DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(SHIPBUILDING AND LOGISTICS)
WASHINGTON D C 20360

MAR 22 1982

MEMORANDUM FOR THE DEPUTY CHIEF OF NAVAL OPERATIONS (SURFACE WARFARE)(OP-03)

Subj: POM 84 FY 84 SCN

Encl: (1) FY 84 Repricing Guidelines to Determine Sensitivity to Estimating Variables

As we continue to refine the FY 84 budget portion of POM 84, I have come to the conclusion that we must bound the problem by identifying not only our best estimate, which I believe we now have from NAVSEA, but also our most optimistic estimate. The purpose of such an "optimistic" estimate is to enable us to identify and evaluate all margins and assumptions inherent in the current NAVSEA best estimate, and to understand the impact on the budget if these assumptions and margins are reduced substantially. Enclosure (1) identifies some of the major cost drivers in the budget that should be addressed.

Accordingly, I request that the FY 84 SCN budget be repriced using less conservative assumptions and margins for growth and that this resulting estimate then be used as our basis for building up to what should ultimately become our FY 84 SCN budget. As a minimum, the guidance in Enclosure (1) should be used for this effort, but I welcome any additional ideas you might also want the SYSCOM to address. In this way I hope to remove policy decisions from the hands of the estimators and to place these decisions more properly in the hands of higher level management officials. Please understand that I recognize and appreciate that this repricing task will not be easy and may impact on other ongoing high priority work. Also, I want to assure you that it is not my intention to enter a budget year without adequate margin for reasonable growth, or to cover unknown(s). However, the Secretary of the Navy and I must understand all margins and assumptions in our FY 84 budget so that we can intelligently address risks and alternatives. Please advise me at the earliest when I can expect this task to be completed.

George A. Sawyer

GEORGE A. SAWYER
ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

FY 84 Repricing Guidelines to
Determine Sensitivity to Estimating Variables

Reprice FY84 optimistically to set the lower boundry for FY84:

Current Year Estimates

- Where more than one yard is competing, assume lowest labor rates will receive contract.

- Where 50/50 share line is applied assume no growth beyond target.

- Eliminate all FCC

- For competitive procurements, assume 10% profit max.

- Eliminate change order margin or identify magnitude & rationale. Change order line for repeat construction (SSN, TRIDENT, FFG) must be less than for prior yrs. Do not use % of basic, but reduce to no more than same absolute value of first program year, escalated to current year.

- Shorten all construction periods 1 month; for 50/50 share lines, shorten construction period 2 months.

- Reduce labor hours & mat'l by 10%

- Eliminate PM growth as a % of GFE. Substitute an absolute value equal to 1st program year. Escalate to current year.

- Transfer all Battle Spares to OPN

- Eliminate all additional costs associated with 2nd source CG 47

ENCLOSURE (1)

Errata

There may be a minor computational error in the shipbuilding and conversion (SCN) charts of the Appendix (Re: N-36 to N-54). The accounting system for shipbuilding aggregates costs as follows:

+ (Weapon System Cost)
- (Prior Year Advanced Procurement)
+ (Current Year Advanced Procurement)
+ (Outfitting)
+ (Post Delivery)
+ (Cost Growth)
+ (Escalation on Prior Year Programs)

(Procurement Cost)
(Anticipated Escalation) - i.e. The "set-aside" for forecasted inflation

The calculation used to remove the effects of the inflation forecast (i.e. Assumption 1--the subtraction of "Anticipated Escalation" from "Procurement Cost") assumed the "Anticipated Escalation" quantity included the inflation forecast's effects on: Outfitting, Post Delivery, Cost Growth, and Escalation on Prior Year Programs. This may be incorrect; and if so, the "Anticipated Escalation" quantity is slightly underestimated in the calculation. If we calculate inflation's effects on each of these four categories and add these to "Anticipated Escalation" (Assumption 2), we geta slightly lower "Procurement Cost"--particularly in the budget year. The table below calculates the error in the budget year (i.e. FY83) for the FY83-87 FYDP, if Assumption 2 is true. Since the outyear calculations are even less affected (because Cost Growth and Escalation on Prior Year Programs are incrementally funded, see pp 17-18), it is clear that this error, if it exists, has no effect on the analysis or its conclusions.

SHIPBUILDING & CONVERSION

EFFECT OF POSSIBLE ERROR IN "ANTICIPATED ESCALATION" ASSUMPTION

FY83-87 FYDP: FY83 Procurement Unit Costs (-Const 83$-Millions)

	Trident SSBN	SSN-688	CG-47	FFG 7
Assumption 1	1121.6	720.4	843.7	307.9
Assumption 2	1095.9	691.6	842.0	299.5
% Overestimate in Budget Year If Assumption 2 is true	2.3%	4.2%	0.2%	2.8%

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