



Navy Virginia (SSN-774) Class Attack Submarine Procurement: Background and Issues for Congress

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Summary

The Navy's proposed FY2013 budget requests \$3,217.6 million in procurement funding to complete the procurement cost of the 17th and 18th Virginia (SSN-774) class nuclear-powered attack submarines. The FY2013 budget estimates the combined procurement cost of these two boats at \$5,107.9 million, and the ships have received a total of \$1,890.3 million in prior-year advance procurement (AP) and Economic Order Quantity (EOQ) funding. The Navy's proposed FY2013 budget also requests \$874.9 million in AP funding for Virginia-class boats to be procured in future years. The Navy's proposed FY2013 budget defers the scheduled procurement of one Virginia-class boat from FY2014 to FY2018.

The two Virginia-class boats requested for procurement in FY2013 are the final two in a group of eight covered by a multiyear procurement (MYP) arrangement for the period FY2009-FY2013. The Navy this year is requesting congressional approval for a new MYP arrangement that would cover the next nine Virginia-class boats scheduled for procurement in FY2014-FY2018 (in annual quantities of 1-2-2-2-2).

The Department of Defense (DOD) announced in January 2012 that it wants to build Virginia-class boats procured in FY2019 and subsequent years with an additional mid-body section, called the Virginia Payload Module (VPM), that contains four large-diameter, vertical launch tubes that the boats would use to store and fire additional Tomahawk cruise missiles or other payloads, such as large-diameter unmanned underwater vehicles (UUVs). Building Virginia-class boats with the VPM might increase their unit procurement costs by about 15%-20%, and would increase the total number of torpedo-sized weapons (such as Tomahawks) that they could carry by about 76%.

The Navy's FY2013 30-year SSN procurement plan, if implemented, would not be sufficient to maintain a force of 48 SSNs consistently over the long run. The Navy projects under that plan that the SSN force would fall below 48 boats starting in FY2022, reach a minimum of 43 boats in FY2028-FY2030, and remain below 48 boats through FY2034.

Potential issues for Congress regarding the Virginia-class program include the following:

- the impact of the sequestration of FY2013 funding on the Virginia-class program;
- whether to approve the Navy's request for a new MYP arrangement for the Virginia-class program for FY2014-FY2018;
- whether to restore procurement of a second Virginia-class boat in FY2014—an issue that could have implications for Virginia-class AP funding in FY2013;
- the Virginia-class procurement rate more generally in coming years, particularly in the context of the projected SSN shortfall and the larger debate over future U.S. defense strategy and defense spending; and
- Virginia-class program issues raised in a December 2011 report from DOD's Director, Operational Test and Evaluation (DOT&E).

The Navy's Ohio Replacement (SSBN[X]) ballistic missile submarine program is discussed in CRS Report R41129, *Navy Ohio Replacement (SSBN[X]) Ballistic Missile Submarine Program: Background and Issues for Congress*, by Ronald O'Rourke.

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Introduction

This report provides background information and issues for Congress on the Virginia-class nuclear-powered attack submarine (SSN) program. The Navy's proposed FY2013 budget requests \$4,092.5 in procurement and advance procurement (AP) funding for the program. Decisions that Congress makes on procurement of Virginia-class boats could substantially affect U.S. Navy capabilities and funding requirements, and the U.S. shipbuilding industrial base.

The Navy's Ohio Replacement (SSBN[X]) ballistic missile submarine program is discussed in another CRS report.¹

Background

U.S. Navy Submarines²

The U.S. Navy operates three types of submarines—nuclear-powered ballistic missile submarines (SSBNs),³ nuclear-powered cruise missile and special operations forces (SOF) submarines (SSGNs),⁴ and nuclear-powered attack submarines (SSNs). The SSNs are general-purpose submarines that perform a variety of peacetime and wartime missions, including the following:

- covert intelligence, surveillance, and reconnaissance (ISR), much of it done for national-level (as opposed to purely Navy) purposes;
- covert insertion and recovery of SOF (on a smaller scale than possible with the SSGNs);
- covert strikes against land targets with the Tomahawk cruise missiles (again on a smaller scale than possible with the SSGNs);

¹ See CRS Report R41129, *Navy Ohio Replacement (SSBN[X]) Ballistic Missile Submarine Program: Background and Issues for Congress*, by Ronald O'Rourke.

² In U.S. Navy submarine designations, SS stands for submarine, N stands for nuclear-powered, B stands for ballistic missile, and G stands for guided missile (such as a cruise missile). Submarines can be powered by either nuclear reactors or non-nuclear power sources such as diesel engines or fuel cells. All U.S. Navy submarines are nuclear-powered. A submarine's use of nuclear or non-nuclear power as its energy source is not an indication of whether it is armed with nuclear weapons—a nuclear-powered submarine can lack nuclear weapons, and a non-nuclear-powered submarine can be armed with nuclear weapons.

³ The SSBNs' basic mission is to remain hidden at sea with their nuclear-armed submarine-launched ballistic missiles (SLBMs) and thereby deter a strategic nuclear attack on the United States. The Navy's SSBNs are discussed in CRS Report R41129, *Navy Ohio Replacement (SSBN[X]) Ballistic Missile Submarine Program: Background and Issues for Congress*, by Ronald O'Rourke, and CRS Report RL31623, *U.S. Nuclear Weapons: Changes in Policy and Force Structure*, by Amy F. Woolf.

⁴ The Navy's four SSGNs are former Trident SSBNs that have been converted (i.e., modified) to carry Tomahawk cruise missiles and SOF rather than SLBMs. Although the SSGNs differ somewhat from SSNs in terms of mission orientation (with the SSGNs being strongly oriented toward Tomahawk strikes and SOF support, while the SSNs are more general-purpose in orientation), SSGNs can perform other submarine missions and are sometimes included in counts of the projected total number of Navy attack submarines. The Navy's SSGNs are discussed in CRS Report RS21007, *Navy Trident Submarine Conversion (SSGN) Program: Background and Issues for Congress*, by Ronald O'Rourke.

- covert offensive and defensive mine warfare;
- anti-submarine warfare (ASW); and
- anti-surface ship warfare.

During the Cold War, ASW against the Soviet submarine force was the primary stated mission of U.S. SSNs, although covert ISR and covert SOF insertion/recovery operations were reportedly important on a day-to-day basis as well.⁵ In the post-Cold War era, although anti-submarine warfare remains a mission, the SSN force has focused more on performing the other missions noted on the list above.

Attack Submarine Force Levels

Force-Level Goal

The Navy wants to achieve and maintain a fleet in coming years of about 310-316 ships, including about 48 SSNs (and 4 SSGNs).⁶ For a review of SSN force level goals since the Reagan Administration, see **Appendix A**.

Force Level at End of FY2011

The SSN force included more than 90 boats during most of the 1980s, when plans called for achieving a 600-ship Navy including 100 SSNs. The number of SSNs peaked at 98 boats at the end of FY1987 and has declined since then in a manner that has roughly paralleled the decline in the total size of the Navy over the same time period. The 53 SSNs in service at the end of FY2011 included the following:

- 42 Los Angeles (SSN-688) class boats;
- 3 Seawolf (SSN-21) class boats; and
- 8 Virginia (SSN-774) class boats.

Los Angeles- and Seawolf-Class Boats

A total of 62 Los Angeles-class submarines, commonly called 688s, were procured between FY1970 and FY1990 and entered service between 1976 and 1996. They are equipped with four 21-inch diameter torpedo tubes and can carry a total of 26 torpedoes or Tomahawk cruise missiles in their torpedo tubes and internal magazines. The final 31 boats in the class (SSN-719 and higher) are equipped with an additional 12 vertical launch system (VLS) tubes in their bows for carrying and launching another 12 Tomahawk cruise missiles. The final 23 boats in the class (SSN-751 and higher) incorporate further improvements and are referred to as Improved Los

⁵ For an account of certain U.S. submarine surveillance and intelligence-collection operations during the Cold War, see Sherry Sontag and Christopher Drew with Annette Lawrence Drew, *Blind Man's Bluff* (New York: Public Affairs, 1998).

⁶ For additional information on Navy force-level goals, see CRS Report RL32665, *Navy Force Structure and Shipbuilding Plans: Background and Issues for Congress*, by Ronald O'Rourke.

Angeles class boats or 688Is. As of the end of FY2011, 20 of the 62 boats in the class had been retired.

The Seawolf class was originally intended to include about 30 boats, but Seawolf-class procurement was stopped after three boats as a result of the end of the Cold War and associated changes in military requirements. The three Seawolf-class submarines are the *Seawolf* (SSN-21), the *Connecticut* (SSN-22), and the *Jimmy Carter* (SSN-23). SSN-21 and SSN-22 were procured in FY1989 and FY1991 and entered service in 1997 and 1998, respectively. SSN-23 was originally procured in FY1992. Its procurement was suspended in 1992 and then reinstated in FY1996. It entered service in 2005. Seawolf-class submarines are larger than Los Angeles-class boats or previous U.S. Navy SSNs.⁷ They are equipped with eight 30-inch-diameter torpedo tubes and can carry a total of 50 torpedoes or cruise missiles. SSN-23 was built to a lengthened configuration compared to the other two ships in the class.⁸

Virginia (SSN-774) Class Program

General

The Virginia-class attack submarine (see **Figure 1**) was designed to be less expensive and better optimized for post-Cold War submarine missions than the Seawolf-class design. The Virginia-class design is slightly larger than the Los Angeles-class design,⁹ but incorporates newer technologies. Virginia-class boats currently cost about \$2.6 billion each to procure. The first Virginia-class boat entered service in October 2004.

⁷ Los Angeles-class boats have a beam (i.e., diameter) of 33 feet and a submerged displacement of about 7,150 tons. Seawolf-class boats have a beam of 40 feet. SSN-21 and SSN-22 have a submerged displacement of about 9,150 tons.

⁸ SSN-23 is 100 feet longer than SSN-21 and SSN-22 and has a submerged displacement of 12,158 tons.

⁹ Virginia-class boats have a beam of 34 feet and a submerged displacement of 7,800 tons.

Figure I. Virginia-Class Attack Submarine



Source: U.S. Navy file photo accessed by CRS on January 11, 2011, at http://www.navy.mil/search/display.asp?story_id=55715.

Past and Projected Annual Procurement Quantities

Table 1 shows annual numbers of Virginia-class boats procured from FY1998 (the lead boat) through FY2012, and numbers scheduled for procurement under the FY2013-FY2017 Future Years Defense Plan (FYDP).

Table 1. Annual Numbers of Virginia-Class Boats Procured

FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07
1	1	0	1	1	1	1	1	1	1
FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
1	1	1	2	2	2	1	2	2	2

Source: Table prepared by CRS based on U.S. Navy data.

Multiyear Procurement (MYP)

The eight Virginia-class boats shown in **Table 1** for the period FY2009-FY2013 are being procured under a multiyear procurement (MYP) arrangement¹⁰ approved by Congress in FY2008

¹⁰ For a discussion of MYP arrangements, see CRS Report R41909, *Multiyear Procurement (MYP) and Block Buy Contracting in Defense Acquisition: Background and Issues for Congress*, by Ronald O'Rourke and Moshe Schwartz.

and FY2009.¹¹ The five Virginia-class boats procured in FY2004-FY2008 were also procured under an MYP arrangement. The four boats procured in FY1998-FY2002 were procured under a somewhat similar arrangement called a block buy contract.¹² The boat procured in FY2003 fell between the FY1998-FY2002 block buy contract and the FY2004-FY2008 MYP arrangement, and was contracted for separately.

The Navy this year is requesting congressional approval for a new MYP arrangement that would cover the next nine Virginia-class boats scheduled for procurement in FY2014-FY2018 (in annual quantities of 1-2-2-2-2). The Navy states that

The Future Years Defense Plan (FYDP) in the FY13 Authorization Act assumes enactment of the FY14 Appropriations Act with MYP authority and includes a nine-ship, five-year MYP strategy with a build profile of one ship in FY14 and two per year from FY15 through FY18. Due to complexity of shipbuilding contracts, much of the proposal development, as well as negotiations between the Department of the Navy (DON) and the shipbuilders, will take place in FY2013. Receiving MYP authority in FY13 will help facilitate negotiation efforts.¹³

The Navy estimates that procuring these nine boats under an MYP arrangement would reduce their combined procurement cost by \$4,487.6 million in then-year dollars, or about 14.4%, compared to procuring these nine boats with separate annual contracts. The estimated savings when calculated in real (i.e., inflation adjusted) terms are \$3,819.6 million in constant FY2012 dollars, or about 13.8%. The estimated savings when calculated on a net present value (NPV) basis are \$3,333.3 million, or about 13.3%.¹⁴

Joint Production Arrangement

Virginia-class boats are built jointly by General Dynamics' Electric Boat Division (GD/EB) of Groton, CT, and Quonset Point, RI, and Newport News Shipbuilding (NNS), of Newport News, VA, which forms part of Huntington Ingalls Industries (HII).¹⁵ Under the arrangement, GD/EB builds certain parts of each boat, NNS builds certain other parts of each boat, and the yards take

¹¹ Section 8011 of the compromise version of the FY2009 defense appropriations act (Division C of H.R. 2638/P.L. 110-329 of September 30, 2008) granted authority for using FY2009 funds for an MYP arrangement for the Virginia-class program. Section 122 of the compromise version of the FY2009 defense authorization bill (S. 3001/P.L. 110-417 of October 14, 2008) modified the authority to use an MYP arrangement for Virginia-class boats to be procured in FY2009-FY2013 that was granted to the Secretary of the Navy by Section 121 of FY2008 defense authorization act (H.R. 4986/P.L. 110-181 of January 28, 2008). The modification additionally permits the Secretary to enter into one or more contracts for advance procurement and advance construction of components for the boats procured under the MYP arrangement.

¹² For a discussion of block buy contracting, see CRS Report R41909, *Multiyear Procurement (MYP) and Block Buy Contracting in Defense Acquisition: Background and Issues for Congress*, by Ronald O'Rourke and Moshe Schwartz.

¹³ Department of the Navy, *Department of the Navy Fiscal year (FY) 2013 Budget Estimates, Justification of Estimates, Shipbuilding and Conversion, Navy*, February 2012, Exhibit MYP-1, Multiyear Procurement Criteria (MYP, Page 1 of 8), pdf page 62 of 246.

¹⁴ Department of the Navy, *Department of the Navy Fiscal year (FY) 2013 Budget Estimates, Justification of Estimates, Shipbuilding and Conversion, Navy*, February 2012, Exhibit MYP-1, Multiyear Procurement Criteria (MYP, Page 8 of 8), pdf page 69 of 246.

¹⁵ HII previously was part of Northrop Grumman, during which time it was known as Northrop Grumman Shipbuilding (NGSB). GD/EB and NNS are the only two shipyards in the country capable of building nuclear-powered ships. GD/EB builds submarines only, while NNS also builds nuclear-powered aircraft carriers and is capable of building other types of surface ships.

turns building the reactor compartments and performing final assembly of the boats. GD/EB is building the reactor compartments and performing final assembly on boats 1, 3, and so on, while NNS is doing so on boats 2, 4, and so on. The arrangement results in a roughly 50-50 division of Virginia-class profits between the two yards and preserves both yards' ability to build submarine reactor compartments (a key capability for a submarine-construction yard) and perform submarine final-assembly work.

The joint production arrangement is a departure from past U.S. submarine construction practices, under which complete submarines were built in individual yards. The joint production arrangement is the product of a debate over the Virginia-class acquisition strategy within Congress, and between Congress and the Department of Defense (DOD), that occurred in 1995-1997 (i.e., during the markup of the FY1996-FY1998 defense budgets). The goal of the arrangement is to keep both GD/EB and NNS involved in building nuclear-powered submarines, and thereby maintain two U.S. shipyards capable of building nuclear-powered submarines, while minimizing the cost penalties of using two yards rather than one to build a submarine design that is being procured at a relatively low annual rate.

Cost-Reduction Effort

The Navy states that it has achieved a goal of reducing the procurement cost of Virginia-class submarines so that two boats could be procured in FY2012 for combined cost of \$4.0 billion in constant FY2005 dollars—a goal referred to as “2 for 4 in 12.” Achieving this goal involved removing about \$400 million (in constant FY2005 dollars) from the cost of each submarine. (The Navy calculates that the unit target cost of \$2.0 billion in constant FY2005 dollars for each submarine translates into about \$2.6 billion for a boat procured in FY2012.)

The Navy says that, in constant FY2005 dollars, about \$200 million of the \$400 million in the sought-after cost reductions was accomplished simply through the improved economies of scale (e.g., better spreading of shipyard fixed costs and improved learning rates) of producing two submarines per year rather than one per year. The remaining \$200 million in sought-after cost reductions, the Navy says, was accomplished through changes in the ship's design (which will contribute roughly \$100 million toward the cost-reduction goal) and changes in the shipyard production process (which will contribute the remaining \$100 million or so toward the goal). Some of the design changes are being introduced to Virginia-class boats procured prior to FY2012, but the Navy says the full set of design changes will not be ready for implementation until the FY2012 procurement.

Changes in the shipyard production process are aimed in large part at reducing the total shipyard construction time of a Virginia-class submarine from 72 months to 60 months. (If the ship spends less total time in the shipyard being built, its construction cost will incorporate a smaller amount of shipyard fixed overhead costs.) The principal change involved in reducing shipyard construction time to 60 months involves increasing the size of the modules that form each submarine, so that each submarine can be built out of a smaller number of modules.¹⁶

¹⁶ For detailed discussions of the Virginia-class cost-reduction effort, see David C. Johnson et al., “Managing Change on Complex Programs: VIRGINIA Class Cost Reduction,” *Naval Engineers Journal*, No. 4, 2009: 79-94; and John D. Butler, “The Sweet Smell of Acquisition Success,” *U.S. Naval Institute Proceedings*, June 2011: 22-28.

Virginia Payload Module (VPM)

DOD announced in January 2012 that it wants to build Virginia-class boats procured in FY2019 and subsequent years with an additional mid-body section, called the Virginia Payload Module (VPM).¹⁷ The VPM, reportedly about 94 feet in length,¹⁸ contains four large-diameter, vertical launch tubes that would be used to store and fire additional Tomahawk cruise missiles or other payloads, such as large-diameter unmanned underwater vehicles (UUVs).¹⁹

The four additional launch tubes in the VPM could carry a total of 28 additional Tomahawk cruise missiles (7 per tube),²⁰ which would increase the total number of torpedo-sized weapons (such as Tomahawks) carried by the Virginia class design from about 37 to about 65—an increase of about 76%.²¹

Building Virginia-class boats with the VPM would compensate for a sharp loss in submarine force weapon-carrying capacity that will occur with the retirement in FY2026-FY2028 of the Navy's four Ohio-class cruise missile/special operations forces support submarines (SSGNs).²² Each SSGN is equipped with 24 large-diameter vertical launch tubes, of which 22 can be used to carry up to 7 Tomahawks each, for a maximum of 154 vertically launched Tomahawks per boat, or 616 vertically launched Tomahawks for the four boats. Twenty-two Virginia-class boats built with VPMs could carry 616 Tomahawks in their VPMs.

The Navy estimates that adding the VPM would increase procurement cost of the Virginia-class design by about 20%, according to a June 2011 press report,²³ or by about 15% to 19%, according to an October 2011 press report.²⁴

FY2013 Funding Request

The Navy's proposed FY2013 budget requests \$3,217.6 million in procurement funding to complete the procurement cost of the 17th and 18th Virginia (SSN-774) class nuclear-powered

¹⁷ A document released by DOD on January 26, 2012, that outlines selected program actions incorporated into DOD's FY2013 budget and future DOD budgets stated that DOD "increased or protected investment in capabilities that preserve the U.S. military's ability to project power in contested areas and strike quickly from over the horizon, including ... [d]esign changes to increase [the] cruise missile capacity of future Virginia-class submarines." (Department of Defense, *Defense Budget Priorities and Choices*, January 2012, p. 5.)

¹⁸ Christopher P. Cavas, "Innovations, No-Shows At Sea-Air-Space Exhibition," *Defense News*, April 18, 2011: 4. For additional press articles discussing the VPM, see Christopher P. Cavas, "U.S. Navy Eyes Dual-Mission Sub," *Defense News*, October 17, 2011; and Lee Hudson, "New Virginia-Class Payload Module May Replace SSGN Capability," *Inside the Navy*, October 24, 2011.

¹⁹ For an illustration of the VPM, see http://www.gdeb.com/news/advertising/images/VPM_ad/VPM.pdf, which was accessed by CRS on March 1, 2012.

²⁰ Michael J. Conner, "Investing in the Undersea Future," *U.S. Naval Institute Proceedings*, June 2011: 16-20.

²¹ A Virginia-class SSN can carry about 25 Tomahawks or other torpedo-sized weapons in its four horizontal torpedo tubes and associated torpedo room, and an additional 12 Tomahawk cruise missiles in its bow-mounted vertical launch tubes, for a total of about 37 torpedo-sized weapons. Another 28 Tomahawks in four mid-body vertical tubes would increase that total by about 76%.

²² Michael J. Conner, "Investing in the Undersea Future," *U.S. Naval Institute Proceedings*, June 2011: 16-20.

²³ Michael J. Conner, "Investing in the Undersea Future," *U.S. Naval Institute Proceedings*, June 2011: 16-20.

²⁴ Christopher P. Cavas, "U.S. Navy Eyes Dual-Mission Sub," *Defense News*, October 17, 2011. The article quotes Navy officials as estimating that adding the mid-body section would add \$400 million to \$500 million to the roughly \$2.6 billion procurement cost of a Virginia-class submarine.

attack submarines. The FY2013 budget estimates the combined procurement cost of these two boats at \$5,107.9 million, and the ships have received a total of \$1,890.3 million in prior-year advance procurement (AP) and Economic Order Quantity (EOQ) funding. The Navy's proposed FY2013 budget also requests \$874.9 million in AP funding for Virginia-class boats to be procured in future years.

Submarine Construction Industrial Base

In addition to GD/EB and NNS, the submarine construction industrial base includes scores of supplier firms, as well as laboratories and research facilities, in numerous states. Much of the total material procured from supplier firms for the construction of submarines comes from single or sole source suppliers. Observers in recent years have expressed concern for the continued survival of many of these firms. For nuclear-propulsion component suppliers, an additional source of stabilizing work is the Navy's nuclear-powered aircraft carrier construction program.²⁵ In terms of work provided to these firms, a carrier nuclear propulsion plant is roughly equivalent to five submarine propulsion plants.

Much of the design and engineering portion of the submarine construction industrial base is resident at GD/EB. Smaller portions are resident at NNS and some of the component makers. Several years ago, some observers expressed concern about the Navy's plans for sustaining the design and engineering portion of the submarine construction industrial base. These concerns appear to have receded, in large part because of the Navy's plan to design and procure a next-generation ballistic missile submarine called the Ohio Replacement Program or SSBN(X).²⁶

Projected SSN Shortfall

Size and Timing of Shortfall

The Navy's FY2013 30-year SSN procurement plan, if implemented, would not be sufficient to maintain a force of 48 SSNs consistently over the long run. As shown in **Table 2**, the Navy projects under the plan that the SSN force would fall below 48 boats starting in FY2022, reach a minimum of 43 boats in FY2028-FY2030, and remain below 48 boats through 2034. Since the Navy plans to retire the four SSGNs by 2028 without procuring any replacements for them, no SSGNs would be available in 2028 and subsequent years to help compensate for a drop in SSN force level below 48 boats.

The projected SSN shortfall is not as large under the FY2013 30-year shipbuilding plan as it was under the FY2012 30-year shipbuilding plan. Under the FY2012 30-year shipbuilding plan, the SSN force was projected to fall below 48 boats starting in FY2024, reach a minimum of 39 boats in FY2030, and remain below 48 boats through at least FY2041. The SSN shortfall is projected to be smaller under the FY2013 plan than under the FY2012 30-year plan in part because the FY2013 plan includes the procurement of 46 attack submarines compared to 44 attack submarines under the FY2012 plan.

²⁵ For more on this program, see CRS Report RS20643, *Navy Ford (CVN-78) Class Aircraft Carrier Program: Background and Issues for Congress*, by Ronald O'Rourke.

²⁶ For more on the SBN(X) program, see CRS Report R41129, *Navy Ohio Replacement (SSBN[X]) Ballistic Missile Submarine Program: Background and Issues for Congress*, by Ronald O'Rourke.

The projected SSN shortfall has been discussed in CRS reports and testimony since 1995.

Table 2. Projected SSN Shortfall

As shown in Navy's FY2013 30-Year (FY2013-FY2042) Shipbuilding Plan

Fiscal year	Annual procurement quantity	Projected number of SSNs	Shortfall relative to 48-boat goal	
			Number of ships	Percent
13	2	55		
14	1	55		
15	2	54		
16	2	53		
17	2	50		
18	2	51		
19	2	51		
20	3	48		
21	2	48		
22	3	47	-1	-2%
23	2	47	-1	-2%
24	1	46	-2	-4%
25	2	45	-3	-6%
26	1	45	-3	-6%
27	1	44	-4	-8%
28	1	43	-5	-10%
29	1	43	-5	-10%
30	1	43	-5	-10%
31	1	45	-3	-6%
32	1	45	-3	-6%
33	1	46	-2	-4%
34	1	47	-1	-2%
35	1	48		
36	1	49		
37	1	50		
38	2	48		
39	1	49		
40	2	49		
41	1	48		
42	2	49		

Source: Table prepared by CRS based on Navy's FY2013 30-year shipbuilding plan. Percent figures rounded to nearest percent.

2006 Navy Study on Options for Mitigating Projected Shortfall

The Navy in 2006 initiated a study on options for mitigating the projected SSN shortfall. The study was completed in early 2007 and briefed to CRS and the Congressional Budget Office (CBO) on May 22, 2007.²⁷ At the time of the study, the SSN force was projected to bottom out at 40 boats and then recover to 48 boats by the early 2030s. Principal points in the Navy study (which cite SSN force-level projections as understood at that time) include the following:

- The day-to-day requirement for deployed SSNs is 10.0, meaning that, on average, a total of 10 SSNs are to be deployed on a day-to-day basis.²⁸
- The peak projected wartime demand is about 35 SSNs deployed within a certain amount of time. This figure includes both the 10.0 SSNs that are to be deployed on a day-to-day basis and 25 additional SSNs surged from the United States within a certain amount of time.²⁹
- Reducing Virginia-class shipyard construction time to 60 months—something that the Navy already plans to do as part of its strategy for meeting the Virginia-class cost-reduction goal (see earlier discussion on cost-reduction goal)—will increase the size of the SSN force by two boats, so that the force would bottom out at 42 boats rather than 40.³⁰
- If, in addition to reducing Virginia-class shipyard construction time to 60 months, the Navy also lengthens the service lives of 16 existing SSNs by periods ranging from 3 months to 24 months (with many falling in the range of 9 to 15 months), this would increase the size of the SSN force by another two boats, so that the force would bottom out at 44 boats rather than 40 boats.³¹ The total cost of extending the lives of the 16 boats would be roughly \$500 million in constant FY2005 dollars.³²

²⁷ Navy briefing entitled, “SSN Force Structure, 2020-2033,” presented to CRS and CBO on May 22, 2007.

²⁸ The requirement for 10.0 deployed SSNs, the Navy stated in the briefing, was the current requirement at the time the study was conducted.

²⁹ The peak projected wartime demand of about 35 SSNs deployed within a certain amount of time, the Navy stated, is an internal Navy figure that reflects several studies of potential wartime requirements for SSNs. The Navy stated that these other studies calculated various figures for the number of SSNs that would be required, and that the figure of 35 SSNs deployed within a certain amount of time was chosen because it was representative of the results of these other studies.

³⁰ If shipyard construction time is reduced from 72 months to 60 months, the result would be a one-year acceleration in the delivery of all boats procured on or after a certain date. In a program in which boats are being procured at a rate of two per year, accelerating by one year the deliveries of all boats procured on or after a certain date will produce a one-time benefit of a single year in which four boats will be delivered to the Navy, rather than two. In the case of the Virginia-class program, this year might be around 2017. As mentioned earlier in the discussion of the Virginia-class cost-reduction goal, the Navy believes that the goal of reducing Virginia-class shipyard construction time is a medium-risk goal. If it turns out that shipyard construction time is reduced to 66 months rather than 60 months (i.e., is reduced by 6 months rather than 12 months), the size of the SSN force would increase by one boat rather than two, and the force would bottom out at 41 boats rather than 42.

³¹ The Navy study identified 19 existing SSNs whose service lives currently appear to be extendable by periods of 1 to 24 months. The previous option of reducing Virginia-class shipyard construction time to 60 months, the Navy concluded, would make moot the option of extending the service lives of the three oldest boats in this group of 19, leaving 16 whose service lives would be considered for extension.

³² The Navy stated that the rough, order-of-magnitude (ROM) cost of extending the lives of 19 SSNs would be \$595 million in constant FY2005 dollars, and that the cost of extending the lives of 16 SSNs would be roughly proportional.

- The resulting force that bottoms out at 44 boats could meet the 10.0 requirement for day-to-day deployed SSNs throughout the 2020-2033 period if, as an additional option, about 40 SSN deployments occurring in the eight-year period 2025-2032 were lengthened from six months to seven months. These 40 or so lengthened deployments would represent about one-quarter of all the SSN deployments that would take place during the eight-year period.
- The resulting force that bottoms out at 44 boats could not meet the peak projected wartime demand of about 35 SSNs deployed within a certain amount of time. The force could generate a total deployment of 32 SSNs within the time in question—3 boats (or about 8.6%) less than the 35-boat figure. Lengthening SSN deployments from six months to seven months would not improve the force's ability to meet the peak projected wartime demand of about 35 SSNs deployed within a certain amount of time.
- To meet the 35-boat figure, an additional four SSNs beyond those planned by the Navy would need to be procured. Procuring four additional SSNs would permit the resulting 48-boat force to surge an additional three SSNs within the time in question, so that the force could meet the peak projected wartime demand of about 35 SSNs deployed within a certain amount of time.
- Procuring one to four additional SSNs could also reduce the number of seven-month deployments that would be required to meet the 10.0 requirement for day-to-day deployed SSNs during the period 2025-2032. Procuring one additional SSN would reduce the number of seven-month deployments during this period to about 29; procuring two additional SSNs would reduce it to about 17, procuring three additional SSNs would reduce it to about 7, and procuring four additional SSNs would reduce it to 2.

The Navy added a number of caveats to these results, including but not limited to the following:

- The requirement for 10.0 SSNs deployed on a day-to-day basis is a current requirement that could change in the future.
- The peak projected wartime demand of about 35 SSNs deployed within a certain amount of time is an internal Navy figure that reflects recent analyses of potential future wartime requirements for SSNs. Subsequent analyses of this issue could result in a different figure.
- The identification of 19 SSNs as candidates for service life extension reflects current evaluations of the material condition of these boats and projected use rates for their nuclear fuel cores. If the material condition of these boats years from now turns out to be worse than the Navy currently projects, some of them might no longer be suitable for service life extension. In addition, if world conditions over the next several years require these submarines to use up their nuclear fuel cores more quickly than the Navy now projects, then the amounts of time that their service lives might be extended could be reduced partially, to zero, or to less than zero (i.e., the service lives of the boats, rather than being extended, might need to be shortened).

- The analysis does not take into account potential rare events, such as accidents, that might force the removal an SSN from service before the end of its expected service life.³³
- Seven-month deployments might affect retention rates for submarine personnel.

Issues for Congress

Impact of Sequestration

One issue for Congress concerns the impact of the sequestration on FY2013 funding on the Virginia-class program. A February 28, 2013, Navy briefing states that potential impacts of the sequester on FY2013 Navy shipbuilding programs include a sequestration of about \$81 million to the Virginia-class program, and that the Navy would respond to this by deobligating funding for Virginia-class advance procurement (AP) items.³⁴

Multiyear Procurement Proposed for FY2014-FY2018

Another issue for Congress for FY2013 is whether to approve the Navy's request this year for a new MYP arrangement for the Virginia-class program for FY2014-FY2018.

Supporters could argue that procuring these nine Virginia-class submarines under an MYP arrangement would substantially reduce their combined procurement cost, that the Virginia-class program meets the other statutory requirements to qualify for an MYP, and that the Virginia-class program has been granted MYP authority on two previous occasions (for FY2004-FY2008, and for FY2009-FY2013).

Skeptics could argue that in light of current uncertainty over future levels of defense spending, it would be risky to enter into a commitment to procure a certain minimum number of Virginia-class submarines over the next five years, and that using annual contracting, although more expensive than using an MYP arrangement, would give policymakers more flexibility for making changes in Virginia-class procurement rates in response to potential future reductions in defense spending.

Procuring a Second Virginia-Class Boat in FY2014

Another issue for Congress for FY2013 is whether to restore procurement of a second Virginia-class boat in FY2014. Navy officials have testified this year that the second Virginia-class boat

³³ In January 2005, the Los Angeles-class SSN San Francisco (SSN-711) was significantly damaged in a collision with an undersea mountain near Guam. The ship was repaired in part by transplanting onto it the bow section of the deactivated sister ship Honolulu (SSN-718). (See, for example, Associated Press, "Damaged Submarine To Get Nose Transplant," *Seattle Post-Intelligencer*, June 26, 2006.) Prior to the decision to repair the San Francisco, the Navy considered the option of removing it from service. (See, for example, William H. McMichael, "Sub May Not Be Worth Saving, Analyst Says," *Navy Times*, February 28, 2005; Gene Park, "Sub Repair Bill: \$11M," *Pacific Sunday News (Guam)*, May 8, 2005.)

³⁴ Source: Navy briefing dated February 28, 2013. The Navy states that the figure of \$81 million in approximate and subject to refinement.

that had been programmed for FY2014 was deferred to FY2018 in this year's budget submission for fiscal reasons—because FY2014 has become a tight budget year for the Navy—and that the Navy is interested in finding a way, if possible, to restore the procurement of a second Virginia-class boat to FY2014.³⁵

Advance Procurement Funding in FY2013

The question of whether to procure a second boat in FY2014 is an issue for FY2013 because procuring a second boat in FY2014 could involve adding advance procurement funding for that boat in FY2013. The Navy testified on April 19, 2012, that procuring a second boat in FY2014 using a normal funding profile would require adding about \$777 million in Virginia-class program advance procurement funding in FY2013, and more than \$1.2 billion in Virginia-class program procurement funding in FY2014.³⁶

Option of Incremental Funding

Finding a way to procure a second Virginia-class boat in FY2014 could involve the use of incremental funding (as opposed to full funding) in the Virginia-class program, at least for the second boat in FY2014, if not also for one or more other Virginia-class boats. Incrementally funding a second boat in FY2014 would involve providing some of the boat's procurement cost in FY2014 and deferring the remainder to one or more subsequent years. Incrementally funding additional Virginia-class boats could involve similarly spreading out their procurement costs over multiple years. Incrementally funding multiple Virginia-class boats over the next few years could minimize the amount of additional Virginia-class program procurement funding that would be required over the next few years to fund a second boat in FY2014, though that additional funding would eventually need to be provided.

Incremental funding is normally used only for procuring aircraft carriers and LHD/LHA-type amphibious assault ships,³⁷ but there have been rare cases when individual ships of other types have, for various reasons, been procured with incremental funding. Examples include the third and final Seawolf (SSN-21) class attack submarine, whose procurement was reinstated in FY1996, each of the three Zumwalt (DDG-1000) class destroyers that were procured in FY2007-

³⁵ See, for example, the spoke testimony of Secretary of the Navy Ray Mabus to the House Armed Services Committee on February 16, 2012.

³⁶ Spoken testimony of Sean Stackley, Assistant Secretary of the Navy for Research, Development, and Acquisition (i.e., the Navy's acquisition executive) before the Seapower subcommittee of the Senate Armed Services committee, at an April 19, 2012, hearing on the Navy's proposed FY2013 shipbuilding programs, as reflected in the transcript of the hearing.

Providing advance procurement funding for the boat in FY2013 would permit the boat to be constructed on a schedule that is more-or-less consistent with what one might expect for a boat procured in FY2014. Adding advance procurement funding in FY2013, however, is not absolutely required to procure a second boat in FY2014—the boat can be procured in FY2014 without any advance procurement funding in FY2013. Doing so might result in the boat being built on a schedule closer to what one might expect for a boat procured in FY2015, but the boat would still enter service years earlier than it would if it is procured in FY2018. For a broader discussion of options for funding the procurement of submarines, see **Appendix B**.

³⁷ Incremental funding is allowed for procuring aircraft carriers and LHD/LHA-type amphibious assault ships because using full funding to procure these ships—which are very expensive and which are procured once every several years—can cause a one-year “spike” in Navy shipbuilding funding requirements that can be disruptive to other acquisition programs.

FY2009,³⁸ and ships procured through the National Defense Sealift Fund (NDSF), including Navy auxiliary ships and DOD sealift ships, which are often executed by the Navy with incremental funding, even though they are nominally funded by Congress with full funding.³⁹

Navy Estimate of Cost of Adding a Second Boat in FY2014

The Navy in March 2012 estimated that adding a second Virginia-class boat to FY2014 and increasing to 10 the number of boats in the proposed MYP arrangement would reduce the total cost of the other 9 boats in the arrangement by roughly \$700 million.⁴⁰ The reduction in cost would come from production learning-curve benefits at both the two shipyards (GD/EB and NNS) and component vendors, from increased spreading of fixed overhead costs at the shipyards, and from reduced costs for components procured from suppliers in batches of 10 rather than batches of 9. Since the figure of roughly \$700 million is equivalent to about 27% of the cost of a Virginia-class submarine, the Navy, in effect, was estimating in March that adding a second Virginia-class boat to FY2014 and increasing to 10 the number of boats in the proposed MYP arrangement would be roughly 27% self-financing.

The Navy subsequently revised this estimate, using more up-to-date cost data for the Virginia-class program, and now estimates that adding a second Virginia-class boat to FY2014 and increasing to 10 the number of boats in the proposed MYP arrangement would reduce the total cost of the other 9 boats in the arrangement by roughly \$900 million, which would make adding a second Virginia-class boat to FY2014 and increasing to 10 the number of boats in the proposed MYP arrangement roughly 35% self-financing.⁴¹

The Navy further estimates that if the calculation is extended to include cost effects on all Virginia-class boats procured through FY2020 (including boats procured prior to FY2014, the first year of the proposed MYP arrangement), then adding a second Virginia-class boat to FY2014 and increasing to 10 the number of boats in the proposed MYP arrangement would reduce Virginia-class procurement costs for boats procured through FY2020 by roughly \$1,400 million, which would make adding a second Virginia-class boat to FY2014 and increasing to 10 the number of boats in the proposed MYP arrangement roughly 54% self-financing.⁴²

Arguments of Supporters and Skeptics

Supporters of adding a second Virginia-class boat to FY2014 and increasing to 10 the number of boats in the proposed MYP arrangement could argue that the Navy estimates that it would be roughly 35% to 54% self-financing due to the effect it would have on reducing costs for the other

³⁸ The first two DDG-1000s were procured in FY2007 and split-funded (i.e., funded with two-year incremental funding) in FY2007-FY2008. The third DDG-1000 was procured in FY2009 and split-funded in FY2009-FY2010.

³⁹ The full funding provision does not apply to ships funded in the NDSF—a DOD fund that is outside the procurement title of the annual DOD appropriations act—the same way that it applies to ships, aircraft, vehicles, and other end items that are procured through the procurement title of the annual appropriations act. For a discussion, see CRS Report RL31404, *Defense Procurement: Full Funding Policy—Background, Issues, and Options for Congress*, by Ronald O'Rourke and Stephen Daggett, and CRS Report RL32776, *Navy Ship Procurement: Alternative Funding Approaches—Background and Options for Congress*, by Ronald O'Rourke.

⁴⁰ Source: Navy briefing to CRS and Congressional Budget Office (CBO), March 16, 2012.

⁴¹ Source: Navy briefing to CRS and Congressional Budget Office (CBO), May 9, 2012.

⁴² Source: Navy briefing to CRS and Congressional Budget Office (CBO), May 9, 2012.

Virginia-class boats, that it would further mitigate the projected SSN shortfall, and that Congress in the past has on occasion used incremental funding for procuring ships other than aircraft carriers and LHD/LHA-type amphibious assault ships.

Skeptics of adding a second Virginia-class boat to FY2014 and increasing to 10 the number of boats in the proposed MYP arrangement could argue that the Navy's estimate that it would be roughly 35% to 54% self-financing has not been independently verified, that finding funding for the other 46% to 65% of the boat's cost could require offsetting near-term reductions in other defense programs that would create their own problems, and that the use of incremental funding should be avoided for the procurement of ships other than aircraft carriers and LHD/LHA-type amphibious assault ships.

Virginia-Class Procurement Rate More Generally in Coming Years

Another issue for Congress concerns the Virginia-class procurement rate more generally in coming years, particularly in the context of the projected SSN shortfall shown in **Table 2** and the larger debate over future U.S. defense strategy and defense spending.

Mitigating Projected SSN Shortfall

In addition to lengthening SSN deployments to 7 months and extending the service lives of existing SSNs by periods ranging from 3 months to 24 months (see "2006 Navy Study on Options for Mitigating Projected Shortfall" above), options for more fully mitigating the projected SSN shortfall include

- refueling a small number of (perhaps one to five) existing SSNs and extending their service lives by 10 years or more, and
- putting additional Virginia-class boats into the 30-year shipbuilding plan.

It is not clear whether it would be feasible or cost-effective to refuel existing SSNs and extend their service lives by 10 or more years, given factors such as limits on submarine pressure hull life.

Larger Debate on Defense Strategy and Defense Spending

Some observers—particularly those who propose reducing U.S. defense spending as part of an effort to reduce the federal budget deficit—have recommended that the SSN force-level goal be reduced to something less than 48 boats, and/or that Virginia-class procurement be reduced. A June 2010 report from a group called the Sustainable Defense Task Force recommends a Navy of 230 ships, including 37 SSNs,⁴³ and a September 2010 report from the Cato Institute recommends a Navy of 241 ships, including 40 SSNs.⁴⁴ Both reports recommend limiting Virginia-class procurement to one boat per year, as does a September 2010 report from the Center for American

⁴³ *Debt, Deficits, and Defense, A Way Forward[:]* Report of the Sustainable Defense Task Force, June 11, 2010, pp. 19-20, 31.

⁴⁴ Benjamin H. Friedman and Christopher Preble, *Budgetary Savings from Military Restraint*, Washington, Cato Institute, September 23, 2010 (Policy Analysis No. 667), pp. 9.

Progress.⁴⁵ A November 2010 report from a group called the Debt Reduction Task Force recommends “deferring” Virginia-class procurement.⁴⁶ The November 2010 draft recommendations of the co-chairs of the Fiscal Commission include recommendations for reducing procurement of certain weapon systems; the Virginia-class program is not among them.

Other observers have recommended that the SSN force-level goal should be increased to something higher than 48 boats, particularly in light of Chinese naval modernization.⁴⁷ The July 2010 report of an independent panel that assessed the 2010 Quadrennial Defense Review (QDR)—an assessment that is required by the law governing QDRs (10 U.S.C. 118)—recommends a Navy of 346 ships, including 55 SSNs.⁴⁸ An April 2010 report from the Heritage Foundation recommends a Navy of 309 ships, including 55 SSNs.⁴⁹

Factors to consider in assessing whether to maintain, increase, or reduce the SSN force-level goal and/or planned Virginia-class procurement include but are not limited to the federal budget and debt situation, the value of SSNs in defending U.S. interests and implementing U.S. national security strategy, and potential effects on the submarine industrial base.

As discussed earlier (see “Multiyear Procurement (MYP)” in “Background”), Virginia-class boats scheduled for procurement in FY2013 are covered under a multiyear procurement (MYP) contract for the five-year period FY2009-FY2013. This MYP contract calls for procuring two Virginia-class boats in FY2013. If fewer than two boats per year were funded in FY2013, the contractor would be permitted to renegotiate its costs.

Program Issues Raised in December 2012 DOT&E Report

Another oversight issue for Congress concerns Virginia-class program issues raised in a December 2011 report from the DOD’s Director, Operational Test and Evaluation (DOT&E)—DOT&E’s annual report for FY2012. Regarding the Virginia-class program, the report stated:

Assessment

- The Navy achieved test efficiencies by combining the operational testing of several programs into a series of test events. Since submarine platform and mission systems testing are interdependent, the consolidation of the Virginia class testing with A-RCI sonar, acoustic arrays, Mk 48 torpedoes, and the AN/BYG-1 testing increased test efficiency and enabled a more complete end-to-end evaluation of the Virginia class submarine’s mission performance. This testing also provided insights into the effectiveness and suitability of each individual system and weapon the Navy uses on other classes of submarines.

⁴⁵ Lawrence J. Korb and Laura Conley, *Strong and Sustainable[.] How to Reduce Military Spending While Keeping Our Nation Safe*, Center for American Progress, September 2010, p. 19-20.

⁴⁶ Debt Reduction Task Force, *Restoring America’s Future[.] Reviving the Economy, Cutting Spending and Debt, and Creating a Simple, Pro-Growth Tax System*, November 2010, p. 103.

⁴⁷ For further discussion of China’s naval modernization effort, see CRS Report RL33153, *China Naval Modernization: Implications for U.S. Navy Capabilities—Background and Issues for Congress*, by Ronald O’Rourke.

⁴⁸ Stephen J. Hadley and William J. Perry, co-chairmen, et al., *The QDR in Perspective: Meeting America’s National Security Needs In the 21st Century, The Final Report of the Quadrennial Defense Review Independent Panel*, Washington, 2010, Figure 3-2 on page 58.

⁴⁹ *A Strong National Defense[.] The Armed Forces America Needs and What They Will Cost*, Heritage Foundation, April 5, 2011, pp. 25-26.

- The FOT&E event in the Arctic was adequate; however, the transfer and analysis of the data were significantly delayed and the Navy did not retain some test data. DOT&E's assessment of Virginia's effectiveness in the Arctic environment and Virginia's susceptibility to low-frequency fixed passive sonar arrays will be contained in an early FY13 classified report.

- DOT&E's classified report on Virginia's modernization FOT&E, issued in November 2012, concluded the following:

- Virginia's operational effectiveness is dependent on the mission conducted. The modernization of the sonar and fire control systems (A-RCI and AN/BYG-1) with the Advanced Processor Build 09 software did not change (improve or degrade) the performance of the Virginia class for the missions tested. DOT&E's assessment of mission effectiveness remains the same for ASW, ISR, High Contact Management, Situational Awareness, and Mine Avoidance. DOT&E's overall assessment of Information Assurance remains unchanged from IOT&E, although the new software represents an improvement in Information Assurance over previous systems.

- Although Virginia was not effective for some of the missions tested, it remains an effective replacement for the Los Angeles class submarine, providing similar mission performance and improved covertness.

- Testing to examine ASW-Attack and situational awareness in a high-surface-ship density environment was adequate for the system software tested, but not adequate for the software version fielded. After completion of operational testing, the Navy issued software changes intended to address the severe performance problems observed with the Wide Aperture Array. The Navy has not completed operational testing on the new software, which is fielded on deployed submarines. DOT&E assesses that the late fix of the array's deficiencies is a result of the Navy's schedule-driven development processes, which fields new increments without completing adequate developmental testing.

- The Navy collected adequate data to assess the suitability of the sonar and fire control systems. Insufficient data were collected to reassess the suitability of Virginia's hull, mechanical, electrical, or electronic systems; however, these data were not expected to demonstrate significantly different reliability compared to what was observed in IOT&E. Of note, the installation of the new Advanced Processor Build 09 of the A-RCI sonar system on Virginia class submarines will degrade the reliability of the sonar system on these submarines relative to what was demonstrated in the IOT&E.

Recommendations

- Status of Previous Recommendations. The Navy has made progress in addressing 22 of the 30 recommendations contained in the November 2009 classified BLRIP report and the October 2011 classified FOT&E report. Of the outstanding recommendations, the significant unclassified ones are:

1. Test against an SSK threat surrogate in order to evaluate Virginia's capability, detectability, and survivability against modern diesel-electric submarines.
2. Conduct FOT&E to examine Virginia's susceptibility to airborne ASW threats such as Maritime Patrol Aircraft and helicopters.

- FY12 Recommendations. The Navy should:

1. Coordinate the Virginia, A-RCI, and AN/BYG-1 TEMPs and utilize Undersea Enterprise Capstone documents to facilitate testing efficiencies.
2. Complete the verification, validation, and accreditation of the TSA method used for Virginia class Block III items.
3. Repeat the FOT&E event to determine Virginia's susceptibility to low-frequency active sonar and Virginia's ability to conduct ASUW in a low-frequency active environment. This testing should include a Los Angeles class submarine operating in the same environment to enable comparison with the Virginia class.
4. Address the 21 recommendations that are included in the November 2012 DOT&E-published FOT&E report on Virginia's modernization and the associated sonar and combat control systems. In particular, the Navy should re-evaluate operational effectiveness on a submarine with a repaired Wide Aperture Array.⁵⁰

Legislative Activity for FY2013

FY2013 Funding Request

The Navy's proposed FY2013 budget requests \$3,217.6 million in procurement funding to complete the procurement cost of the 17th and 18th Virginia (SSN-774) class nuclear-powered attack submarines. The FY2013 budget estimates the combined procurement cost of these two boats at \$5,107.9 million, and the ships have received a total of \$1,890.3 million in prior-year advance procurement (AP) and Economic Order Quantity (EOQ) funding. The Navy's proposed FY2013 budget also requests \$874.9 million in AP funding for Virginia-class boats to be procured in future years.

FY2013 National Defense Authorization Act (H.R. 4310/P.L. 112-239)

House

Section 126 of the FY2013 National Defense Authorization Act (H.R. 4310 of the 112th Congress) as reported by the House Armed Services Committee (H.Rept. 112-479 of May 11, 2012) states:

SEC. 126. MULTIYEAR PROCUREMENT AUTHORITY FOR VIRGINIA-CLASS SUBMARINE PROGRAM.

(a) Authority for Multiyear Procurement-

(1) IN GENERAL- In accordance with section 2306b of title 10, United States Code, the Secretary of the Navy may enter into a multiyear contract, beginning with the fiscal year 2014 program year, for the procurement of not more than 10 Virginia-class submarines and Government-furnished equipment associated with the Virginia-class submarine program.

⁵⁰ Department of Defense, Director, Operational Test and Evaluation, *FY2012 Annual Report*, December 2012, pp. 208-209.

(2) USE OF INCREMENTAL FUNDING- The Secretary may use incremental funding with respect to a contract entered into under paragraph (1).

(b) Authority for Advance Procurement- The Secretary of the Navy may enter into a contract, beginning in fiscal year 2013, for advance procurement associated with the vessels and systems for which authorization to enter into a multiyear procurement contract is provided under subsection (a)(1).

(c) Condition for Out-year Contract Payments- A contract entered into under subsection (a)(1) shall provide that any obligation of the United States to make a payment under the contract for a fiscal year after fiscal year 2014 is subject to the availability of appropriations or funds for that purpose for such later fiscal year.

H.Rept. 112-479 recommends approving the Navy's request for FY2013 procurement funding for the Virginia-class program, and increasing by \$778 million the Navy's request for FY2014 advance procurement funding for the Virginia-class program, so as to support the procurement of a second Virginia-class boat in FY2014. (Page 375)

The report states:

The Virginia class submarine program continues to deliver on cost and well ahead of contractual schedule. Having achieved a rate of two submarines a year starting in fiscal year 2011, the committee was concerned to see the rate decrease to one submarine in fiscal year 2014, and believes this would inject instability into a stable program. The committee recommends an increase in fiscal year 2013 advance procurement funds to facilitate restoring the second submarine in fiscal year 2014. To achieve that end, elsewhere in this Act, the committee includes a provision [Section 126] that would authorize the Secretary of the Navy to enter a multiyear procurement for up to 10 submarines and authorizes the Secretary to incrementally fund that multi-year contract. (Page 34)

Senate

Section 124 of the FY2013 National Defense Authorization Act (S. 3254 of the 112th Congress) as reported by the Senate Armed Services Committee (S.Rept. 112-173 of June 4, 2012) states:

SEC. 124. MULTIYEAR PROCUREMENT AUTHORITY FOR VIRGINIA CLASS SUBMARINE PROGRAM.

(a) Authority for Multiyear Procurement- Subject to section 2306b of title 10, United States Code, the Secretary of the Navy may enter into multiyear contracts, beginning with the fiscal year 2014 program year, for procurement of Virginia class submarines and Government-furnished equipment associated with the Virginia class submarine program.

(b) Authority for Advance Procurement- The Secretary may enter into one or more contracts, beginning in fiscal year 2013, for advance procurement associated with the vessels and equipment for which authorization to enter into a multiyear procurement contract is provided under subsection (a).

(c) Condition for Out-year Contract Payments- A contract entered into under subsection (a) shall provide that any obligation of the United States to make a payment under the contract for a fiscal year after fiscal year 2013 is subject to the availability of appropriations or funds for that purpose for such later fiscal year.

(d) Limitation on Termination Liability- contract for construction of vessels or equipment, entered into in accordance with subsection (a) shall include a clause that limits the liability of the Government to the contractor for any termination of the contract. The maximum liability of the Government under the clause shall be the amount appropriated for the vessels or equipment covered by the contract. Additionally, in the event of cancellation, the maximum liability of the Government shall include the amount of the unfunded cancellation ceiling in the contract.

(e) Authority to Expand Multiyear Procurement- The Secretary may employ incremental funding for the procurement of Virginia class submarines and Government-furnished equipment associated with the Virginia class submarines to be procured during fiscal years 2013 through 2018 if the Secretary—

(1) determines that such an approach will permit the Navy to procure an additional Virginia class submarine in fiscal year 2014; and

(2) intends to use the funding for that purpose.

S.Rept. 112-173 recommends approving the Navy's request for FY2013 procurement funding for the Virginia-class program, and increasing by \$777.7 million the Navy's request for FY2014 advance procurement funding for the Virginia-class program, so as to support the procurement of a second Virginia-class boat in FY2014. (Page 325)

The report states:

Multiyear procurement authority for Virginia-class submarine program (sec. 124)

The committee recommends a provision [Section 124] that would authorize the Secretary of the Navy to buy Virginia-class submarines under a multiyear procurement contract. This would be the third multiyear contract for the Virginia-class program. The Navy estimates that the previous two multiyear procurement contracts (fiscal years 2003-2008 and fiscal years 2009-2013) achieved savings of greater than 10 percent as compared to annual procurements. For the third contract (for fiscal years 2014–2018), the Navy is estimating that the expected savings will be 14 percent for the multiyear approach as compared to annual procurement contracts.

The Navy is expecting that the number of attack submarines will fall short of meeting the requirement in each of the 13 years (2022–2034), starting in the next decade, when the inventory of attack submarines will be below the requirement of 48 boats. The committee appreciates that fiscal year 2014 is the only year for the foreseeable future where we might afford to buy an additional attack submarine to mitigate that shortfall. In other years, we are already buying two boats or more, or a single attack submarine and a ballistic missile submarine. The next opportunity where the Navy intends to buy only one boat is 2036, far too late to have any effect on the projected requirements shortfall.

Therefore, the provision would also permit the Navy to use incremental funding within the second and third multiyear for the explicit purpose of buying an extra boat in 2014. During budget deliberations surrounding the fiscal year 2013 budget, the Navy had to delete one of the two boats planned for fiscal year 2014 due to top line pressures on the budget, not due to any schedule or cost performance issues. The Navy believes that, if the Navy were allowed to incrementally fund the boats within these years, the Navy could buy an additional and restore the rate of two per year in 2014 without requiring additional resources. This would have two-fold benefit of stabilizing production at a more affordable rate, and reducing the planned shortfall of attack submarines in each of the 13 years when the Navy attack

submarine inventory falls short of requirements, and would be consistent with congressional authorization in section 2308 of title 10, United States Code, for the Secretary to buy-to-budget.

The committee appreciates that multiyear procurement authority already represents a departure from the full funding policy. In addition to the normal advance procurement (which is a lesser departure from full funding in itself), multiyear procurement authority allows the Department to contract for parts and construction effort on procurement items for which full funding has not been provided. The committee believes that, facing the choice between living with a shortfall in requirements and with a very stable production program, departing from the full funding policy for this very important program is an appropriate step at this time.

The committee also recommends an increase of \$777.7 million in advance procurement to provide a down payment on the second boat in fiscal year 2014. (Pages 12-13)

Conference

Section 122 of the conference report (H.Rept. 112-705 of December 18, 2012) on H.R. 4310/P.L. 112-239 of January 2, 2013, states:

SEC. 122. MULTIYEAR PROCUREMENT AUTHORITY FOR VIRGINIA CLASS SUBMARINE PROGRAM.

(a) AUTHORITY FOR MULTIYEAR PROCUREMENT.—

Subject to section 2306b of title 10, United States Code, the Secretary of the Navy may enter into one or more multiyear contracts, beginning with the fiscal year 2014 program year, for the procurement of Virginia class submarines and Government-furnished equipment associated with the Virginia class submarine program.

(b) AUTHORITY FOR ADVANCE PROCUREMENT.—The Secretary may enter into one or more contracts, beginning in fiscal year 2013, for advance procurement associated with the vessels and equipment for which authorization to enter into a multiyear procurement contract is provided under subsection (a).

(c) CONDITION FOR OUT-YEAR CONTRACT PAYMENTS.—A contract entered into under subsection (a) shall provide that any obligation of the United States to make a payment under the contract for a fiscal year after fiscal year 2013 is subject to the availability of appropriations or funds for that purpose for such later fiscal year.

(d) LIMITATION ON TERMINATION LIABILITY.—A contract for the construction of vessels or equipment entered into in accordance with subsection (a) shall include a clause that limits the liability of the United States to the contractor for any termination of the contract. The maximum liability of the United States under the clause shall be the amount appropriated for the vessels or equipment covered by the contract. Additionally, in the event of cancellation, the maximum liability of the United States shall include the amount of the unfunded cancellation ceiling in the contract.

(e) AUTHORITY TO EXPAND MULTIYEAR PROCUREMENT.—The Secretary may employ incremental funding for the procurement of Virginia class submarines and Government-furnished equipment associated with the Virginia class submarines to be procured during fiscal years 2013 through 2018 if the Secretary—

- (1) determines that such an approach will permit the Navy to procure an additional Virginia class submarine in fiscal year 2014; and
- (2) intends to use the funding for that purpose.

The conference report recommends approving the Navy's request for FY2013 procurement funding for the Virginia-class program, and increasing by \$777.7 million the Navy's request for FY2014 advance procurement funding for the Virginia-class program, so as to support the procurement of a second Virginia-class boat in FY2014. (See pdf page 473 of 629 of the Joint Explanatory Statement for the conference report.)

Department of Defense, Military Construction and Veterans Affairs, and Full-Year Continuing Appropriations Act, 2013 (H.R. 933 of 113th Congress)

Version Passed by House on March 6, 2013

H.R. 933 of the 113th Congress as passed by the House on March 6, 2013, includes the FY2013 DOD appropriations act as Division A. Division A of the bill increases by \$777.679 million the request for advance procurement (AP) funding for the Virginia-class attack submarine program, so as to support the procurement of an additional Virginia-class boat in FY2014.⁵¹ Section 8010 of Division A provides authority for multiyear procurement (MYP) contracts for certain DOD acquisition programs, including the Virginia-class attack submarine program. The explanatory statement for the bill states: "The conferees direct the Navy to include ten Virginia Class Submarines in the program's next multi-year procurement opportunity."⁵²

Version Passed by Senate and House on March 20 and 21, 2013

H.R. 933 of the 113th Congress as passed by the Senate on March 20, 2013, and the House on March 21, 2013, includes the FY2013 DOD appropriations act as Division C. Division C of the bill increases by \$777.679 million the request for advance procurement (AP) funding for the Virginia-class attack submarine program, so as to support the procurement of an additional Virginia-class boat in FY2014. Section 8010 of Division A provides authority for multiyear procurement (MYP) contracts for certain DOD acquisition programs, including the Virginia-class attack submarine program. The explanatory statement for Division C of H.R. 933 as passed by the Senate on March 20, 2013, and the House on March 21, 2013, is the essentially the same as the explanatory statement for Division A of H.R. 933 as passed by the House on March 6, 2013 (see above).⁵³

⁵¹ Explanatory statement for H.R. 933, pdf page 150 of 394.

⁵² Explanatory statement for H.R. 933, pdf page 151 of 394.

⁵³ The explanatory statement for Division C of H.R. 933 as passed by the Senate on March 20, 2013, consists of the pages from the Congressional Record of March 6, 2013, containing the explanatory statement of Division A H.R. 933 as passed by the House on March 6, 2013 (Congressional Record, daily edition, March 6, 2013, pages H1029-H1256, plus 3 additional pages from the Congressional Record, numbered 1 through 3, presenting a table showing the new budget authority by account provided by the bill).

FY2013 DOD Appropriations Act (H.R. 5856 of 112th Congress)

House

Section 8010 of H.R. 5856 of the 112th Congress as reported by the House Appropriations Committee (H.Rept. 112-493 of May 25, 2012) provides MYP authority for certain procurement programs, including the Virginia-class program.

H.Rept. 112-493 recommends approving the Navy's request for FY2013 procurement funding for the Virginia-class program, and increasing by \$723 million the Navy's request for FY2014 advance procurement funding for the Virginia-class program, so as to preserve an option for procuring a second Virginia-class boat in FY2014. (Pages 156 and 157)

The report states:

The decision to defer the procurement of a [Virginia-class] submarine [from FY2014 to FY2018] and a [DDG-51] destroyer [from FY2014 to FY2016] is both confusing and concerning, especially the submarine. Since its inception in 1998, the Virginia Class Submarine program always intended to build two submarines per year. Although the second submarine repeatedly appeared in outyear budget projections, it was continually deferred by the Navy. The program finally reached a rate of two submarines per year in fiscal year 2011, largely due to the efforts of this Committee. Now, after only three years at this rate (2011 through 2013), the Navy is again reducing the production rate. The Committee believes this decision will increase the cost of the submarines, result in production inefficiencies, and exacerbate the Navy's own predicted attack submarine shortfall. Additionally, with the impending addition of the SSBN replacement submarine to the shipbuilding budget, an event which will "suck the air out of the Navy's shipbuilding budget" according to a former Secretary of Defense, funding in the outyears will not be any easier to come by.

The Committee believes the Navy recognizes the need to fund another destroyer and submarine in fiscal year 2014 since the Navy has approached the Committee with various plans and schemes to attempt to restore these ships to fiscal year 2014. One of these plans revolves around the incremental funding concept despite the fact that the Department's own financial management regulations and policies prohibit incremental funding of large end items such as ships, except under certain circumstances, none of which apply in this case. The Committee strongly supports these regulations and policies because fully funded end items do not commit future Congresses to obligations they may or may not agree with and also because they provide the ability to conduct much more complete, transparent, and rigorous program oversight. Incremental funding is certainly comparable to buying items on credit by deferring payments to the outyears.

The Committee understands the constraints of the fiscal year 2014 budget, but to give up two highly prized combatants, and fund instead a vessel [an Afloat Forward Staging Base] for a mission that can be (and has been) satisfied with existing ships, then attempt to restore those combatants through funding gimmicks in violation of the Department's own financial regulations is deeply troubling. The Committee firmly believes that a strong Navy shipbuilding program is absolutely essential for the Nation's security but will not mortgage the Nation's future to accomplish it.... Finally, the recommendation provides an additional \$723,000,000 above the request for advance procurement for the Virginia Class Submarine program. The Secretary of the Navy is directed to fully fund an additional submarine in fiscal year 2014 to achieve a lower cost and stable production base through the course of the program's planned multiyear procurement. (Pages 158-159)

Senate

Section 8010 of H.R. 5856 of the 112th Congress as reported by the Senate Appropriations Committee (S.Rept. 112-196 of August 2, 2012) provides MYP authority for certain procurement programs, including the Virginia-class program. Subsection (b) of Section 8010 further states:

(b) The Secretary of Defense may employ incremental funding for the procurement of Virginia class submarines and government-furnished equipment associated with the Virginia class submarines to be procured during fiscal years 2013 through 2018 if the Secretary of Defense:

(1) determines that such an approach will permit the Navy to procure an additional Virginia class submarine in fiscal year 2014; and

(2) intends to use the funding for that purpose.

S.Rept. 112-196 recommends approving the Navy's request for FY2013 procurement funding for the Virginia-class program, and increasing by \$777.7 million the Navy's request for FY2014 advance procurement funding for the Virginia-class program, for the procurement of a second Virginia-class boat in FY2014. (Pages 124 and 125) The report states:

For the Department of the Navy, the Committee does not concur with the recommendation to prematurely retire nine Navy ships and provides over \$2,300,000,000 to man, operate, equip, and modernize these ships. In addition, the Committee provides over \$770,000,000 for advance procurement of a tenth Virginia-class submarine, \$1,000,000,000 for an additional DDG-51 destroyer, and \$263,255,000 for advance procurement of an amphibious warship. These funds were not included in the budget request, but the Committee believes these ships are crucial to supporting our Navy's global requirements, particularly as the U.S. military shifts its focus to the Pacific. (Page 7)

The report also states:

The Committee is concerned with the apparent disconnect between the Navy's publicly stated priorities and the Navy's fiscal year 2013 shipbuilding budget submission which, as compared to the fiscal year 2012 plan, reduces planned ship procurement for the next 5 years by 16 ships and eliminates funding for one Virginia class attack submarine, one amphibious ship, and three oilers. In addition, the Navy's budget request omits funding for an additional Arleigh Burke class guided missile destroyer contrary to the Navy's force structure goals. The Committee is concerned that these proposed adjustments will drive up costs for multiple classes of ships and negatively impact the industrial base, almost certainly leading to additional cost growth in shipbuilding.

The Committee notes that it was just 3 years ago that the Navy had implemented sufficient cost-reduction measures to allow for the procurement of two Virginia class attack submarines per year. The Committee is troubled that the Navy removed one Virginia class attack submarine from its near-term shipbuilding plan, particularly when the Navy is seeking multiyear procurement authority for Virginia class submarines to be procured from fiscal years 2014 through 2018. The Committee has been informed by the Navy that procuring 10 Virginia class submarines in the next multiyear procurement instead of 9 as proposed in the fiscal year 2013 budget request would result in an average submarine unit cost reduction in excess of \$120,000,000. The Committee believes that these cost savings and the avoidance of industrial base perturbations warrant the inclusion of a tenth Virginia class submarine in the next multiyear procurement.

The Committee has been advised by the Navy that the addition of a tenth submarine, which would be procured in fiscal year 2014, to the multiyear procurement necessitates Advance Procurement funding in fiscal year 2013. Therefore, the Committee recommends an additional \$777,679,000 only for Advance Procurement of a second Virginia class submarine in fiscal year 2014, as authorized in S. 3254, the National Defense Authorization Act for Fiscal Year 2013, as reported. As noted in Senate Report 112–173 to accompany S. 3254, as reported, procurement of an additional submarine in fiscal year 2014 will help alleviate an attack submarine shortfall anticipated in 2022. In addition, the Committee understands that current budget constraints make full funding of all 10 submarines included in the multiyear procurement in accordance with the Department’s Financial Management Regulations unaffordable, but that incrementally funding these submarines allows for their procurement within the current budget. While incremental funding authority is currently only provided for aircraft carriers and large-deck amphibious ships, the Committee notes the precedence for incrementally funding a submarine and recommends incremental funding authority only for the Virginia class submarines to be procured under the next multiyear procurement. (Pages 125-126)

The report recommends reducing by \$90 million the Navy’s FY2013 funding request for research and development work on the New Design SSN (i.e., the Virginia class), with the reduction being for “Virginia Payload early to need.” (Page 190, line 118) The report states:

New Design Submarine Development.—The fiscal year 2013 request includes \$165,230,000 for Research, Development, Test and Evaluation for the Navy’s New Design Submarine program. Included in the request is \$99,868,000 to begin development of a new Virginia-class Payload Module [VPM]. The Committee is concerned that increasing the Virginia-class submarine size by one-third to accommodate a 93.7-foot module in the submarine’s center will result in instability to proven submarine design, disruption to a stable production line, and add significant cost risk. Preliminary cost estimates indicate development alone will be \$800,000,000. The Committee is also concerned with the lack of defined requirements and cost estimate for an Acquisition Category [ACAT] I Major Defense Acquisition Programs [MDAPs] modification. For example, it is not yet clear what payloads would be carried, how many VPM’s are required, and how the VPM may alter the Virginia-class concept of operations. In addition, VPM will not go on contract until late fiscal year 2013. For these reasons, the Committee finds it is premature to invest nearly \$100,000,000 into this new program and recommends a reduction of \$90,000,000 to the request. The Committee directs the remaining funds to be used to validate the VPM requirement and cost estimate with the Joint Requirement Oversight Council, to ensure the VPM program is subject to the capability and acquisition rigor, typical of an ACAT I MDAP. (Pages 191-192; material in brackets as in original)

Conference

For further action on the FY2013 DOD appropriations act, see H.R. 933 of the 113th Congress above.

Appendix A. Past SSN Force-Level Goals

This appendix summarizes attack submarine force-level goals since the Reagan Administration (1981-1989).

The Reagan-era plan for a 600-ship Navy included an objective of achieving and maintaining a force of 100 SSNs.

The George H. W. Bush Administration's proposed Base Force plan of 1991-1992 originally called for a Navy of more than 400 ships, including 80 SSNs.⁵⁴ In 1992, however, the SSN goal was reduced to about 55 boats as a result of a 1992 Joint Staff force-level requirement study (updated in 1993) that called for a force of 51 to 67 SSNs, including 10 to 12 with Seawolf-level acoustic quieting, by the year 2012.⁵⁵

The Clinton Administration, as part of its 1993 Bottom-Up Review (BUR) of U.S. defense policy, established a goal of maintaining a Navy of about 346 ships, including 45 to 55 SSNs.⁵⁶ The Clinton Administration's 1997 QDR supported a requirement for a Navy of about 305 ships and established a tentative SSN force-level goal of 50 boats, "contingent on a reevaluation of peacetime operational requirements."⁵⁷ The Clinton Administration later amended the SSN figure to 55 boats (and therefore a total of about 310 ships).

The reevaluation called for in the 1997 QDR was carried out as part of a Joint Chiefs of Staff (JCS) study on future requirements for SSNs that was completed in December 1999. The study had three main conclusions:

- "that a force structure below 55 SSNs in the 2015 [time frame] and 62 [SSNs] in the 2025 time frame would leave the CINC's [the regional military commanders-in-chief] with insufficient capability to respond to urgent crucial demands without gapping other requirements of higher national interest. Additionally, this force structure [55 SSNs in 2015 and 62 in 2025] would be sufficient to meet the modeled war fighting requirements";
- "that to counter the technologically pacing threat would require 18 Virginia class SSNs in the 2015 time frame"; and

⁵⁴ For the 80-SSN figure, see Statement of Vice Admiral Roger F. Bacon, U.S. Navy, Assistant Chief of Naval Operations (Undersea Warfare) in U.S. Congress, House Armed Services Committee, Subcommittee on Seapower and Strategic and Critical Materials, *Submarine Programs*, March 20, 1991, pp. 10-11, or Statement of Rear Admiral Raymond G. Jones, Jr., U.S. Navy, Deputy Assistant Chief of Naval Operations (Undersea Warfare), in U.S. Congress, Senate Armed Services Committee, Subcommittee on Projection Forces and Regional Defense, *Submarine Programs*, June 7, 1991, pp. 10-11.

⁵⁵ See Richard W. Mies, "Remarks to the NSL Annual Symposium," *Submarine Review*, July 1997, p. 35; "Navy Sub Community Pushes for More Subs than Bottom-Up Review Allowed," *Inside the Navy*, November 7, 1994, pp. 1, 8-9; *Attack Submarines in the Post-Cold War Era: The Issues Facing Policymakers*, op. cit., p. 14; Robert Holzer, "Pentagon Urges Navy to Reduce Attack Sub Fleet to 50," *Defense News*, March 15-21, 1993, p. 10; Barbara Nagy, "Size of Sub Force Next Policy Battle," *New London Day*, July 20, 1992, pp. A1, A8.

⁵⁶ Secretary of Defense Les Aspin, U.S. Department of Defense, *Report on the Bottom-Up Review*, October 1993, pp. 55-57.

⁵⁷ Secretary of Defense William S. Cohen, U.S. Department of Defense, *Report of the Quadrennial Defense Review*, May 1997, pp. 29, 30, 47.

- “that 68 SSNs in the 2015 [time frame] and 76 [SSNs] in the 2025 time frame would meet all of the CINCs’ and national intelligence community’s highest operational and collection requirements.”⁵⁸

The conclusions of the 1999 JCS study were mentioned in discussions of required SSN force levels, but the figures of 68 and 76 submarines were not translated into official Department of Defense (DOD) force-level goals.

The George W. Bush Administration’s report on the 2001 QDR revalidated the amended requirement from the 1997 QDR for a fleet of about 310 ships, including 55 SSNs. In revalidating this and other U.S. military force-structure goals, the report cautioned that as DOD’s “transformation effort matures—and as it produces significantly higher output of military value from each element of the force—DOD will explore additional opportunities to restructure and reorganize the Armed Forces.”⁵⁹

DOD and the Navy conducted studies on undersea warfare requirements in 2003-2004. One of the Navy studies—an internal Navy study done in 2004—reportedly recommended reducing the attack submarine force level requirement to as few as 37 boats. The study reportedly recommended homeporting a total of nine attack submarines at Guam and using satellites and unmanned underwater vehicles (UUVs) to perform ISR missions now performed by attack submarines.⁶⁰

In March 2005, the Navy submitted to Congress a report projecting Navy force levels out to FY2035. The report presented two alternatives for FY2035—a 260-ship fleet including 37 SSNs and 4 SSGNs, and a 325-ship fleet including 41 SSNs and 4 SSGNs.⁶¹

In May 2005, it was reported that a newly completed DOD study on attack submarine requirements called for maintaining a force of 45 to 50 boats.⁶²

In February 2006, the Navy proposed to maintain in coming years a fleet of 313 ships, including 48 SSNs. Some of the Navy’s ship force-level goals have changed since 2006, and the goals now add up to a desired fleet of 328 ships. The figure of 48 SSNs, however, remains unchanged from 2006.

⁵⁸ Department of Navy point paper dated February 7, 2000. Reprinted in *Inside the Navy*, February 14, 2000, p. 5.

⁵⁹ U.S. Department of Defense, *Quadrennial Defense Review*, September 2001, p. 23.

⁶⁰ Bryan Bender, “Navy Eyes Cutting Submarine Force,” *Boston Globe*, May 12, 2004, p. 1; Lolita C. Baldor, “Study Recommends Cutting Submarine Fleet,” *NavyTimes.com*, May 13, 2004.

⁶¹ U.S. Department of the Navy, *An Interim Report to Congress on Annual Long-Range Plan for the Construction of Naval Vessels for FY 2006*. The report was delivered to the House and Senate Armed Services and Appropriations Committees on March 23, 2005.

⁶² Robert A. Hamilton, “Delegation Calls Report on Sub Needs Encouraging,” *The Day (New London, CT)*, May 27, 2005; Jesse Hamilton, “Delegation to Get Details on Sub Report,” *Hartford (CT) Courant*, May 26, 2005.

Appendix B. Options for Funding SSNs

This appendix presents information on some alternatives for funding SSNs that was originally incorporated into this report during discussions in earlier years on potential options for Virginia-class procurement.

Alternative Funding Methods

Alternative methods of funding the procurement of SSNs include but are not necessarily limited to the following:

- **two years of advance procurement funding followed by full funding**—the traditional approach, under which there are two years of advance procurement funding for the SSN’s long-leadtime components, followed by the remainder of the boat’s procurement funding in the year of procurement;
- **one year of advance procurement funding followed by full funding**—one year of advance procurement funding for the SSN’s long-leadtime components, followed by the remainder of the boat’s procurement funding in the year of procurement;
- **full funding with no advance procurement funding (single-year full funding)**—full funding of the SSN in the year of procurement, with no advance procurement funding in prior years;
- **incremental funding**—partial funding of the SSN in the year of procurement, followed by one or more years of additional funding increments needed to complete the procurement cost of the ship; and
- **advance appropriations**—a form of full funding that can be viewed as a legislatively locked in form of incremental funding.⁶³

Navy testimony to Congress in early 2007, when Congress was considering the FY2008 budget, suggested that two years of advance procurement funding are required to fund the procurement of an SSN, and consequently that additional SSNs could not be procured until FY2010 at the earliest.⁶⁴ This testimony understated Congress’s options regarding the procurement of additional SSNs in the near term. Although SSNs are normally procured with two years of advance procurement funding (which is used primarily for financing long-leadtime nuclear propulsion components), Congress can procure an SSN without prior-year advance procurement funding, or

⁶³ For additional discussion of these funding approaches, see CRS Report RL32776, *Navy Ship Procurement: Alternative Funding Approaches—Background and Options for Congress*, by Ronald O’Rourke.

⁶⁴ For example, at a March 1, 2007, hearing before the House Armed Services Committee on the FY2008 Department of the Navy budget request, Representative Taylor asked which additional ships the Navy might want to procure in FY2008, should additional funding be made available for that purpose. In response, Secretary of the Navy Donald Winter stated in part: “The Virginia-class submarines require us to start with a two-year advanced procurement, to be able to provide for the nuclear power plant that supports them. So we would need to start two years in advance. What that says is, if we were able to start in ‘08 with advanced procurement, we could accelerate, potentially, the two a year to 2010.” (Source: Transcript of hearing.) Navy officials made similar statements before the same subcommittee on March 8, 2007, and before the Senate Armed Services Committee on March 29, 2007.

with only one year of advance procurement funding. Consequently, Congress at that time had option of procuring an additional SSN in FY2009 and/or FY2010.

Single-year full funding has been used in the past by Congress to procure nuclear-powered ships for which no prior-year advance procurement funding had been provided. Specifically, Congress used single-year full funding in FY1980 to procure the nuclear-powered aircraft carrier CVN-71, and again in FY1988 to procure the CVNs 74 and 75. In the case of the FY1988 procurement, under the Administration's proposed FY1988 budget, CVNs 74 and 75 were to be procured in FY1990 and FY1993, respectively, and the FY1988 budget was to make the initial advance procurement payment for CVN-74. Congress, in acting on the FY1988 budget, decided to accelerate the procurement of both ships to FY1988, and fully funded the two ships that year at a combined cost of \$6.325 billion. The ships entered service in 1995 and 1998, respectively.⁶⁵

The existence in both FY1980 and FY1988 of a spare set of Nimitz-class reactor components was not what made it possible for Congress to fund CVNs 71, 74, and 75 with single-year full funding; it simply permitted the ships to be built more quickly. What made it possible for Congress to fund the carriers with single-year full funding was Congress's constitutional authority to appropriate funding for that purpose.

Procuring an SSN with one year of advance procurement funding or no advance procurement funding would not materially change the way the SSN would be built—the process would still encompass about two years of advance work on long-leadtime components, and an additional six years or so of construction work on the ship itself. The outlay rate for the SSN could be slower, as outlays for construction of the ship itself would begin one or two years later than normal.

Congress in the past has procured certain ships in the knowledge that those ships would not begin construction for some time and consequently would take longer to enter service than a ship of that kind would normally require. When Congress procured two nuclear-powered aircraft carriers (CVNs 72 and 73) in FY1983, and another two (CVNs 74 and 75) in FY1988, it did so in both cases in the knowledge that the second ship in each case would not begin construction until some time after the first.

Procuring SSNs in a 2-1-2 Pattern

Some potential approaches for procuring additional boats in FY2009-FY2011 that were discussed in earlier years could have resulted in a pattern of procuring two boats in a given year, followed by one boat the following year, and two boats the year after that—a 2-1-2 pattern. Navy testimony to Congress in early 2007 and early 2008 suggested that if the procurement rate were increased in a given year to two boats, it would not be best, from an industrial-base point of view, to decrease the rate to a single boat the following year, and then increase it again to two boats the next year, because of the workforce fluctuations such a profile would produce.⁶⁶

⁶⁵ In both FY1988 and FY1980, the Navy had a spare set of Nimitz (CVN-68) class nuclear propulsion components in inventory. The existence of a spare set of components permitted the carriers to be built more quickly than would have otherwise been the case, but it is not what made the single-year full funding of these carriers possible. What made it possible was Congress' authority to appropriate funds for the purpose.

⁶⁶ See, for example, the spoken remarks of Secretary of the Navy Donald Winter at hearings before the House Armed Services Committee on March 1, 2007, and March 6, 2008, and spoken remarks by other Navy officials at a March 29, 2007, hearing before the Senate Armed Services Committee and at a March 14, 2008, hearing before the Seapower and (continued...)

This statement may overstate the production-efficiency disadvantages of a 2-1-2 pattern. If two boats were procured in a given year, followed by one boat the next year—a total of three boats in 24 months—the schedule for producing the three boats could be phased so that, for a given stage in the production process, the production rate would be one boat every eight months. A production rate of one boat every 8 months might actually help the industrial base make the transition from the current schedule of one boat every 12 months (one boat per year) to one boat every 6 months (two boats per year). Viewed this way, a 2-1-2 pattern might actually lead to some benefits in production efficiency on the way to a steady rate of two boats per year. The Navy's own FY2009 30-year (FY2009-FY2038) SSN procurement plan called for procuring SSNs in a 1-2-1-2 pattern in FY2029-FY2038.

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(...continued)

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