dual sourcing and have focused on economic production rates. ASW SOW and MK-48 ADCAP have been maintained and a new low cost ASUW torpedo is being programmed within the framework of an overall Navy-wide cohesive torpedo procurement strategy to enhance submarine attack capability. We have also accelerated air-to-ground stand-off weapon development and procurement to enhance our airborne strike capability and survivability.

- We are continuing with the LSD-41 program while investigating options for a cargo variant version. Our goal to obtain our MAF plus MAB lift requirements are proceeding. The three-ship buy in FY-87 for the DDG-51 program has been maintained to ensure competition and to drive down costs. The reduced out-year profile of three ships per year will continue to permit this competition. We have maintained four BSN-688 submarines in FY-87. The CG-47 program, although unchanged in FY-87, has been smoothed in the out-years to two ships per year. The LCAC program has been reduced from 12 to 9 per year due to affordability. Overall, the SCN plan for FY-87 has been thoroughly reviewed to maximize competition, maintain stability, and realize real savings while maintaining our momentum toward the 600-ship Navy. Costs have been resolutely scrutinized to provide the most accurate estimates.

- Aircraft procurement in POM-87 has been restructured to remain within fiscal guidance. We have increased the A-6E/F buy to relieve shortages and, at once, achieve a more economic production rate. The F/A-18 and AV-8B buys have been decreased but maintain economical procurement profiles. We have cancelled the P-3C program and reflect a shift to the VPX program in the out-years to reduce costs. The land-based tanker program, new in FY-87 and manned by reserves, will ease the strain on Air Force assets during time of conflict. This program has been carefully reviewed to meet the need at the minimum cost while attaining an IOC at the earliest opportunity.

- Modernization of our forces has also come under thorough review. In general, we have reduced R&D by smoothing ramps, and by eliminating programs without justification or with questionable return on investment. We have embarked on a strategy which achieves IOC on major programs before spending money on improving items not yet in the fleet. The Fleet Modernization Program has been reorganized and reduced. The Warfighting Improvement Program (WIP) has been initiated to integrate lean warfighting packages into block upgrades for each ship class. The DD-963 SPRUANCE class is the first fully programmed under this new concept.

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- The Vertical Launch System (VLS), which substantially enhances the DD-963 AAW capability, has been accelerated. We have stretched the Service Life Extension Program (SLEP) of USS INDEPENDENCE through FY-87 and deferred the USS KITTY HAWK to FY-88. This plan achieves cost savings by eliminating overtime and forcing maximum shipyard efficiency. This action goes hand-in-glove with our \$500 million depot maintenance efficiency initiative. We have reduced all but absolutely essential upgrades to the E-2C aircraft and are continuing with the ASAM/AAAM programs as directed by DOD, but at prudent cost. The HFAJ program has been reduced, commensurate with risk.

- MILCON has been reduced. The Navy's contracting practices in this area are excellent and we will continue actions which get the most for our money. Adequate MILCON has been provided for strategic homeporting initiatives. Specifically, Everett Washington has been funded to meet a CVN-plus-4-escorts IOC by 1988.

(S) The Marine Corps' portion of the Department of the Navy POM for FY 87-91 reflects reaffirmation of the original plan for upgrading and building Marine Corps capabilities begun during the first term of the Reagan Administration. The initial surge of capability improvements in FYs 82 and 83 was followed by three years in which the Marine Corps stressed readiness and sustainability while foregoing modernization, and slowed planned end-strength growth to meet fiscal constraints. For the first time in four years, POM 87-91 commences several new programs which provide much needed modernization. End-strength growth will man the force structure at required readiness levels of 90 percent.

(U) Summary. In summary, we have been ruthless in our examination of each of our plans and programs, as well as our business practices. The return of management authority to the Service Secretaries has been instrumental in being able to maintain the line during this fiscally restrictive period. We have achieved real reforms in the development and procurement process, and will realize substantial savings of hard-won dollars. Savings which are reflected in the reductions that characterize many of the programs in this POM, as well as in our ability to plus-up vital programs that would otherwise go unfunded. As we head into the summer review process, I am confident of your support for this tight, austere, and balanced Department of the Navy POM for FY-87.

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