



# Navy Ford (CVN-78) Class Aircraft Carrier Program: Background and Issues for Congress

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## Summary

CVN-78, CVN-79, and CVN-80 are the first three ships in the Navy's new Gerald R. Ford (CVN-78) class of nuclear-powered aircraft carriers (CVNs).

CVN-78 was procured in FY2008. The Navy's proposed FY2014 budget estimates the ship's procurement cost at \$12,829.3 million (i.e., about \$12.8 billion) in then-year dollars. The ship received advance procurement funding in FY2001-FY2007 and was fully funded in FY2008-FY2011 using congressionally authorized four-year incremental funding. The Navy did not request any procurement funding for the ship in FY2012 and FY2013. The Navy is requesting \$588.1 million in procurement funding in FY2014, and plans to request another \$729.0 million in procurement funding in FY2015, to cover cost growth on the ship.

CVN-79 is scheduled to be procured in FY2013. The ship received advance procurement funding in FY2007-FY2012, and the Navy plans to fully fund the ship in FY2013-FY2018 using congressionally authorized six-year incremental funding. The Navy's proposed FY2014 budget estimates CVN-79's procurement cost at \$11,338.4 million (i.e., about \$11.3 billion) in then-year dollars, and requests \$944.9 million in procurement funding for the ship.

CVN-80 is scheduled to be procured in FY2018. The Navy's proposed FY2014 budget estimates the ship's procurement cost at \$13,874.2 million (i.e., about \$13.9 billion) in then-year dollars. Under the Navy's proposed FY2014 budget, the ship is to receive advance procurement funding in FY2016-FY2017 and be fully funded in FY2018-FY2023 using congressionally authorized six-year incremental funding.

Oversight issues for Congress for the CVN-78 program include the following:

- the impact on Navy shipbuilding programs of the March 1, 2013, sequester on FY2013 funding and unobligated prior-year funding;
- the potential impact on Navy shipbuilding programs of a possible sequester later this year or early next year on FY2014 funding and unobligated prior-year funding;
- cost growth in the CVN-78 program;
- where the estimated procurement costs of CVNs 78, 79, and 80 now stand in relation to the legislated procurement cost caps for the ships, and whether the cost caps should be amended;
- the potential for a two-ship block buy on CVN-79 and CVN-80; and
- CVN-78 program issues that were raised in a December 2012 report from the Department of Defense's (DOD's) Director of Operational Test and Evaluation (DOT&E).

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## Introduction

This report provides background information and potential oversight issues for Congress on the Gerald R. Ford (CVN-78) class aircraft carrier program. Congress's decisions on the CVN-78 program could substantially affect Navy capabilities and funding requirements and the shipbuilding industrial base.

## Background

### The Navy's Aircraft Carrier Force

The Navy's current aircraft carrier force consists of 10 nuclear-powered Nimitz-class ships (CVNs 68 through 77) that entered service between 1975 and 2009. Until recently, the Navy's aircraft carrier force included an 11<sup>th</sup> aircraft carrier—the one-of-a-kind nuclear-powered *Enterprise* (CVN-65), which entered service in 1961. CVN-65 was inactivated on December 1, 2012, reducing the Navy's carrier force from 11 ships to 10. The most recently commissioned carrier, *George H. W. Bush* (CVN-77), the final Nimitz-class ship, was procured in FY2001 and commissioned into service on January 10, 2009. CVN-77 replaced *Kitty Hawk* (CV-63), which was the Navy's last remaining conventionally powered carrier.<sup>1</sup>

### Statutory Requirement to Maintain Not Less Than 11 Carriers

#### Origin of Requirement

10 U.S.C. 5062(b) requires the Navy to maintain a force of not less than 11 operational aircraft carriers. The requirement for the Navy to maintain not less than a certain number of operational aircraft carriers was established by Section 126 of the FY2006 National Defense Authorization Act (H.R. 1815/P.L. 109-163 of January 6, 2006), which set the number at 12 carriers. The requirement was changed from 12 carriers to 11 carriers by Section 1011(a) of the FY2007 John Warner National Defense Authorization Act (H.R. 5122/P.L. 109-364 of October 17, 2006).

#### Waiver for Period Between CVN-65 and CVN-78

As mentioned above, the carrier force dropped from 11 ships to 10 ships when *Enterprise* (CVN-65) was inactivated on December 1, 2012. The carrier force is to return to 11 ships when its replacement, *Gerald R. Ford* (CVN-78), is commissioned into service. CVN-78 was originally scheduled to be delivered in September 2015, but its construction has been running behind schedule, and the Navy in May 2013 announced that the ship's delivery date has been postponed to February 2016.<sup>2</sup> Anticipating the gap between the inactivation of CVN-65 and the commissioning of CVN-78, the Navy asked Congress for a temporary waiver of 10 U.S.C. 5062(b) to accommodate the period between the two events. Section 1023 of the FY2010

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<sup>1</sup> The *Kitty Hawk* was decommissioned on January 31, 2009.

<sup>2</sup> *Report to Congress on the Annual Long-Range Plan for Construction of Naval Vessels for FY2014*, May 2013, p. 13.

National Defense Authorization Act (H.R. 2647/P.L. 111-84 of October 28, 2009) authorized the waiver, permitting the Navy to have 10 operational carriers between the inactivation of CVN-65 and the commissioning of CVN-78.

## **Funding and Procuring Aircraft Carriers**

### **Some Key Terms**

The Navy *procures* a ship (i.e., orders the ship) by awarding a full-ship construction contract to the firm building the ship.

Part of a ship's procurement cost might be provided through *advance procurement (AP) funding*. AP funding is funding provided in one or more years prior to (i.e., in advance of) a ship's year of procurement. AP funding is used to pay for long-leadtime components that must be ordered ahead of time to ensure that they will be ready in time for their scheduled installation into the ship. AP funding is also used to pay for the design costs for a new class of ship. These design costs, known more formally as *detailed design/non-recurring engineering (DD/NRE) costs*, are traditionally incorporated into the procurement cost of the lead ship in a new class of ships.

*Fully funding* a ship means funding the entire procurement cost of the ship. If a ship has received AP funding, then fully funding the ship means paying for the remaining portion of the ship's procurement cost.

The *full funding policy* is a Department of Defense (DOD) policy that normally requires items acquired through the procurement title of the annual DOD appropriations act to be fully funded in the year they are procured. In recent years, Congress has authorized DOD to use *incremental funding* for procuring certain Navy ships, most notably aircraft carriers. Under incremental funding, some of the funding needed to fully fund a ship is provided in one or more years after the year in which the ship is procured.<sup>3</sup>

### **Incremental Funding Authority for Aircraft Carriers**

Section 121 of the FY2007 John Warner National Defense Authorization Act (H.R. 5122/P.L. 109-364 of October 17, 2006) granted the Navy the authority to use four-year incremental funding for CVNs 78, 79, and 80. Under this authority, the Navy could fully fund each of these ships over a four-year period that includes the ship's year of procurement and three subsequent years.

Section 124 of the FY2012 National Defense Authorization Act (H.R. 1540/P.L. 112-81 of December 31, 2011) amended Section 121 of P.L. 109-364 to grant the Navy the authority to use five-year incremental funding for CVNs 78, 79, and 80. Since CVN-78 was fully funded in FY2008-FY2011, the provision in practice applied to CVNs 79 and 80.

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<sup>3</sup> For more on full funding, incremental funding, and AP funding, 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.

Section 121 of the FY2013 National Defense Authorization Act (H.R. 4310/P.L. 112-239 of January 2, 2013) amended Section 121 of P.L. 109-364 to grant the Navy the authority to use six-year incremental funding for CVNs 78, 79, and 80. Since CVN-78 was fully funded in FY2008-FY2011, the provision in practice applies to CVNs 79 and 80.

## **Aircraft Carrier Construction Industrial Base**

All U.S. aircraft carriers procured since FY1958 have been built by Newport News Shipbuilding (NNS), of Newport News, VA, a shipyard that is part of Huntington Ingalls Industries (HII). NNS is the only U.S. shipyard that can build large-deck, nuclear-powered aircraft carriers. The aircraft carrier construction industrial base also includes hundreds of subcontractors and suppliers in various states.

## **Gerald R. Ford (CVN-78) Class Program**

The Gerald R. Ford (CVN-78) class carrier design (**Figure 1**) is the successor to the Nimitz-class carrier design.<sup>4</sup>

**Figure 1. Navy Illustration of CVN-78**



**Source:** Navy image accessed at <http://www.navy.mil/management/photodb/photos/060630-N-0000X-001.jpg> on April 20, 2011.

<sup>4</sup> The CVN-78 class was earlier known as the CVN-21 class, which meant nuclear-powered aircraft carrier for the 21<sup>st</sup> century.

The Ford-class design uses the basic Nimitz-class hull form but incorporates several improvements, including features permitting the ship to generate about 25% more aircraft sorties per day, more electrical power for supporting ship systems, and features permitting the ship to be operated by several hundred fewer sailors than a Nimitz-class ship, significantly reducing life-cycle operating and support (O&S) costs.

Navy plans call for procuring at least three Ford-class carriers—CVN-78, CVN-79, and CVN-80.

## **CVN-78**

CVN-78, which was named for President Gerald R. Ford in 2007,<sup>5</sup> was procured in FY2008. The Navy's proposed FY2013 budget estimates the ship's procurement cost at \$12,829.3 million (i.e., about \$12.8 billion) in then-year dollars. Of the ship's total procurement cost, about \$3.3 billion is for detailed design/non-recurring engineering (DD/NRE) costs for the class, and about \$9.5 billion is for construction of the ship itself.

CVN-78 received advance procurement funding in FY2001-FY2007 and was fully funded in FY2008-FY2011 using congressionally authorized four-year incremental funding. The Navy did not request any procurement funding for the ship in FY2012 and FY2013. The Navy is requesting \$588.1 million in procurement funding in FY2014, and plans to request another \$729.0 million in procurement funding in FY2015, to cover cost growth on the ship.

## **CVN-79**

CVN-79, which was named for President John F. Kennedy on May 29, 2011,<sup>6</sup> is scheduled to be procured in FY2013. The ship received advance procurement funding in FY2007-FY2012, and the Navy plans to fully fund the ship in FY2013-FY2018 using congressionally authorized six-year incremental funding. The Navy's proposed FY2014 budget estimates CVN-79's procurement cost at \$11,338.4 million (i.e., about \$11.3 billion) in then-year dollars, and requests \$944.9 million in procurement funding for the ship.

## **CVN-80**

CVN-80, which was named *Enterprise* on December 1, 2012,<sup>7</sup> is scheduled to be procured in FY2018. The Navy's proposed FY2014 budget estimates the ship's procurement cost at \$13,874.2

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<sup>5</sup> §1012 of the FY2007 defense authorization act (H.R. 5122/P.L. 109-364 of October 17, 2006) expressed the sense of the Congress that CVN-78 should be named for President Gerald R. Ford. On January 16, 2007, the Navy announced that CVN-78 would be so named. CVN-78 and other carriers built to the same design will consequently be referred to as Ford (CVN-78) class carriers. For more on Navy ship names, see CRS Report RS22478, *Navy Ship Names: Background for Congress*, by Ronald O'Rourke.

<sup>6</sup> See "Navy Names Next Aircraft Carrier USS John F. Kennedy," *Navy News Service*, May 29, 2011, accessed online on June 1, 2011 at [http://www.navy.mil/search/display.asp?story\\_id=60686](http://www.navy.mil/search/display.asp?story_id=60686). See also Peter Frost, "U.S. Navy's Next Aircraft Carrier Will Be Named After The Late John F. Kennedy," *Newport News Daily Press*, May 30, 2011. CVN-79 is the second ship to be named for President John F. Kennedy. The first, CV-67, was the last conventionally powered carrier procured for the Navy. CV-67 was procured in FY1963, entered service in 1968, and was decommissioned in 2007.

<sup>7</sup> The Navy made the announcement of CVN-80's name on the same day that it deactivated the 51-year-old aircraft carrier CVN-65, also named *Enterprise*. ("Enterprise, Navy's First Nuclear-Powered Aircraft Carrier, Inactivated," *Navy News Service*, December 1, 2012; Hugh Lessig, "Navy Retires One Enterprise, Will Welcome Another," *Newport* (continued...))

million (i.e., about \$13.9 billion) in then-year dollars. Under the Navy’s proposed FY2014 budget, the ship is to receive advance procurement funding in FY2016-FY2017 and be fully funded in FY2018-FY2023 using congressionally authorized six-year incremental funding.

## Program Procurement Funding

Table 1 shows procurement funding for CVNs 78, 79, and 80 through FY2018.

**Table 1. Procurement Funding for CVNs 78, 79, and 80 Through FY2018**  
(Millions of then-year dollars, rounded to nearest tenth)

FY	CVN-78	CVN-79	CVN-80	Total
FY01	21.7 (AP)	0	0	21.7
FY02	135.3 (AP)	0	0	135.3
FY03	395.5 (AP)	0	0	395.5
FY04	1,162.9 (AP)	0	0	1,162.9
FY05	623.1 (AP)	0	0	623.1
FY06	618.9 (AP)	0	0	618.9
FY07	735.8 (AP)	52.8 (AP)	0	788.6
FY08	2,685.0 (FF)	123.5 (AP)	0	2,808.6
FY09	2,684.6 (FF)	1,210.6 (AP)	0	3,895.1
FY10	737.0 (FF)	482.9 (AP)	0	1,219.9
FY11	1,712.5 (FF)	903.3 (AP)	0	2,615.8
FY12	0	554.8 (AP)	0	554.8
FY13 (requested) <sup>a</sup>	0	608.2 (FF)	0	608.2
FY14 (requested)	588.1 <sup>b</sup>	944.9 (FF)	0	1,533.0
FY15 (projected)	729.0 <sup>b</sup>	1,834.1 (FF)	0	2,563.1
FY16 (projected)	0	1,235.6 (FF)	682.8 (AP)	1,918.4
FY17 (projected)	0	1,496.0 (FF)	1,043.8 (AP)	2,539.8
FY18 (projected)	0	1,891.8 (FF)	1,062.6 (FF)	2,954.4

Source: FY2009-FY2014 Navy budget submissions.

Notes: Figures may not add due to rounding. “AP” is advance procurement funding; “FF” is full funding.

- The FY2013 column in the Navy’s FY2014 budget submission simply shows the figure that was requested for FY2013, not the final appropriated figure for FY2013. The figures shown in the table do not reflect the March 1, 2013, sequester on FY2013 funding and on FY2012 and prior-year funding that was unobligated on March 1, 2013.
- Additional “cost to complete” funding to cover cost growth on CVN-78.

(...continued)

News Daily Press, December 2, 2012.) CVN-65 was the eighth Navy ship named *Enterprise*; CVN-80 is to be the ninth.

## **Increases in Estimated Unit Procurement Costs Since FY2008 Budget**

**Table 2** shows changes in the estimated procurement costs of CVNs 78, 79, and 80 since the FY2008 budget submission.<sup>8</sup>

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<sup>8</sup> CBO in 2008 and the Government Accountability Office (GAO) in 2007 questioned the accuracy of the Navy's cost estimate for CVN-78. CBO reported in June 2008 that it estimated that CVN-78 would cost \$11.2 billion in constant FY2009 dollars, or about \$900 million more than the Navy's estimate of \$10.3 billion in constant FY2009 dollars, and that if "CVN-78 experienced cost growth similar to that of other lead ships that the Navy has purchased in the past 10 years, costs could be much higher still." CBO also reported that, although the Navy publicly expressed confidence in its cost estimate for CVN-78, the Navy had assigned a confidence level of less than 50% to its estimate, meaning that the Navy believed there was more than a 50% chance that the estimate would be exceeded. (Congressional Budget Office, *Resource Implications of the Navy's Fiscal Year 2009 Shipbuilding Plan*, June 9, 2008, p. 20.) GAO reported in August 2007 that:

Costs for CVN 78 will likely exceed the budget for several reasons. First, the Navy's cost estimate, which underpins the budget, is optimistic. For example, the Navy assumes that CVN 78 will be built with fewer labor hours than were needed for the previous two carriers. Second, the Navy's target cost for ship construction may not be achievable. The shipbuilder's initial cost estimate for construction was 22 percent higher than the Navy's cost target, which was based on the budget. Although the Navy and the shipbuilder are working on ways to reduce costs, the actual costs to build the ship will likely increase above the Navy's target. Third, the Navy's ability to manage issues that affect cost suffers from insufficient cost surveillance. Without effective cost surveillance, the Navy will not be able to identify early signs of cost growth and take necessary corrective action.

(Government Accountability Office, Defense Acquisitions[:]*Navy Faces Challenges Constructing the Aircraft Carrier Gerald R. Ford within Budget*, GAO-07-866, August 2007, summary page. See also Government Accountability Office, Defense Acquisitions[:]*Realistic Business Cases Needed to Execute Navy Shipbuilding Programs*, Statement of Paul L. Francis, Director, Acquisition and Sourcing Management Team, Testimony Before the Subcommittee on Seapower and Expeditionary Forces, Committee on Armed Services, House of Representatives, July 24, 2007 (GAO-07-943T), p. 15.)

**Table 2. Changes in Estimated Procurement Costs of CVNs 78, 79, and 80**

(As shown in FY2008-FY2014 budgets, in millions of then-year dollars)

Budget	CVN-78		CVN-79		CVN-80	
	Estimated procurement cost	Scheduled fiscal year of procurement	Estimated procurement cost	Scheduled fiscal year of procurement	Estimated procurement cost	Scheduled fiscal year of procurement
FY08 budget	10,488.9	FY08	9,192.0	FY12	10,716.8	FY16
FY09 budget	10,457.9	FY08	9,191.6	FY12	10,716.8	FY16
FY10 budget	10,845.8	FY08	n/a <sup>a</sup>	FY13 <sup>b</sup>	n/a <sup>a</sup>	FY18 <sup>b</sup>
FY11 budget	11,531.0	FY08	10,413.1	FY13	13,577.0	FY18
FY12 budget	11,531.0	FY08	10,253.0	FY13	13,494.9	FY18
FY13 budget	12,323.2	FY08	11,411.0	FY13 <sup>c</sup>	13,874.2	FY18 <sup>c</sup>
FY14 budget	12,829.3	FY08	11,338.4	FY13	13,874.2	FY18
% change:						
FY08 budget to FY09 budget	-0.3		Almost no change		No change	
FY09 budget to FY10 budget	+3.7		n/a		n/a	
FY10 budget to FY11 budget	+6.3		n/a		n/a	
FY11 budget to FY12 budget	No change		- 1.5		- 0.1	
FY12 budget to FY13 budget	+6.9%		+11.3%		+2.8%	
FY13 budget to FY14 budget	+4.1%		- 0.6%		No change	
FY08 budget to FY14 budget	+22.3%		+23.4%		+29.5%	

**Source:** FY2008-FY2014 Navy budget submissions.

- a. n/a means not available; the FY2010 budget submission did not show estimated procurement costs for CVNs 79 and 80.
- b. The FY2010 budget submission did not show scheduled years of procurement for CVNs 79 and 80; the dates shown here for the FY2010 budget submission are inferred from the shift to five-year intervals for procuring carriers that was announced by Secretary of Defense Gates in his April 6, 2009, news conference regarding recommendations for the FY2010 defense budget.
- c. Although the FY2013 budget did not change the scheduled years of procurement for CVN-79 and CVN-80 compared to what they were under the FY2012 budget, it lengthened the construction period for each ship by two years (i.e., each ship is scheduled to be delivered two years later than under the FY2012 budget).

### Program Procurement Cost Cap

Section 122 of the FY2007 John Warner National Defense Authorization Act (H.R. 5122/P.L. 109-364 of October 17, 2006) established a procurement cost cap for CVN-78 of \$10.5 billion, plus adjustments for inflation and other factors, and a procurement cost cap for subsequent Ford-class carriers of \$8.1 billion each, plus adjustments for inflation and other factors. The conference report (H.Rept. 109-702 of September 29, 2006) on P.L. 109-364 discusses Section 122 on pages 551-552.

## Issues for Congress

### Impact of March 1, 2013, Sequester on FY2013 Funding

One issue for Congress concerns the impact on the CVN-78 program of the March 1, 2013, sequester on FY2013 funding and unobligated prior-year funding. DOD's June 2013 report to Congress on the March 1, 2013, sequester states that the sequester reduced FY2013 and prior-year procurement funding for the CVN-78 program by \$74.5 million.<sup>9</sup> A June 21, 2013, press report states:

So far, sequestration has not hindered test and evaluation efforts on [CVN-78's] new technologies in the same way that some other programs have been affected, Rear Adm. Tom Moore [the program executive officer for aircraft carriers] said June 17....

Because [CVN-78] had no funding for construction in FY-13 because that funding was in previous budgets, the ship's construction wasn't hurt....

But [CVN-79] hasn't been so lucky....

"[CVN-]79's being funded over several years and so as long as the out-year money shows up, it really becomes more of a cash-flow issue," Moore said. "We'll probably have to slow some things down that we would have preferred to do in '13 but we'll have to catch up on and do later."<sup>10</sup>

### Potential Impact of Possible Late 2013/Early 2014 Sequester on FY2014 Funding

Another potential issue for Congress concerns the potential impact on the CVN-78 program of a possible sequester on FY2014 funding and unobligated prior-year funding that might occur in late 2013 or early 2014 under the terms of the Budget Control Act of 2011 (S. 365/P.L. 112-25 of August 2, 2011).

### Cost Growth

Another issue for Congress concerns the cost growth on CVNs 78, 79, and 80 shown in **Table 2**, and the potential for further cost growth on the ships. As can be seen in the table, the estimated cost of CVN-78 has grown 22.3% since the submission of the FY2008 budget, and 4.1% since the submission of the FY2013 budget. As shown in **Table 1**, cost growth on CVN-78 has prompted the Navy to program \$1,317.1 million in additional procurement funding for the ship in FY2014 and FY2015.

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<sup>9</sup> *Department of Defense Report on the Joint Committee Sequestration for Fiscal Year 2013*, June 2013, p. 36A (pdf page 86 of 438).

<sup>10</sup> Megan Eckstein, "Navy Sees Sequestration Hurting CVN-79 Construction, CVN-72 Refueling," *Inside the Navy*, June 24, 2013.

Most of the cost growth on CVN-78 since the submission of the FY2013 budget was expected: The Navy stated in March 2012 that future budget submissions would show an additional \$417 million in cost growth on CVN-78 that was not captured in the FY2013 budget because this cost growth emerged late in the process for preparing the FY2013 budget, and because the Navy hoped that actions being taken to restrain cost growth in the CVN-78 program would reduce the figure to something less than \$417 million before the FY2014 budget was submitted to Congress.<sup>11</sup> The \$417 million in anticipated cost growth equates to about 82% of the \$506.1 million in cost growth that has occurred on CVN-78 since the FY2013 budget.

A February 17, 2012, press report states that Senators Carl Levin and John McCain, the chairman and ranking Member, respectively, of the Senate Armed Services Committee, have asked the Government Accountability Office (GAO) to review the CVN-78 program in light of the program's cost growth.<sup>12</sup>

### **June 2013 Press Report**

A June 27, 2013, press report stated:

The U.S. Navy should delay the award of a multibillion-dollar contract to Huntington Ingalls Industries Inc. to build the second aircraft carrier in a new class as the first one faces failings from its radar to the gear that launches planes, congressional investigators said.

“Technical, design and construction challenges” with the first carrier, the USS Gerald R. Ford, have caused “significant cost increases and reduce the likelihood that a fully functional ship will be delivered on time,” the Government Accountability Office said in a draft report obtained by Bloomberg News....

Delays and “reliability deficiencies” with the flattop's new dual-mission radar, electromagnetic launch system and arresting gear for aircraft mean that the Ford “will likely face operational limitations that extend past commissioning” in March 2016 and “into initial deployments,” the agency said.

The GAO, the investigative arm of Congress, said that's reason enough to delay the contract that's scheduled to be issued this year for the second ship, the USS John F. Kennedy....

“It will be important to avoid repeating mistakes” in the contract for the Kennedy, the GAO said. “Staying within budget” will require the Navy to reduce “significant risk mainly by completing land-based testing for critical technologies before negotiating a contract” with Newport News, Virginia-based Huntington Ingalls.

Beci Brenton, a company spokeswoman, said in a telephone interview that “it would not be appropriate to comment on a draft report.” Naval Sea Systems Command spokeswoman Colleen O'Rourke<sup>13</sup> said in a statement that “as the Navy is currently working with the GAO on this report, it would be inappropriate to comment on any draft findings at this time. When the report is finalized, it will include Navy comments.”

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<sup>11</sup> Source: Navy meeting with CRS and CBO on the CVN-78 program, March 6, 2012.

<sup>12</sup> Tony Capaccio, “Aircraft Carrier's Rising Cost Prompts Lawmakers To Seek Audit,” *Bloomberg Government* (*bgov.com*), February 17, 2012.

<sup>13</sup> Colleen O'Rourke is not related to Ronald O'Rourke.

The Navy remains committed to the Ford-class carrier as a needed capability, said a Navy official who declined to be identified before the GAO releases its final report. The Navy is confident that the first vessel will be delivered on schedule and that lessons learned from building it will be applied to reduce the cost of the second ship, the official said....

While the GAO said that the Navy and Huntington Ingalls are taking steps to control costs for the Ford, most increases occur after a vessel is 60 percent complete and key systems are installed and integrated. The Ford is now 56 percent complete.

Even the current \$12.8 billion estimate is “optimistic because it assumes the shipbuilder will maintain its current level of performance throughout the remainder of construction,” the GAO said....

The Pentagon’s independent cost-estimating office, the Congressional Budget Office and a Navy-commissioned panel project final costs as high as \$14.2 billion, the GAO said....

“As it now stands, the Navy will not be positioned to deliver a fully capable ship at the time,” the GAO said.

“Reliability shortfalls facing key Ford-class systems cloud the Navy’s ability to forecast when, or if” the carrier will meet the aircraft sortie rates and reduced manning requirements that distinguish it from the older Nimitz class, the GAO said. O’Rourke, the Naval Sea Systems Command spokeswoman, wouldn’t comment on the specific value of the potential detailed design and construction contract to Huntington Ingalls for the Kennedy that the GAO said is due in September....

The largest share of the cost increase for the Ford, 38 percent, stemmed from technologies delivered by the Navy, including the radar, launch system and arresting gear, according to the GAO.

The electromagnetic launch system made by San Diego-based General Atomics has increased to \$742.6 million, up 134 percent since 2008, the GAO said. The cost of arresting gear also made by the company increased 125 percent to \$169 million.

Raytheon Co.’s dual-band radar has increased 140 percent to \$484 million, according to data cited by the GAO. Twenty-seven percent of the cost growth was pegged to shipbuilder design issues and another 27 percent to construction, both attributed to Huntington Ingalls.

Huntington Ingalls is building the Ford under a \$4.9 billion detailed design contract that covers the shipbuilder’s portion of constructing the vessel. It doesn’t cover other costs, such as the nuclear reactor to power the ship and other government-furnished equipment....

The GAO said its analysis indicates that Huntington Ingalls “was forecasting an overrun at contract completion of over \$913 million” that it said stemmed from “the shipbuilder not accomplishing work as planned.”

Huntington’s Brenton said in an e-mail in May that, “as the first new design carrier beginning construction in more than 40 years,” the Ford “is designed to provide increased capability and reduced total ownership cost by about \$4 billion compared to Nimitz-class carriers.”

“For this first-of-class ship, construction commenced in parallel with design completion based on earlier decisions at Department of Defense,” she said. “Ongoing design during the construction process caused delay and inefficiencies in procurement, manufacturing, and assembly.”<sup>14</sup>

### **March 2013 Report to Congress (Released May 2013)**

A March 2013 report to Congress on the Navy’s plan for building CVN-79 that was released to the public on May 16, 2013, states in its executive summary:

As a result of the lessons learned on CVN 78, the approach to carrier construction has undergone an extensive affordability review and the Navy and the shipbuilder have made significant changes on CVN 79 that will significantly reduce the cost to build the ship. These include four key construction areas:

- CVN 79 construction will start with a complete design and a complete bill of material
- CVN 79 construction will start with a firm set of stable requirements
- CVN 79 construction will start with the development complete on a host of new technologies inserted on CVN 78 ranging from the Electromagnetic Aircraft Launch System (EMALS), the Dual Band Radar, and the reactor plant, to key valves in systems throughout the ship
- CVN 79 construction will start with an ‘optimal build’ plan that emphasizes the completion of work and ship outfitting as early as possible in the construction process to optimize cost and ultimately schedule performance.

In addition to these fundamentals, the Navy and the shipbuilder are tackling cost through a series of other changes that when taken over the entire carrier will have a significant impact on construction costs. The Navy has also imposed cost targets and is aggressively pursuing cost reduction initiatives in its government furnished systems. A detailed accounting of these actions is included in this report.

The actions discussed in this report are expected to reduce the material cost of CVN 79 by 10-20% in real terms from CVN 78, to reduce the number of man-hours required to build the CVN 79 by 15-25% from CVN 78, and to reduce the cost of government furnished systems by 5-10% in real terms from CVN 78.<sup>15</sup>

For the full text of the navy’s report, see **Appendix**.

### **December 31, 2012, SAR (Released May 2013)**

The December 31, 2012, Selected Acquisition Report (SAR) for the CVN-78 program, which was released in May 2013, states:

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<sup>14</sup> Tony Capaccio, “Navy Should Delay Next Carrier Amid Troubles, GAO Says,” *Bloomberg.com*, June 27, 2013.

<sup>15</sup> *Aircraft Carrier Construction, John F Kennedy (CVN 79), Report to Congress*, March 2013, p. 3. An annotation on the report’s cover page indicates that the report was authorized for public release on May 16, 2013. The report was posted at InsideDefense.com (subscription required) on June 21, 2013. See also Megan Eckstein, “Navy Plan To Congress Outlines New Strategies To Save On CVN-79,” *Inside the Navy*, June 24, 2013.

The CVN 78 is experiencing cost growth due to “first of class” material availability (i.e., valves, actuators), construction labor inefficiencies, and challenges associated with concurrent development and integration of new Government Furnished Equipment (GFE) and Contractor Furnished Equipment (CFE) systems during lead ship design and construction. For material costs, the variance reflects challenges associated with a shrinking supplier base, procurement of developmental contractor furnished components, and vendor qualification on CVN 78 unique items. Labor inefficiencies are the result of “first of class” challenges. The effect of new and thinner steels on structural erection was greater than expected, slowing production and requiring more hours than planned for straightening, temporary structure and rigging. HII-NNS also experienced “first of class” learning associated with the new CVN 78 Class modular build strategy, including movement, blast and coat, and assembly area footprint difficulties for larger, reconfigured CVN 78 structural units. Delays in the delivery of new developmental components as well as engineering products required to develop construction work package also inhibited labor performance.

During 2012, HII-NNS continued its design and production efforts on CVN 78. Quarterly Progress Reviews were held to manage and assess the status of design and production on CVN 78. As of February 17, 2013, the construction effort was 67.3% complete based on contract dollars. The landing of the island occurred on January 26, 2013. The shipbuilder has proposed a revised Estimate at Completion (EAC) increasing Direct Labor from 43.9 to 47.3 million man hours that incorporates their assessment of performance trends and associated recovery efforts for both construction and support areas. The Navy is evaluating this proposed increase with emphasis on mitigating key cost and schedule drivers. The Navy continues to work with the Participating Acquisition Resource Managers (PARMs) to identify and remove barriers to improve cost and schedule performance for the new developmental GFE systems. HII-NNS has rescheduled the CVN 78 launch from July 2013 to November 2013. Although shipbuilder actions to resolve “first of class” issues have retired some technical and schedule risk, HII-NNS has been unable to retire all schedule risk, resulting in a four month delay to the launch of CVN 78, with associated impact to delivery. The Navy agrees with the delay to launch. Delivery is expected to be delayed until approximately 2nd Quarter FY 2016.

The Navy is submitting reports to the four defense committees addressing cost performance of the CVN 78 detail design and construction in response to Senator John McCain’s letter of August 11, 2011. At the direction of the Assistant Secretary of the Navy for Research, Development and Acquisition (ASN(RD&A)), an independent team conducted an end-to-end assessment of CVN 78 cost variance that included opportunities to prevent further increases. Recommendations from the report, briefed to ASN(RD&A) on December 21, 2011, are being implemented. Recommendations from the CVN 78 end to end reviews have been consolidated into 38 actionable items that are being tracked to completion. As of March 18, 2013, 17 recommendations have been implemented with 21 recommendations in progress. All recommendations are expected to be implemented by September 2014. The review team reconvened in 2012 and concluded the program offices action plan adequately addresses their recommendations.

The high level of design maturity and material certification for the CVN 79 provides a stable technical baseline for material procurement cost and schedule performance, which supports the development and execution of an improved and reliable build plan. The Construction Preparation (CP) Contract for CVN 79 advance procurement research, design, and engineering was awarded on January 15, 2009. An extension to CP efforts through FY 2013 was awarded in March 2013.

To enable full ship-set material buys for cost reduction benefits and to ensure material availability, two material procurement contract modifications were awarded to HII-NNS during FY 2012. A third material procurement award was executed in March 2013. CVN 79

affordability is being driven through several areas. The CVN 79 is a design roll-over from CVN 78, with changes for improved producibility, reduced cost, and limited fact-of-life obsolescence issues. Lessons learned during the construction of CVN 78 are resulting in changes to the CVN 79 build plan to improve production efficiency. In addition, production improvements are being achieved through implementation of several initiatives aimed at driving work to be executed at the most efficient time (typically in the shop or on the platen rather than in the dry-dock or after launch), as well as driving learning curve performance into subsets of the ship construction (creation of “families of units” and work cells). In the aggregate, the plan for CVN 79 construction will substantially drive down costs.

The CVN 79 DD&C Request for Proposal (RFP) was provided to HII-NNS on October 2, 2012. The CVN 79 DD&C contract is planned for award in September 2013. Unlike the CVN 78 DD&C which is a Cost Plus Incentive Fee (CPIF) contract, the Navy plans to negotiate a Fixed Price Incentive (FPI) contract with a simplified structure for CVN 79.<sup>16</sup>

The SAR also states:

The CVN 79 is budgeted at an aggressive but achievable target.

The Navy and shipbuilder have made fundamental change in the manner in which the CVN 79 will be built to incorporate lessons learned from CVN 78 and eliminate the key contributors to cost performance challenges realized in the construction of CVN 78. The approach to carrier construction has undergone an extensive affordability review, the results of which are reflected in the CVN 79 budget. Further improvements are planned for CVN 80 but have not yet been incorporated into the CVN 80 cost estimates. The Navy is committed to driving down aircraft carrier construction costs, and fully expects future estimates for CVN 80 to reflect a continued downward trend.<sup>17</sup>

Regarding a contract that NNS has with the Navy for detailed design and construction (DD&C) work on CVN-78—a contract that accounts for a portion of the ship’s total cost—the SAR states that the value of the contract has grown from an initial price of \$4,910.5 million to a current price of \$5,885.6 million, and that NNS and the Navy estimate that the price will grow further, to \$6,665.6 (NNS’s estimate) or \$6,638.7 million (the Navy’s estimate) by the time the contract is completed (i.e., estimated price at completion).<sup>18</sup> In discussing these figures, the SAR states:

The unfavorable net change in the cost variance is due to material cost growth (86%), labor inefficiencies (25%), Overhead improvement (-3%), and Facilities Capital Cost of Money (FCCM) improvement (-8%). The material variances are due to market forces, unanticipated impacts of a “first of class” specification on contractor furnished material costs (e.g. valves, electrical components, steel and other commodities), and refined understanding of material requirements as the ship design matured. Labor inefficiencies are the result of “first of class” challenges including producibility issues (e.g. thin plate steel, weld distortion, and the increased use of temporary structures and rigging). Additionally, increased supervision has been required to manage the above challenges and a developing workforce.

The favorable net change in the schedule variance is due to improvement in material availability and the overall decrease in design hold ups, which have resulted in a significant increase in workable work packages available to the assembly trades. This increase in

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<sup>16</sup> Department of Defense, *Selected Acquisition Report (SAR), CVN 78 Class*, December 31, 2012, pp. 5-6.

<sup>17</sup> Department of Defense, *Selected Acquisition Report (SAR), CVN 78 Class*, December 31, 2012, p. 30.

<sup>18</sup> Department of Defense, *Selected Acquisition Report (SAR), CVN 78 Class*, December 31, 2012, p. 56.

available work, coupled with the significant increase in manning and improved performance of the assembly trades, has resulted in an overall improvement in schedule performance.<sup>19</sup>

## **May 2013 Navy Testimony**

In its prepared statement for a May 8, 2013, hearing on Navy shipbuilding programs before the Seapower subcommittee of the Senate Armed Services Committee, the Navy stated that

In 2011, the Navy identified spiraling cost growth [on CVN-78] associated with first of class non-recurring design, contractor and government furnished equipment, and ship production issues on the lead ship. The Navy completed an end-to-end review of CVN 78 construction in December 2011 and, with the shipbuilder, implemented a series of corrective actions to stem, and to the extent possible, reverse these trends. While cost performance has stabilized, incurred cost growth is irreversible....

As a result of lessons learned on CVN 78, the approach to carrier construction has undergone an extensive affordability review; and the Navy and the shipbuilder have made significant changes on CVN 79 that will reduce the cost to build the ship. CVN 79 construction will start with a complete design, firm requirements, and material economically procured and on hand in support of production need. The ship's build schedule also provides for increased completion levels at each stage of construction with resulting improved production efficiencies....

Inarguably, this new class of aircraft carrier brings forward tremendous capability and life-cycle cost advantages compared to the NIMITZ-class it will replace. However, the design, development and construction efforts required to overcome the technical challenges inherent to these advanced capabilities have significantly impacted cost performance on the lead ship. The Navy continues implementing actions from the 2012 detailed review of the FORD-Class build plan to control cost and improve performance across lead and follow ship contracts. This effort, taken in conjunction with a series of corrective actions with the shipbuilder on the lead ship, will not recover costs to original targets for GERALD R. FORD [CVN-78], but should improve performance on the lead ship while fully benefitting CVN 79 and following ships of the class.<sup>20</sup>

In the discussion portion of the hearing, Sean Stackley, the Assistant Secretary of the Navy for Research, Development and Acquisition (i.e., the Navy's acquisition executive), testified that

First, the cost growth on the CVN-78 is unacceptable. The cost growth dates back in time to the very basic concepts that went into take in the Nimitz-class and doing a total redesign of the Nimitz class to get to a level of capability and to reduce operating and support cost for the future carrier. Far too much risk was carried into the design of the first of the Ford-class.

Cost growth stems to the design was moving at the time production started. The vendor base that was responsible for delivering new components and material to support the ship production was (inaudible) with new developments in the vendor base and production plan

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<sup>19</sup> Department of Defense, *Selected Acquisition Report (SAR), CVN 78 Class*, December 31, 2012, p. 56.

<sup>20</sup> Statement of The Honorable Sean J. Stackley, Assistant Secretary of the Navy (Research, Development and Acquisition) and Vice Admiral Allen G. Myers, Deputy Chief of Naval Operations for Integration of Capabilities and Resources and Vice Admiral Kevin M. McCoy, Commander, Naval Sea Systems Command, Before the Subcommittee on Seapower of the Senate Armed Services Committee on Department of the Navy Shipbuilding Programs, May 8, 2013, p. 8.

do not account for the material ordering difficulties, the material delivery difficulties and some of the challenges associated with building a whole new design compared to the Nimitz....

Sir, for CVN-79, we have—we have held up the expenditures on CVN-79 as we go through the details of—one, ensuring that the design of the 78 is complete and repeated for the 79s [sic] that we start with a clean design.

Two, we're going through the material procurement. We brought a third party into assessment material-buying practices at Newport News to bring down the cost of material. And we're metering out the dollars for buying material until it hits the objectives that we're setting for CVN-79 through rewriting the build plan on CVN-79.

If you take a look at how the 78 is being constructed, far too much work is being accomplished late in the build cycle. So we are rewriting the build plan for CVN-79, do more work in the shops where it's more efficient, more work in the buildings where it's more efficient, less work in the dry dock, less work on the water. And then we're going after the rates—the labor rates and the investments needed by the shipbuilder to achieve these efficiencies.<sup>21</sup>

Later in the hearing, Stackley testified that

the history in shipbuilding is since you don't have a prototype for a new ship, the first of class referred to as the lead ship is your prototype. And so you carry a lot of risk into the construction of that first of class.

Also, given the nature that there's a lengthy design development and build span associated with ships, so there is a certain amount of overlap or concurrency that occurs between the development of new systems that need to be delivered with the first ship, the incorporation of the design of those new systems and the actual construction. And so to the extent that there is change in a new ship class then the risk goes up accordingly.

In the case of the CVN-78, the degree of change compared to the Nimitz was fairly extraordinary all for good reasons, good intentions, increased capability, increased survivability, significant reduction in operating and support costs. So there was a determination that will take on this risk in order to get those benefits, and the case of the CVN-78, those risks are driving a lot of the cost growth on the lead ship.

When you think about the follow ships, now you've got a stable design, now your vendor base has got a production line going to support the production. Now you've got a build plan and a workforce that has climbed up on the learning curve to drive cost down. So you can look at—you can look at virtually every shipbuilding program and you'll see a significant drop-off in cost from that first of class to the follow ships.

And then you look for a stable learning curve to take over in the longer term production of a ship class.

Carriers are unique for a number of reasons, one of which we don't have an annual procurement of carriers. They're spread out over a five and, in fact, in the case of 78 as much as seven-year period. So in order to achieve that learning, there are additional challenges associated with achieving that learning. And so we're going at it very deliberately on the

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<sup>21</sup> Transcript of hearing.

CVN-79 through the build plan with the shipbuilder to hit the line that we've got to have—the cost reductions that we've got to have on the follow ships of the class.<sup>22</sup>

## **March 2013 GAO Report**

A March 2013 GAO report assessing major DOD weapon acquisition programs stated the following regarding the status of the CVN-78 program, including the potential for cost growth:

### **Technology Maturity**

According to the Navy, 6 of CVN 78's 13 critical technologies are mature, and the remaining 7 are approaching maturity. Delays developing and producing the dual band radar (DBR) and advanced arresting gear (AAG) have driven inefficient, out of sequence construction work and caused the Navy to defer some key tests until after installation. The Navy's decision to remove DBR's volume search radar (VSR) component from the DDG 1000 destroyer shifted responsibility for maturing DBR to CVN 78, and the resulting restart of testing has been slow. Further, because a fully configured, production unit VSR is unavailable, the Navy is using a less robust, lower powered prototype to complete testing. At present, the first test of a fully configured, integrated DBR will be aboard CVN 78 after ship delivery—a strategy that introduces risks. Malfunctions in the water twisters, components used to absorb energy created when arresting aircraft, have slowed the development of AAG. To support construction, the Navy plans to produce and install AAG aboard CVN 78 prior to completing system development, which may risk retrofits late in construction. The electromagnetic aircraft launch system (EMALS) has successfully launched a wide range of aircraft during land based testing using a single launcher and four motor generators. The shipboard system will employ a more complex configuration of four launchers and 12 generators sharing a power interface. Both EMALS and AAG face reliability challenges, and neither system is expected to attain minimum required reliability until more than 10 years after CVN 78 delivery.

### **Design Maturity**

CVN 78 completed its 3D product model in November 2009—over a year after the construction contract award. At contract award, 76 percent of the model was complete and the shipbuilder had already begun construction of at least 25 percent of structural units under a previous construction preparation contract. While the model is now considered functionally complete, maintaining design stability depends on technologies fitting within the space, weight, cooling, and power reservations allotted them. Shipboard testing may reveal a need for design changes. In addition, as construction progresses, the shipbuilder is discovering “first-of-class” type design changes, which it will use to update the model prior to CVN 79 construction.

### **Production Maturity**

According to program officials, CVN 78 is approximately 51 percent complete. Procurement costs for the lead ship have grown by over 17 percent since authorization of construction in fiscal year 2008, largely due to problems encountered in construction. Specifically, the new steel plating used for ship decks excessively warped and flexed during construction, which contributed to lower than desired levels of preoutfitting. In addition, the shipbuilder has experienced a shortage of the new valves critical for installing and testing different piping

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<sup>22</sup> Transcript of hearing.

systems within the ship, and lagging government-furnished equipment deliveries have required deviation from the planned build sequence.

### **Other Program Issues**

As requested, we reviewed whether individual subcontracting reports from the prime contractor for the program were accepted on eSRS [Electronic Subcontracting Reporting System]. The government uses subcontracting reports on eSRS as one method of monitoring small business participation. As of December 2012, eSRS indicated that none of the associated subcontracting reports for CVN 78's two contracts have been accepted.

### **Program Office Comments**

In commenting on a draft of this assessment, the program office stated that the shipbuilder is applying lessons learned from CVN 78 construction to improve production strategies and reduce labor hours needed to construct follow-on ships (CVN 79 and CVN 80). Further, the program office does not expect to repeat CVN 78's "first of class" design and production challenges on CVN 79 and CVN 80. Program officials also stated that using a nonproduction-representative VSR prototype for DBR land-based testing has mitigated much of the impact of the DDG 1000 descope of VSR and will be beneficial in exhibiting dual band functionality prior to ship delivery. In addition, program officials stated that the 12 current critical technologies in the program have met their system maturity goals, noting that an oversight team led by the Office of the Secretary of Defense disbanded in 2012 once each of these technologies was determined to be approaching maturity or mature. The program office also provided technical comments, which were incorporated where deemed appropriate.<sup>23</sup>

## **November 2012 Press Report**

A November 29, 2012, press report stated:

Huntington Ingalls Industries Inc. will miss its 2012 target for reducing costs on the USS Gerald R. Ford, the aircraft carrier that will be the most expensive U.S. warship.

The shipbuilder will fall short of getting 86 cents of planned work accomplished for every dollar spent, in part because of late component deliveries from subcontractors, according to the Navy admiral responsible for carrier development and construction...

"They have continued to improve in the right direction, but they did not make it to 86" percent, Rear Admiral Thomas Moore, the Navy's program executive officer for aircraft carriers, said in a phone interview. The Navy hopes the company will eventually get \$1 of value from every \$1 spent, he said....

"There are many challenges" in building a prototype that's also the first production vessel of a three-ship class, Beci Brenton, a spokeswoman for the Newport News, Virginia-based company, said in an e-mailed statement.

The company "has developed and implemented a host of improvement actions" this year, she said. "We have continued to advance the shipbuilding industry in tooling, material controls

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<sup>23</sup> Government Accountability Office, *Defense Acquisitions[:] Assessments of Selected Weapon Programs*, GAO-13-294SP, March 2013, p. 70. See also Michael Welles Shapiro, "Valve Shortage Drives Up Cost Of Shipyard's Ford Carrier," *Newport News Daily Press*, March 30, 2013.

and craft performance through the use of innovation in technology, process changes and teaming.”...

Huntington Ingalls’ cost efficiency goals have been “challenging but attainable, and they met them and did well in 2011,” Moore said. “They did not meet all those goals in 2012, and we will sit down and figure out where we are going with them in 2013.”

Reaching the 86 percent mark would have helped reduce what’s now an estimated \$884 million overrun on the design and construction contract. The Navy’s share is \$690 million. Huntington’s share is \$194 million, which would be forfeited if the overrun isn’t reduced.

Moore said Huntington Ingalls’ failure to hit its efficiency goal this year won’t increase the cost estimate for the next carrier in the class, the USS John F. Kennedy.

“My expectation is that we are starting with a clean sheet of paper,” he said. “I fully expect” the second carrier’s costs “to be significantly below where we end up on,” the Ford, he said.<sup>24</sup>

## **July 2012 CBO Report**

A July 2012 CBO report on the potential cost of the Navy’s FY2012 30-year shipbuilding plan states (with costs expressed in constant FY2012 dollars):

The Navy’s projected cost of the lead ship of the CVN-78 class grew by 18 percent between the President’s budget requests for 2008 and 2013. The Navy’s budget now projects the lead ship’s cost to be \$13.1 billion (about what CBO estimated in its analysis of the Navy’s 2011 plan), but further increases are likely. According to information provided by the Navy, in fiscal year 2014 the service will request an extra \$497 million (\$564 million in 2014 dollars) to cover additional cost growth and additional tooling and vendor services. Including that money in the Navy’s estimate boosts the expected cost of the lead ship to \$13.6 billion. (That amount does not include \$4.7 billion in research and development costs that apply to the entire class.)

To estimate the cost of the lead ship of the CVN-78 class, CBO used the actual costs of the previous carrier—the CVN-77—and then adjusted them for higher costs for government-furnished equipment and for more than \$3 billion in costs for nonrecurring engineering and detail design (the plans, drawings, and other one-time items associated with the first ship of a new class). CBO estimates that completing the lead CVN-78 will cost \$14.2 billion. Subsequent ships of that class will not require as much funding for one-time items, although they will incur the higher costs for government-furnished equipment. Altogether, CBO estimates the average cost of the 6 carriers in the 2013 plan at \$13.0 billion, compared with the Navy’s estimate of \$10.9 billion....

The final cost of the CVN-78 could be even higher than CBO’s estimate, for several reasons. First, many lead ships built in the past 20 years have experienced cost growth of more than 30 percent. CBO’s estimate for the lead ship already falls within the range of cost growth in lead ships, but construction is only about 40 percent complete. Historically, more cost growth has occurred in the latter stages of ship construction, when systems are being installed and integrated. Second, with the increase in the Navy’s estimate, the Navy, in a

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<sup>24</sup> Tony Capaccio, “Huntington Ingalls Aircraft Carrier To Miss Cost-Reduction Goal,” *Bloomberg Government (bgov.com)*, November 29, 2012.

written response to CBO and the Congressional Research Service, stated that the service has budgeted the CVN-78 to a “greater than 50<sup>th</sup>” percentile of possible cost outcomes. Because the Navy has not reported a precise probability, the service’s view of the probability that the final cost will exceed its estimate is unclear. Third, a number of critical technologies that are supposed to be incorporated into the ship, such as a new electromagnetic catapult system for launching aircraft, remain under development and will require integration as the ship nears the final stages of construction. Difficulties in completing that integration could arise and increase costs, and those increases would also probably affect the costs for subsequent ships of the class. However, the Navy and the shipbuilder recognize those issues and are actively managing the CVN-78 program to reduce costs and prevent further growth. If they succeed, then the cost of the lead ship could be less than CBO’s estimate.<sup>25</sup>

### **March 2012 Navy Letter to Senator McCain**

Secretary of the Navy Ray Mabus, in a letter with attachment sent in late March 2012 to Senator John McCain on controlling cost growth in the CVN-78, stated:

Dear Senator McCain:

Thank you for your letter of March 21, 2012, regarding the first-of-class aircraft carrier, GERALD R. FORD (CVN 78). Few major programs carry greater importance or greater impact on national security, and no other major program comprises greater scale and complexity than the Navy’s nuclear aircraft carrier program. Accordingly, successful execution of this program carries the highest priority within the Department of the Navy.

I have shared in the past my concern when I took office and learned the full magnitude of new technologies and design change being brought to the FORD. Requirements drawn up more than a decade prior for this capital ship drove development of a new reactor plant, propulsion system, electric plant and power distribution system, first of kind electromagnetic aircraft launching system, advanced arresting gear, integrated warfare system including a new radar and communications suite, air conditioning plant, weapons elevators, topside design, survivability improvements, and all new interior arrangements. CVN 78 is a near-total redesign of the NIMITZ Class she replaces. Further, these major developments, which were to be incrementally introduced in the program, were directed in 2002 to be integrated into CVN 78 in a single step. Today we are confronting the cost impacts of these decisions made more than a decade ago.

In my August 29, 2011 letter, I provided details regarding these cost impacts. At that time, I reported the current estimate for the Navy’s share of the shipbuilder’s construction overrun, \$690 million, and described that I had directed an end-to-end review to identify the changes necessary to improve cost for carrier design, material procurement, planning, build and test. The attached white paper provides the findings of that review and the steps we are taking to drive affordability into the remaining CVN 78 construction effort. Pending the results of these efforts, the Navy has included the ‘fact of life’ portion of the stated overrun in the Fiscal Year 2013 President’s Budget request. The review also highlighted the compounding effects of applying traditional carrier build planning to a radically new design; the challenges inherent to low-rate, sole-source carrier procurement; and the impact of external economic factors accrued over 15 years of CVN 78 procurement—all within the framework of cost-plus contracts. The outlined approach for ensuring CVN 79 and follow ship affordability

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<sup>25</sup> Congressional Budget Office, *An Analysis of the Navy’s Fiscal Year 2013 Shipbuilding Plan*, July 2012, p. 16.

focuses equally upon tackling these issues while applying the many lessons learned in the course of CVN 78 procurement.

As always, if I may be of further assistance, please let me know.

Sincerely, [signed] Ray Mabus

Attachment: As stated

Copy to: The Honorable Carl Levin, Chairman

[Attachment]

#### Improving Cost Performance on CVN 78

CVN 78 is nearing 40 percent completion. Cost growth to-date is attributable to increases in design, contractor furnished material, government furnished material (notably, the Electromagnetic Aircraft Launching System (EMALS), Advanced Arresting Gear (AAG), and the Dual Band Radar (DBR)), and production labor performance. To achieve the best case outcome, the program must execute with zero additional cost growth in design and material procurement, and must improve production performance. The Navy and the shipbuilder have implemented a series of actions and initiatives in the management and oversight of CVN 78 that cross the full span of contracting, design, material procurement, government furnished equipment, production planning, production, management and oversight.

CVN 78 is being procured within a framework of cost-plus contracts. Within this framework, however, the recent series of action taken by the Navy to improve contract effectiveness are achieving the desired effect of incentivizing improved cost performance and reducing government exposure to further cost growth.

- CVN 78 design has been converted from a 'level of effort, fixed fee' contract to a completion contract with a firm target and incentive fee. Shipbuilder cost performance has been on-target or better since this contract was changed.
- CVN 78 construction fee has been retracted, consistent with contract performance. However, the shipbuilder is incentivized by the contract shareline to improve upon current performance to meet agreed-to cost goals.
- Contract design changes are under strict control; authorized only for safety, damage control, mission-degrading deficiencies, or similar. Adjudicated changes have been contained to less than 1 percent of contract target price.
- The Navy converted the EMALS and AAG production contract to a firm, fixed price contract, capping cost growth to that system and imposing negative incentives for late delivery.
- Naval Sea Systems Command is performing a review of carrier specifications with the shipbuilder, removing or improving upon overly burdensome or unneeded specifications that impose unnecessary cost on the program.

The single largest impact to cost performance to-date has been contractor and government material cost overruns. These issues trace to lead ship complexity and CVN 78 concurrency,

but they also point to inadequate accountability for carrier material procurement, primarily during the ship's advance procurement period (2002-2008).

These effects cannot be reversed on CVN 78, but it is essential to improve upon material delivery to the shipyard to mitigate the significant impact of material delays on production performance. Equally important, the systemic material procurement deficiencies must be corrected for CVN 79. To this end, the Navy and shipbuilder have taken the following actions.

- The Navy has employed outside supply chain management experts to develop optimal material procurement strategies. The Navy and the shipbuilder are reviewing remaining material requirements to employ these best practices (structuring procurements to achieve quantity discounts, dual-sourcing to improve schedule performance and leverage competitive opportunities, etc.).
- The shipbuilder has assigned engineering and material sourcing personnel to each of their key vendors to expedite component qualifications and delivery to the shipyard.
- The shipbuilder is inventorying all excess material procured on CVN 78 for transfer to CVN 79 (cost reduction to CVN 78), as applicable.
- The Program Executive Officer (Carriers) is conducting quarterly flag-level government furnished equipment summits to drive cost reduction opportunities and ensure on-time delivery of required equipment and design information to the shipbuilder.

The most important finding regarding CVN 78 remaining cost is that the CVN 78 build plan, consistent with the NIMITZ class, focuses foremost on completion of structural and critical path work to support launching the ship on-schedule. This emphasis on structure comes at the expense of completing ship systems, outfitting, and furnishing early in the build process and results in costly, labor-intensive system completion activity during later, more costly stages of production. Achieving the program's cost improvement targets will require that CVN 78 increase its level of completion at launch, from current estimate of 60 percent to no less than 65 percent. To achieve this goal and drive greater focus on system completion:

- the Navy fostered a collaborative build process review by the shipbuilder with other Tier 1 private shipyards in order to benchmark its performance and identify fundamental changes that would yield marked improvement;
- the shipbuilder has established specific launch metrics by system (foundations, machinery, piping, power panels, vent duct, lighting, etc.) and increased staffing for waterfront engineering and material expeditors to support meeting these metrics;
- the shipbuilder has linked all of these processes within a detailed integrated master schedule, providing greater visibility to current performance and greater ability to control future cost and schedule performance across the shipbuilding disciplines;
- the Navy and shipbuilder are conducting Unit Readiness Reviews of CVN 78 erection units to ensure that the outfitted condition of each hull unit being lifted into the dry-dock contains the proper level of outfitting.

These initiatives, which summarize a more detailed list of actions being implemented and tracked as result of the end-to-end review, are accompanied by important management changes.

- The shipbuilder has assigned a new Vice President in charge of CVN 78, a new Vice President in charge of material management and purchasing, and a number of new general shop foreman to strengthen CVN 78 performance.
- The Navy has assigned a second tour Flag Officer with considerable carrier operations, construction, and program management experience as the new Program-Executive Officer (PEO).
- The PEO and shipyard president conduct bi-weekly launch readiness reviews focusing on cost performance, critical path issues and accomplishment of the target for launch completion.
- The Assistant Secretary of the Navy (Research, Development, and Acquisition) conducts a monthly review of program progress and performance with the PEO and shipbuilder, bringing to bear the full weight of the Department, as needed, to ensure that all that can be done to improve on cost performance is being done.

Early production performance improvements can be traced directly to these actions, however, significant further improvement is required. To this end, the Navy is conducting a line-by-line review of all 'cost-to-go' on CVN 78 to identify further opportunity to reduce cost and to mitigate risk.

#### Improving Cost Performance on CVN 79

CVN 79 Advance Procurement commenced in 2007 with early construction activities following in 2011. Authorization for CVN 79 procurement is requested in Fiscal Year 2013 President's Budget request with the first year of incremental funding. Two years have been added to the CVN 79 production schedule in this budget request, afforded by the fact that CVN 79 will replace CVN 68 when she inactivates. To improve affordability for CVN 79, the Navy plans to leverage this added time by introducing a fundamental change to the carrier procurement approach and a corresponding shift to the carrier build plan, while incorporating CVN 78 lessons learned.

The two principal 'documents' which the Navy and shipbuilder must ensure are correct and complete at the outset of CVN 79 procurement are the design and the build plan.

Design is governed by rules in place that no changes will be considered for the follow ship except changes necessary to correct design deficiencies on the lead ship, fact of life changes to correct obsolescence issues, or changes that will result in reduced cost for the follow ship. Exceptions to these rules must be approved by the JROC, or designee. Accordingly, the Navy is requesting procurement authority for CVN 79 with the Design Product Model complete and construction drawings approximately 95 percent complete (compared to approximately 30 percent complete at time of lead ship authorization).

As well, first article testing and certification will be complete for virtually all major new equipments introduced in the FORD Class. At this point in time, the shipbuilder has developed a complete bill of material for CVN 79. The Navy is working with the shipbuilder to ensure that the contractor's material estimates are in-line with Navy 'should cost' estimates; eliminating non-recurring costs embedded in lead ship material, validating quantities, validating escalation indices, incorporating lead ship lessons learned. The Navy has increased its oversight of contractor furnished material procurement, ensuring that material procurement is competed (where competition is available); that it is fixed priced; that commodities are bundled to leverage economic order quantity opportunities; and that the

vendor base capacity and schedule for receipt supports the optimal build plan being developed for production.

In total, the high level of design maturity and material certification provides a stable technical baseline for material procurement cost and schedule performance, which are critical to developing and executing an improved, reliable build plan.

In order to significantly improve production labor performance, based on timely receipt of design and material, the Navy and shipbuilder are reviewing and implementing changes to the CVN 79 build plan and affected facilities. The guiding principles are:

- maximize planned work in the shops and early stages of construction;
- revise sequence of structural unit construction to maximize learning curve performance through ‘families of units’ and work cells;
- incorporate design changes to improve FORD Class producibility;
- increase the size of erection units to eliminate disruptive unit breaks and improve unit alignment and fairness;
- increase outfitting levels for assembled units prior to erection in the dry-dock;
- increase overall ship completion levels at each key event.

The shipbuilder is working on detailed plans for facility improvements that will improve productivity, and the Navy will consider incentives for capital improvements that would provide targeted return on investment, such as:

- increasing the amount of temporary and permanent covered work areas;
- adding ramps and service towers for improved access to work sites and the dry-dock;
- increasing lift capacity to enable construction of larger, more fully outfitted super-lifts:

An incremental improvement to carrier construction cost will fall short of the improvement necessary to ensure affordability for CVN 79 and follow ships. Accordingly, the shipbuilder has established aggressive targets for CVN 79 to drive the game-changing improvements needed for carrier construction. These targets include:

- 75 percent Complete at Launch (15 percent > [i.e., 15 percent greater than] FORD);
- 85-90 percent of cable pulled prior to Launch (25-30 percent > FORD);
- 30 percent increase in front-end shop work (piping details, foundations, etc);
- All structural unit hot work complete prior to blast and paint;
- 25 percent increase to work package throughput;
- 100 percent of material available for all work packages in accordance with the integrated master schedule;

- zero delinquent engineering and planning products;
- resolution of engineering problems in < 8 [i.e., less than 8] hours.

In parallel with efforts to improve shipbuilder costs, the PEO is establishing equally aggressive targets to reduce the cost of government furnished equipment for CVN 79; working equipment item by equipment item with an objective to reduce overall GFE costs by ~\$500 million. Likewise, the Naval Sea Systems Command is committed to continuing its ongoing effort to identify specification changes that could significantly reduce cost without compromising safety and technical rigor.

The output of these efforts comprises the optimal build plan for CVN 79 and follow, and will be incorporated in the detail design and construction baseline for CVN 79. CVN 79 will be procured using a fixed price incentive contract.<sup>26</sup>

## **CVN-78 Program Procurement Cost Caps**

Another issue for Congress is where the estimated procurement costs of CVNs 78, 79, and 80 now stand in relation to the legislated procurement cost caps for the ships (see “Program Procurement Cost Cap” in “Background”), and whether the cost caps should be amended. The Navy in 2012 stated that in 2013 it would request an increase in the cost cap for CVN-78, but not for CVN-79.<sup>27</sup> In its prepared statement for a May 8, 2013, hearing on Navy shipbuilding programs before the Seapower subcommittee of the Senate Armed Services Committee, the Navy stated that

the Fiscal Year 2014 President’s Budget includes funding for the cost growth [on CVN-78] identified in 2011 and requests that the cost cap [for the ship] be correspondingly increased to \$12.887 billion.... The associated cost cap for CVN 79 is also being updated with this budget request [i.e., the cost cap figure for CVN-79 is being adjusted upward under clauses in the cap that permit such adjustments for certain factors] to account for economic inflation

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<sup>26</sup> Letter and attachment from Secretary of the Navy Ray Mabus to Senator John McCain, undated but posted at InsideDefense.com (subscription required) on March 27, 2012. InsideDefense.com’s description of the letter states that it is dated March 26, 2012.

<sup>27</sup> A Navy information paper provided to CRS and CBO on March 19, 2012, states that

Beginning in fiscal year 2014, the estimated cost to complete GERALD R. FORD (CVN 78) will exceed the cap for causes requiring legislative relief. Accordingly, the Navy intends to submit a legislative proposal for a CVN 78 cost cap increase beginning in Fiscal Year 2014. For follow ships of the CVN78 Class, the cost cap is still under evaluation.

(Undated Navy information paper on CVN-78 program provided to CRS and CBO on March 19, 2012.)

Secretary of the Navy Ray Mabus, when asked by Senator John McCain at a March 15, 2012, hearing before the Senate Armed Services Committee whether the Navy will ask for legislative relief on the CVN-78 cost cap, replied: “Senator, not this year, but I’m certain we will be asking next year.” In response to a follow-up question from Senator McCain on aircraft carrier program costs, Secretary Mabus stated in part:

The one thing that we are absolutely committed to and the one thing that we will not go forward with [on] CVN-79 is that we will take the lessons learned here. We will have a firm price and we will not come back to the Senate to ask for—or Congress to ask for raising the cost cap on the follow-on ship, the John F. Kennedy CVN-79.

(Transcript of hearing.)

and non-recurring engineering for incorporation of lead ship lessons learned and design changes to improve affordability.<sup>28</sup>

## **Potential Two-Ship Block Buy on CVN-79 and CVN-80**

Another issue for Congress concerns the potential for procuring CVN-79 and CVN-80 together in a two-ship block buy. The Navy currently plans to procure CVN-79 and CVN-80 separately, as one-ship procurements. Procuring the two ships together in a block buy could reduce their combined procurement cost.

Procuring two aircraft carriers together in a two-ship block buy has been done on two previous occasions. The Navy procured two Nimitz (CVN-68) class aircraft carriers (CVN-72 and CVN-73) together in a block buy in FY1983, and procured another two Nimitz-class aircraft carriers (CVN-74 and CVN-75) together in a block buy in FY1988. The Navy proposed these block buys in the FY1983 and FY1988 budget submissions.<sup>29</sup>

When the FY1983 block buy was proposed, the Navy estimated that the block buy would reduce the combined cost CVN-72 and CVN-73 by 5.6% in real terms.<sup>30</sup> When the FY1988 block buy was proposed, the Navy estimated that the block buy would reduce the combined cost of CVN-74 and CVN-75 by a considerably larger percentage. GAO stated that the savings would be considerably less than the Navy estimated, but agreed that a two-ship acquisition strategy is less expensive than a single-ship acquisition strategy, and that some savings would occur in a two-ship strategy for CVN-74 and CVN-75.<sup>31</sup>

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<sup>28</sup> Statement of The Honorable Sean J. Stackley, Assistant Secretary of the Navy (Research, Development and Acquisition) and Vice Admiral Allen G. Myers, Deputy Chief of Naval Operations for Integration of Capabilities and Resources and Vice Admiral Kevin M. McCoy, Commander, Naval Sea Systems Command, Before the Subcommittee on Seapower of the Senate Armed Services Committee on Department of the Navy Shipbuilding Programs, May 8, 2013, p. 8.

<sup>29</sup> It can also be noted that the Air Force is procuring two Advanced EHF (AEHF) satellites under a two-satellite block buy that the Air Force proposed and Congress approved in FY2012.

<sup>30</sup> See General Accounting Office, *Request to Fully Fund Two Nuclear Aircraft Carriers in Fiscal Year 1983*, MASAD-82-87 (B-206847), March 26, 1982, 10 pp. The figure of 5.6% was derived by dividing \$450 million in non-inflation cost avoidance shown on page 5 by the combined estimated cost of the two ships (absent a block buy) of \$8,024 million shown on page 4.

<sup>31</sup> See General Accounting Office, *Procurement Strategy For Acquiring Two Nuclear Aircraft Carriers*, Statement of Frank Conahan, Assistant Comptroller General, National Security and International Affairs Division, Before the Conventional Forces and Alliance Defense Subcommittee and Projection Forces and Regional Defense Subcommittee of the Senate Armed Services Committee, April 7, 1987, T-NSIAD-87-28, 5 pp. The testimony states on page 2 that “A single ship acquisition strategy is more expensive because materials are bought separately for each ship rather than being combined into economic order quantity buys under a multi-ship procurement.” The report discounted the Navy’s estimated savings of \$1,100 million based on this effect on the grounds that if CVN-74 and CVN-75 were not procured in the proposed two-ship block buy, with CVN-74 procured in FY1990 and CVN-75 procured FY1993, it was likely that CVN-74 and CVN-75 would subsequently be procured in a two-ship block buy, with CVN-74 procured in FY1994 and CVN-75 procured in FY1996. For the discussion here, however, the comparison is between the Navy’s current plan to procure CVN-79 and CVN-80 separately and the potential alternative of procuring them together in a block buy.

The GAO report commented on an additional \$700 million in savings that the Navy estimated would be derived from improving production continuity between CVN-73, CVN-74, and CVN-75 by stating on page 3 that “It is logical to assume that savings are possible through production continuity but the precise magnitude of such savings is difficult to calculate because of the many variables that affect the outcome.” It is not clear how significant savings from production continuity might be in a two-ship block buy for CVN-79 and CVN-80 if the procurement dates for the two ships (FY2013 and FY2018, respectively) are not changed.

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The FY1983 and FY1988 block buys each involved procuring two aircraft carriers in a single year. Procuring two carriers in the same year, however, is not mandatory for a two-ship aircraft carrier block buy. The Navy, for example, proposed the block buy for CVN-74 and CVN-75 in the FY1988 budget submission as something that would involve procuring CVN-74 in FY1990 and CVN-75 in FY1993. (Congress, in acting on the FY1988 budget, decided to not only approve the two-ship block buy, but also accelerate the procurement of both CVN-74 and CVN-75 to FY1988.)<sup>32</sup> A block buy on CVN-79 and CVN-80 could leave intact the FY2013 procurement date for CVN-79 and the FY2018 procurement date for CVN-80. This would permit the funding for the two ships to be spread out over the same fiscal years as currently planned, although the amounts of funding in individual years would likely change.

It is too late to implement a complete block buy on CVN-79 and CVN-80, because some of CVN-79, particularly its propulsion plant, has already been purchased. Consequently, the option would be to implement a partial block buy that would include the remaining part of CVN-79 and all of CVN-80.

To illustrate the notional scale of the savings that might result from using a block buy strategy on CVN-79 and CVN-80, it can be noted that if such a block buy were to achieve one-third as much percentage cost reduction as the FY1983 block buy—that is, if it were to reduce the combined procurement cost of CVN 79 and 80 by about 1.9%—that would equate to a savings of roughly \$470 million on the currently estimated combined procurement cost of CVN-79 and CVN-80. More refined estimates might be higher or lower than this notional figure of \$470 million.

At a March 19, 2012, briefing for CRS and CBO on the CVN-78 program, CRS asked the Navy whether it was considering the possibility of a block buy on CVN-79 and CVN-80. The Navy stated that it had looked into a narrower option of doing joint purchases of some materials for the two ships.

Implementing a block buy on CVN-79 and CVN-80 would require committing to the procurement of CVN-80. Whether Congress would want to commit to the procurement of CVN-80, particularly in light of current uncertainty over future levels of defense spending, is a factor that Congress may consider in assessing the option of doing a block buy. If budgetary circumstances were to lead to a decision to end procurement of Ford-class carriers after CVN-79, then much or all of the funding spent procuring materials for CVN-80 could go to waste.

At a March 29, 2012, hearing on Navy shipbuilding programs before the Seapower and Projection Forces subcommittee of the House Armed Services Committee, Sean Stackley, the Assistant Secretary of the Navy for Research, Development, and Acquisition (i.e., the Navy's acquisition

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The GAO report noted that the Navy estimated \$500 million in additional savings from avoided configuration changes on CVN-74 and CVN-75 if the ships were procured in FY1990 and FY1993 rather than FY1994 and FY1996. It is not clear how significant the savings from avoided configuration changes might be for a two-ship block buy for CVN-79 and CVN-80.

See also CRS Issue Brief IB87043, *Aircraft Carriers (Weapons Facts)*, 13 pp., updated February 10, 1988, and archived March 24, 1988, by Ronald O'Rourke. The report includes a discussion of the above GAO report. The report is out of print and available directly from the author.

<sup>32</sup> See CRS Issue Brief IB87043, *Aircraft Carriers (Weapons Facts)*, 13 pp., updated February 10, 1988, and archived March 24, 1988, by Ronald O'Rourke. The report is out of print and available directly from the author.

executive), stated the following when asked by Representative Robert Wittman about the possibility of a two-ship block buy on CVN-79 and CVN-80:

Yes, sir. Let me focus on affordability of the CVN-78 class. We are right now about 40 percent complete construction of the CVN-78 and we're running into some very difficult cost growth issues across the full span—design, material procurement, and production—material procurement on both contractor and government side.

So our first focus right now is to stabilize the lead ship. Let's get cost under control so we can complete this ship as close to schedule at the lowest cost possible.

But in parallel, the Navy is working very closely with the shipbuilder to take a step back and say, one, what are all the lessons we just learned on CVN-78? Two, CVN-78 is a very different ship from the Nimitz [CVN-68]; we cannot expect to build the [CVN-]78 the way we build the [CVN-]68 and—and get to an affordable ship construction plan. So we're pressing on the way the carrier is built—the build plan for the carrier—to arrive at a more affordable CVN-79.

Now, in the process of doing that we'll take a hard look at what opportunity there is across [CVN-]79 and [CVN-]80, recognizing that we're going to be limited, again, by [budget] top line. But there are going to be some opportunities that jump out at us. We don't want to have to replan each carrier. We have a vendor base that is stretched out with the carrier build cycle that for some components that are carrier-unique, that vendor base is—is just struggling to hold on between the five-year gaps.

So we have to take a hard look at where does it make sense after we've gotten to what I'm calling an optimal build plan for CVN-79 and then be able to come back and—and say, OK, here—on CVN-79 here are some opportunities that if we could, in fact, reach out to CVN-80 we can either avoid a gap in a production line or avoid unnecessary cost growth on that follow ship.<sup>33</sup>

Later in the hearing, the following exchange occurred:

REPRESENTATIVE RICK LARSEN:

Finally, we had some discussion about this question with regard to CVNs and trying to find a way to squeeze some costs out, and one of the ideas was to do some—do block buy of certain components of—of—of CVN components. And have you considered that, and what's your thought on that on block buy on components from [CVN-]79 to [CVN-]80, or whatever, [CVN-]79, [CVN-]79 to [CVN-]80, and so on?

ASSISTANT SECRETARY OF THE NAVY SEAN STACKLEY:

Yes, sir. At this point in time the Navy and the shipbuilder are sitting side by side putting together a build plan for CVN-79. We're 40 percent complete construction of the [CVN-]78; we've got a lot that we've got to, I'll say, do different on the [CVN-]79 and follow from the lead ship. It's a very different ship class [compared to the Nimitz class].

So we're taking a hard look at the build plan [for CVN-78]. We need to get that locked down. And associated with that is the complete bill of materials for the Ford class.

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<sup>33</sup> Source: transcript of hearing.

At that point in time we'll be able to take a look at...

LARSEN:

On this, call it bill of materials, what does it make sense—what makes sense in terms of looking long term, beyond the immediate ship?

STACKLEY:

Right.

LARSEN:

Are there areas of the industrial base that are stressed to the point that it does make sense to look at coupling the CVN-79 and CVN-80 buy?

STACKLEY:

We're not at that point yet. I described earlier that I think after we get through this build plan review then we'll be able to come back in '14 [FY2014] and identify potential critical items that warrant a block buy approach.<sup>34</sup>

Later in the hearing, Matthew Mulherin, president of NNS and corporate vice president of HII, stated the following when asked by Representative Robert Wittman about the possibility of a two-ship block buy on CVN-79 and CVN-80:

Yes, sir. You know, historically you go back, you were exactly right, if you look at the contracts that bought the CVN- 72 and [CVN-]73 there was huge savings that flowed to the second ship, both in the ability to go buy materials, a block buy and get—get discounts there, but also that you did the engineering up front the first time for both hulls so the second ship you really just had the answer, problem, paper [sic] and some of those kind of things the—the kind of the normal course of business to support the waterfront.

So I wouldn't see any different. I think if we were able to do it both for material, for—for the engineering to be able to go pump out drawings that had two-ship applicability—plus, I think it brings the—the—the CVN—if we were to do a two-ship buy for [CVN-]79 and [CVN-]80 it would ensure CVN-80 was a copy of CVN-79, no change into the contract or very minimal, you're not having a—on the material side you get economic order savings, you don't have to deal with obsolescence.

So absolutely. I think there's huge opportunity to go do that. You know, you talk to the—the vendor base. They would love to see it. It gives them the ability to go look at—at what investments they need, what work is out in front of them, and go invest in—in training and tools to—to be able to go support that.<sup>35</sup>

At the March 19, 2012, briefing for CRS and CBO on the CVN-78 program, CRS asked the Navy to examine the option of a block buy on CVN-79 and CVN-80, and inform CRS and CBO of the Navy's estimate of how much it might reduce the combined procurement cost of CVN-79 and CVN-80. The Navy's response, dated April 22, 2012, was sent to CRS on May 10, 2012 (i.e., just

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<sup>34</sup> Source: Transcript of hearing.

<sup>35</sup> Source: Transcript of hearing.

after the House Armed Services Committee completed its markup of H.R. 4310, the FY2013 National Defense Authorization Act). The response stated:

There are several options for procuring aircraft carriers that differ from the current practice; two ship buys and block buys. Navy experience with aircraft carrier two ship buys includes procurement of the CVN 72 and CVN 73 (awarded in FY83), and the CVN 74 and CVN 75 (awarded in FY88). The actual cost returns for these procurements support significant savings compared to other NIMITZ Class single ship buys. This conclusion is based on a comparison of the NIMITZ Class two ship buys (CVN72, 73, 74 & 75) with single ship buys (CVN71 and CVN76). The total ship man-hour comparison shows a 9% reduction. The total ship material comparison in constant dollars shows an 8% reduction. The NIMITZ- Class two ship buys took advantage of a single year of full funding for the combined procurement, and less than three years between the deliveries of each ship. Having both ships fully funded in one year enabled the Navy and shipbuilder to take advantage of two ship-set Economic Order Quantity (EOQ) market savings for material items, and also allowed the shipbuilder to optimize production trades management. The short time between deliveries also resulted in design stability, minimized potential obsolescence, and greater opportunities for learning.

Given hard budget constraints in FY13 and FY14, CVN 79 and CVN 80 cannot benefit from a multiyear construct, similar to those requested in PB13 for VIRGINIA Class Submarine and ARLIEGH BURKE Class Destroyers. By the end of FY14, 75% of CVN 79 material will be under contract with suppliers, leaving limited opportunities to implement material savings with multiyear incremental funding. 75% of CVN 80 material would also be incapable of achieving savings, as the material purchases would be placed after CVN 79.

CVN 80/81 would present the first opportunity to potentially consider this strategy.<sup>36</sup>

The Navy's response states, "Having both ships fully funded in one year enabled the Navy and shipbuilder to take advantage of two ship-set Economic Order Quantity (EOQ) market savings for material items...." It can be noted that ships funded in separate years can also take advantage of EOQ savings, provided that the authorizing legislation permits the use of EOQ, and that the FY1988 block buy of CVN-74 and CVN-75 was originally proposed by the Navy as a block buy in which CVN-74 would be procured in FY1990 and CVN-75 in FY1993.

The Navy's response states, "Given hard budget constraints in FY[20]13 and FY[20]14, CVN 79 and CVN 80 cannot benefit from a multiyear construct, similar to those requested in PB[20]13<sup>37</sup> for VIRGINIA Class Submarine and ARLIEGH BURKE Class Destroyers." It can be noted that a block buy on CVN-79 and CVN-80 would not necessarily be a multiyear procurement (MYP) contract, like those requested for the Virginia-class submarine program and the Arleigh Burke (DDG-51) destroyer programs. It can also be noted that Congress may decide to work within budget constraints for FY2013 and FY2014 that might differ from those on which is DOD basing its planning.

The Navy's response states, "By the end of FY14, 75% of CVN 79 material will be under contract with suppliers, leaving limited opportunities to implement material savings with multiyear incremental funding. 75% of CVN 80 material would also be incapable of achieving savings, as the material purchases would be placed after CVN 79." CRS on May 10, 2012, asked the Navy what percent of the material for CVN-79 would be under contract by the end of

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<sup>36</sup> Navy information paper dated April 25, 2012, sent to CRS on May 10, 2012.

<sup>37</sup> This is a reference to the President's budget for FY2013—that is, the Administration's requested budget for FY2013.

FY2012. The Navy's response, dated May 22, 2012, was sent to CRS on May 25, 2012 (i.e., the same day that the House Appropriations Committee reported H.R. 5856, the FY2013 DOD Appropriations Act). The response stated, "Approximately 47% of CVN 79 direct material will be under contract by the end of FY[20]12."<sup>38</sup>

The Navy's response states that "CVN 80/81 would present the first opportunity to potentially consider this [block buy] strategy." This statement appears to refer to a strategy of a complete block buy involving 100% of the material for both carriers. Based on the Navy's response dated May 22, 2012, a partial block buy on CVN-79 and CVN-80 involving as much as 53% of the material on CVN-79 might be possible, if the block buy were authorized and implemented as part of the FY2013 defense budget.

## **Issues Raised in December 2012 DOT&E Report**

Another issue for Congress concerns CVN-78 program issues that were raised in a December 2012 report from DOD's Director, Operational Test and Evaluation (DOT&E)—DOT&E's annual report for FY2012. The report stated, in its section on the CVN-78 program, that

### **Assessment**

#### **Test Planning**

- The current state of the Virtual Carrier model does not fully provide for an accurate accounting of SGR [sortie generation rate] due to a lack of fidelity regarding manning and equipment/aircraft availability. Spiral development of the Virtual Carrier model continues in order to ensure that the required fidelity will be available to support the SGR assessment during IOT&E [initial operational test and evaluation].
- The current TEMP [test and evaluation master plan] does not adequately address whole platform-level developmental testing. The Program Office has begun to address the problem and has refined the Post Delivery Test and Trials schedule. The details are unclear on the extent of any additional integrated platform-level CVN-78 developmental tests. Lack of platform-level developmental testing significantly raises the likelihood of the discovery of platform-level problems during IOT&E.
- The Navy plans to deliver CVN-78 in September 2015.<sup>39</sup> Current progress supports this plan; however, the EMALS [electromagnetic aircraft launch system], AAG [advanced arresting gear], DBR [dual band radar], and Integrated Warfare Systems remain pacing items for successful delivery of the ship.

#### **EMALS [electromagnetic aircraft launch system]**

- DOT&E holds moderate concern regarding the performance risk generated by the inability to test the full four-catapult electrical distribution system prior to initial trials aboard ship. This concern is partially mitigated by the current phase of test using a simulated shared electrical storage and shared power conversion at the EMALS system functional design test site in Joint Base McGuire-Dix-Lakehurst, New Jersey.

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<sup>38</sup> Navy information paper dated May 22, 2012, sent to CRS on May 25, 2012.

<sup>39</sup> As noted earlier, the Navy announced in May 2013 that the ship's delivery date has been postponed to February 2016.

### **AAG [advanced arresting gear]**

- Significant redesign of multiple components has slowed development of AAG development. The program will begin performance testing in FY13.

### **JSF [Joint Strike Fighter]**

- JBD testing identified no deficiencies for catapult launch operations of JSF at military rated thrust. The tests did, however, determine that additional JBD [jet blast deflector] side panel cooling (SPC) and other adjustments are required for operations at combat rated thrust, i.e., with afterburner. The existing JBD panels will need to be replaced with new panels with SPC to be fully JSF-compatible. JBD panels with SPC are form, fit, and function replacements and will be installed after CVN-78 delivers.

—JSF data flow aboard ship via the Autonomic Logistics Information System (ALIS) is critical to proper F-35 maintenance. Currently, the ALIS system has provided all required parametric information to interface properly with CANES [Consolidated Afloat Networks and Enterprise Services], but CANES is not fully developed yet, as the contract was awarded in August 2012. ALIS is expected to undergo Application Integration Process testing in FY13 to ensure proper interface with CANES. DOT&E will be able to better assess the impact on JSF operations aboard CVN-78 after the test. Currently, data are planned to be exchanged manually until ALIS and CANES properly interface.

—In 2007, the Program Office identified discrepancies with the integration of the JSF's F135 engine onto aircraft carriers. The weight of the F135 power module, approximately 10,000 pounds, exceeds the limit of current underway replenishment (UNREP) systems. Although CVN-78 will include a heavy UNREP system that will allow transfer of 12,000 pounds, supply ships must include the new system for power module transfer to occur. The Navy's plan to install heavy UNREP systems on resupply ships has slipped eight years.

- Navy Fleet Force's JSF "day-in-the-life" analysis identified a significant number of aircraft-ship interface deficiencies that must be accomplished by the Navy in post-delivery ship modification. They include the following:

—JSF battle damage assessment and non-traditional Intelligence, Surveillance, and Reconnaissance information captured on the Portable Memory Device or cockpit video recorder cannot be shared real-time with the Distributed Common Ground System-Navy (DCGS-N). This prevents assessment by shipboard intelligence analysts for inclusion in mission reports.

—Ships are unable to receive and display Link 16 imagery; this problem is not unique to JSF. The Combatant Commanders have stated a need to display imagery to intelligence analysts and operations command and control nodes to enhance engagement decisions.

—Limited shipboard capabilities exist with expeditionary Link 16. The Navy is considering a program of record to distribute imagery to analysts and maritime operations command and control nodes (e.g., carriers and amphibious ships). This would be a temporary workaround for the DCGS-N post-flight data gap.

—The JSF Prognostic Health Maintenance (PHM) downlink design for ships is not mature. The uncertainty in the technical characteristics of the final design means that there are potential challenges to integrating PHM into current shipboard communications suites and networks. These challenges include unidentified Information Assurance considerations and unidentified waveform hosting and interfacing.

—The JSF wheel supplier’s recent rim inspection requirement may force a significant increase in shipboard tire and wheel storage requirements. The JSF Program Office is currently working to determine the effect of this deficiency and the need for inspection by the wheel supplier.

### **DBR**

- Previous testing of Navy combat systems similar to CVN-78’s revealed numerous integration problems that degrade the performance of the combat system. The previous results emphasize the necessity of maintaining a DBR / CVN-78 combat system asset at Wallops Island. The Navy is considering long-term plans (i.e., beyond FY15) for testing DBR at Wallops Island, Virginia, but it is not clear if a Multi-Functional Radar and funding will be available. Such plans are critical to delivering a fully capable combat system and ensuring lifecycle support after CVN-78 delivery in 2015.

### **LFT&E [live fire test and evaluation]**

- While the Navy has made substantial effort in component and surrogate testing, this work does not obviate the need to conduct the FSST [full-ship shock trial] to gain the critical empirical data that past testing has repeatedly demonstrated are required to rigorously evaluate the ship’s ability to withstand shock and survive in combat. Shock Trials conducted on both the Nimitz class aircraft carrier and the San Antonio class Amphibious Transport Dock demonstrated the need for and substantial value of conducting the FSST. Postponing the FSST until CVN-79 would cause a five- to seven-year delay in obtaining the data critical to evaluating the survivability of the CVN-78 and would preclude timely modification of subsequent ships of this class to assure their survivability.

- The Navy proposes delaying the shock trial by five to seven years because of the approximately four- to six-month delay required to perform the FSST. The delay is not a sufficient reason to postpone the shock trial, since the shock trial could reveal valuable lessons, including previously unknown vulnerabilities.

- DOT&E has requested the Navy adequately fund and complete the actions necessary to conduct the TSST on the CVN-78. This includes updating the Damage Scenario Based Engineering Analyses (DSBEA) from prior Vulnerability Assessment Reports and enough new DSBEAs, including machinery spaces, to conduct an adequately scoped TSST [total ship survivability trial]. DOT&E expects this will require five or six TSST drills. While progress has been made toward reaching consensus on the scope of the TSST, there is still work to be done, mainly to include the machinery spaces, and the budget has not been adjusted to adequately support the TSST.

### **Recommendations**

- Status of Previous Recommendations. The Navy addressed one of eight previous recommendations but the following seven remain valid:

1. Adequately test and address integration challenges with JSF; specifically logistics (storage of spare parts and engines, transport of support equipment and spares to / from the carrier), changes required to JBDS, changes (due to heat and or noise) to flight deck procedures, and ALIS integration.

2. Finalize plans that address CVN-78 integrated warfare system engineering and ship’s self-defense system discrepancies prior to the start of IOT&E.

3. Continue aggressive EMALS and AAG risk-reduction efforts to maximize opportunity for successful system design and test completion in time to meet required in-yard dates for shipboard installation of components.
4. Continue development of a realistic model for determining CVN-78's SGR, while utilizing realistic assumptions regarding equipment availability, manning, and weather conditions for use in the IOT&E.
5. Provide scheduling, funding, and execution plans to DOT&E for the live SGR test event during the IOT&E.
6. Continue to work with the Navy's Bureau of Personnel to ensure adequate depth and breadth of required personnel to ensure that the 100 percent Navy Enlisted Classification fit / fill manning requirements of CVN-78 are met.
7. Conduct system-of-systems developmental testing to preclude discovery of deficiencies during IOT&E.

• FY12 Recommendations. None.<sup>40</sup>

Regarding the full ship shock test (FSST) discussed, above, an August 9, 2012, press report states:

The Navy is inappropriately delaying or scaling back \$70 million in needed combat testing of the USS Gerald R. Ford [CVN-78], an aircraft carrier that may cost \$14.2 billion, in the name of cutting costs, according to the Pentagon's top weapons tester.

A test that would "rigorously evaluate the ship's ability to withstand shock and survive in combat" would be postponed until a second carrier in the new Ford class [CVN-79] is built and may not be completed for seven years, Michael Gilmore, the Defense Department's director of operational test and evaluation, told Navy Secretary Ray Mabus in a July 12 memo obtained by Bloomberg News....

"I recognize the need to expend resources wisely for all purposes, including testing, in the existing constrained fiscal environment," Gilmore said in the memo. "I consider these test costs well-justified, particularly when considered in the context of the \$27.8 billion cost to design and build the first three of these new carriers, clearly one of the most expensive combat systems the department has ever acquired."...

The dispute centers on the Navy's decision to change the agreed-upon test plan for the first carrier in the class without Gilmore's approval. The Navy wants to shift "full ship shock trial" evaluations to the John F. Kennedy, the second carrier, in the move Gilmore says would delay conducting the tests and gathering needed data for five to seven years.

The tests, estimated to cost about \$60 million, are designed to evaluate a ship's ability to perform its mission after absorbing repeated shock waves from underwater explosions using live ammunition detonated at a distance.

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<sup>40</sup> Department of Defense, Director, Operational Test & Evaluation, *FY2012 Annual Report*, released January 2013, pp. 144-146.

Gilmore rescinded approval of the test plan on July 12 and that decision remains in place, he said in an e-mail through his spokeswoman Cheryl Irwin. Gilmore also said he has informed Defense Secretary Leon Panetta's staff of his concerns.

Gilmore said in the e-mail that the delay "is not appropriate" because the tests "provide information key to assuring a ship's survivability in combat."

Captain Cate Mueller, a Navy spokeswoman, said in an e-mailed statement that "the Navy and test office are committed to providing the most capable and survivable carrier." The service's differences with Gilmore "are in the technical aspects and phasing of the shock trials," she said.

Conducting the full shock test "is a high-cost event with schedule impact," she said. The Navy also has been under pressure due to environmental impact concerns "to identify alternative means to validate ship shock design," Mueller said.

The Ford carrier's hull form "has been subject to extensive survivability modeling and simulation, robust equipment and system component testing," she said, and the Navy's decision to delay the full shock testing "is fully consistent with past practices for new ship classes."

Gilmore wrote Mabus that postponing the full shock tests until they can be performed on the Kennedy "would preclude timely modification of subsequent ships of this class to ensure survivability."

Conducting the tests on the first ship as originally planned would cause about a two-month delay in fielding the carrier, according to Gilmore.

"The data to be gained and risk mitigated are, in my view, clearly valuable enough to justify this delay," Gilmore wrote Mabus.

Gilmore wrote Mabus that he also disagreed with a second Navy decision that would "limit the scope" of "total ship survivability trials" on the first carrier. These tests, at an estimated cost of \$10 million, are designed to demonstrate the ability of the ship and crew to control damage resulting from simulated anti-ship weapons and continue fighting.

"I cannot accept elimination of key and essential survivability analyses," including proposals to eliminate analysis of the carrier's machinery spaces, "simply to satisfy budget reductions," Gilmore said.<sup>41</sup>

## Legislative Activity for FY2014

### FY2014 Funding Request

As shown in **Table 1**, the Navy's proposed FY2014 budget requests \$588.1 million in procurement funding to cover cost growth on CVN-78, and \$944.9 million in procurement funding for CVN-79.

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<sup>41</sup> Tony Capaccio, "Navy Delays Combat Tests Needed For Carrier, Weapons Tester Says," *Bloomberg Government (bgov.com)*, August 9, 2012.

## **FY2014 National Defense Authorization Act (H.R. 1960/S. 1197)**

### **House (Committee Report)**

The House Armed Services Committee, in its report (H.Rept. 113-102 of June 7, 2013) on H.R. 1960, recommends approving the Navy's requests for \$588.1 million in procurement funding to cover cost growth on CVN-78 and \$944.9 million in procurement funding for CVN-79 (page 387).<sup>42</sup>

**Section 122** of H.R. 1960 as reported states:

SEC. 122. COST LIMITATION FOR CVN-78 AIRCRAFT CARRIERS.

(a) In General- Section 122 of the John Warner National Defense Authorization Act for Fiscal Year 2007 (P.L. 109-364; 120 Stat. 2104) is amended to read as follows:

SEC. 122. ADHERENCE TO NAVY COST ESTIMATES FOR CVN-78 CLASS OF AIRCRAFT CARRIERS.

(a) Limitation-

(1) LEAD SHIP- The total amount obligated from funds appropriated or otherwise made available for Shipbuilding and Conversion, Navy, or for any other procurement account, for the aircraft carrier designated as CVN-78 may not exceed \$12,887,000,000 (as adjusted pursuant to subsection (b)).

(2) FOLLOW-ON SHIPS- The total amount obligated from funds appropriated or otherwise made available for Shipbuilding and Conversion, Navy, or for any other procurement account, for the construction of any ship that is constructed in the CVN-78 class of aircraft carriers after the lead ship of that class may not exceed \$11,411,000,000 (as adjusted pursuant to subsection (b)).

(b) Adjustment of Limitation Amount- The Secretary of the Navy may adjust the amount set forth in subsection (a) for any ship constructed in the CVN-78 class of aircraft carriers by the following:

(1) The amounts of increases or decreases in costs attributable to economic inflation after September 30, 2013.

(2) The amounts of increases or decreases in costs attributable to compliance with changes in Federal, State, or local laws.

(3) The amounts of outfitting costs and post-delivery costs incurred for that ship.

(4) The amounts of increases or decreases in costs of that ship that are attributable to insertion of new technology into that ship, as compared to the technology baseline as it was defined in the approved acquisition program baseline estimate of December 2005.

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<sup>42</sup> The request for \$588.1 million in procurement funding to cover cost growth on CVN-78 is included in the \$625.8 million requested in line item 020, Completion of PY [prior-year] Shipbuilding Programs.

`(5) The amounts of increases or decreases to nonrecurring design and engineering cost attributable to achieving compliance with the cost limitation.

`(6) The amounts of increases or decreases to cost required to correct deficiencies that may affect the safety of the ship and personnel or otherwise preclude the ship from safe operations and crew certification.

`(7) With respect to the aircraft carrier designated as CVN-78, the amounts of increases or decreases in costs of that ship that are attributable to the shipboard test program.

`(c) Limitation on Technology Insertion Cost Adjustment- The Secretary of the Navy may use the authority under paragraph (4) of subsection (b) to adjust the amount set forth in subsection (a) for a ship referred to in that subsection with respect to insertion of new technology into that ship only if--

`(1) the Secretary determines, and certifies to the congressional defense committees, that insertion of the new technology would lower the life-cycle cost of the ship; or

`(2) the Secretary determines, and certifies to the congressional defense committees, that insertion of the new technology is required to meet an emerging threat and the Secretary of Defense certifies to those committees that such threat poses grave harm to national security.

`(d) Notice-

`(1) REQUIREMENT- The Secretary of the Navy shall submit to the congressional defense committees each year, at the same time that the budget is submitted under section 1105(a) of title 31, United States Code, for the next fiscal year, written notice of--

`(A) any change in the amount set forth in subsection (a) during the preceding fiscal year that the Secretary has determined to be associated with a cost referred to in subsection (b); and

`(B) the most accurate estimate possible of the Secretary with respect to the total cost compared to the amount set forth in subsection (a), as adjusted by subsection (b), and the steps the Secretary is taking to reduce the costs below such amount.

`(2) EFFECTIVE DATE- The requirement in paragraph (1) shall become effective with the budget request for the year of procurement of the first ship referred to in subsection (a).'

(b) Conforming Amendment- The table of contents at the beginning of such Act is amended by striking the item relating to section 122 and inserting the following:

`Sec. 122. Adherence to Navy cost estimates for CVN-78 class of aircraft carriers.'.

Regarding Section 122, H.Rept. 113-102 states:

Section 122—Cost Limitation for CVN–78 Aircraft Carriers

This section would amend the statutory cost cap for the aircraft carrier designated as CVN–78 that was imposed by subsection (a)(1) of section 122 of the John Warner National Defense Authorization Act for Fiscal Year 2007 (Public Law 109–364). The cost cap for CVN–78 is currently \$11.755 billion, having been adjusted by the Secretary of the Navy in 2010 using the authority granted by subsection (b) of section 122 of Public Law 109–364. This section would raise the cost cap to the Program Manager’s most likely Estimate at Completion, as reported in the 2011 Selected Acquisition Report, to \$12.9 billion. This

section would also update the cost cap associated with CVN-79 and later Ford-class aircraft carriers.

The committee notes the receipt of a report to Congress required by section 124 of the National Defense Authorization Act for Fiscal Year 2013 (Public Law 112-239) that provides cost-saving details that the Navy intends to incorporate into the acquisition strategy to provide better cost stability in CVN-78 and eventual incorporation into CVN-79 procurement process.

The committee remains concerned about the continued escalation in costs associated with Gerald R. Ford-class aircraft carrier and the negative consequences associated with this continued escalation on the entirety of the ship construction accounts. This escalation, when taken in the context of the 30-year shipbuilding plan that includes significant costs associated with the Ohio-class ballistic missile submarine replacement, is unsustainable. (Page 40)

**Section 1233** of H.R. 1960 as reported states:

SEC. 1233. SENSE OF CONGRESS ON THE DEFENSE OF THE ARABIAN GULF.

(a) Findings- Congress finds the following:

(1) In response to U.S. Central Command requirements, the United States Navy has maintained, on average, more than one aircraft carrier in the Arabian Gulf for more than five years.

(2) In February 2013, the senior leadership of the Department of Defense elected to reduce the number of aircraft carriers deployed to the Arabian Gulf in light of budget constraints and limitation of the overall carrier force structure to support the two aircraft carrier requirement.

(3) In reference to the decision to indefinitely delay the deployment of the USS Harry Truman, CVN 75, and the USS Gettysburg, its cruiser escort, Chairman of the Joint Chiefs, General Martin Dempsey stated, 'We're trying to stretch our readiness out by keeping this particular carrier in homeport in our global response force, so if something happens elsewhere in the world, we can respond to it. Had we deployed it and 'consumed' that readiness, we could have created a situation where downstream we wouldn't have a carrier present in certain parts of the world at all.'

(4) Highlighting the risks of having only one aircraft carrier in the region and relying on land-based aircraft, General Dempsey stated, 'When you have carrier-based aircraft, you have complete autonomy and control over when you use them. When you use land-based aircraft, you often have to have host-nation permission to use them.'

(5) Addressing the perception of the United States commitment to the region, General James Mattis, Commander of U.S. Central Command, testified in March 2013, 'Perhaps the greatest risk to U.S. interests in the region is a perceived lack of an enduring U.S. commitment to collective interests and the security of our regional partners.'. He went on to testify that, 'The drawdown of our forces can be misinterpreted as a lack of attention, a lack of commitment to the region.'

(b) Sense of Congress- It is the sense of Congress that--

(1) maintaining only one aircraft carrier battle group in the Arabian Gulf constrains United States' options and could put at risk the ability to have diversified platforms from which to defend the Arabian Gulf and, if necessary, to conduct military operations to prevent Iran

from threatening the United States, United States allies, or Iran's neighbors with nuclear weapons;

(2) it is in the interests of the United States to maintain both land-based and sea-based capabilities in the region to project force;

(3) land-based locations in the region could restrict United States military options and critically impact the operational capability if required to conduct a defense of the Arabian Gulf because the United States has not finalized bilateral security agreements with key Gulf Cooperation Council countries;

(4) as a result of these and other critical limitations associated with maintaining one aircraft carrier battle group in the Arabian Gulf, United States military commanders have expressed concerns about the operational constraints, the increasing uncertainty among United States allies, and the emboldening of potential adversaries such as Iran;

(5) regarding the ability of the United States Navy to maintain a two aircraft carrier presence in the Arabian Gulf, the Chief of Naval Operations, Admiral Jonathan Greenert, stated, 'We need 11 carriers to do the job. That's been pretty clearly written, and that's underwritten in our defense strategic guidance.'

(6) the United States should construct and sufficiently sustain a fleet of at least eleven aircraft carriers and associated battle force ships in order to meet current and future requirements and to support at least a two aircraft carrier battle group presence in the Arabian Gulf, in addition to meeting other operational requirements; and

(7) the United States should finalize bilateral agreements with key Gulf Cooperation Council countries that support the Defense of the Arabian Gulf requirements, at the earliest possible date.

### **House (Floor Consideration)**

On June 13, 2013, as part of its consideration of H.R. 1960, the House rejected, 106-318, H.Amdt. 142, which would have amended 10 U.S.C. 5062(b) to reduce from 11 to 10 the minimum number of operational aircraft carriers required to be maintained by the Navy. (As a conforming action, H.Amdt. 142 would also have repealed Section 1023 of the FY2010 National Defense Authorization Act [H.R. 2647/P.L. 111-84 of October 28, 2009], the provision that permits the Navy to maintain a force of 10 rather than 11 operational carriers during the period between the inactivation of CVN-65 and the commissioning of CVN-78.)

### **Senate**

The Senate Armed Services Committee, in its report (S.Rept. 113-44 of June 20, 2013) on S. 1197, recommends approving the Navy's requests for \$588.1 million in procurement funding to cover cost growth on CVN-78 and \$944.9 million in procurement funding for CVN-79 (pages 295-296).<sup>43</sup>

**Section 122** of the bill as reported states:

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<sup>43</sup> The request for \$588.1 million in procurement funding to cover cost growth on CVN-78 is included in the \$625.8 million requested in line item 020, Completion of PY [prior-year] Shipbuilding Programs.

SEC. 122. CVN-78 CLASS AIRCRAFT CARRIER PROGRAM.

(a) Cost Limitation Baseline for Lead Ship- Subsection (a)(1) of section 122 of the John Warner National Defense Authorization Act for Fiscal Year 2007 (P.L. 109-364; 120 Stat. 2104) is amended by striking '\$10,500,000,000' and inserting '\$12,887,000,000'.

(b) Additional Factor for Adjustment of Limitation Amount- Subsection (b) of such section is amended by adding at the end the following new paragraph:

'(7) The amounts of increases or decreases in costs of that ship that are attributable to the shipboard test program.'

(c) Hull Number- Such section is further amended in subsections (a)(1), (a)(2), and (b), by striking 'CVN-21' and inserting 'CVN-78'.

(d) Requirements for CVN-79- Such section is further amended by adding at the end the following new subsection:

'(e) Requirements for CVN-79-

'(1) QUARTERLY COST ESTIMATE- The Secretary of the Navy shall submit to the congressional defense committees on a quarterly basis a report setting forth the most current cost estimate for CVN-79 (as estimated by the program manager). Each cost estimate shall include the current percentage of completion of the program, the total costs incurred, and an estimate of costs at completion for ship construction, government-furnished equipment, and engineering and support costs.

'(2) LIMITATION- If any report under paragraph (1) includes a cost estimate for CVN-79 in excess of the amount specified in subsection (a)(2), the Secretary may not make any payment of fees under any cost-type or incentive fee contract associated with CVN-79 until the program manager determines that the cost estimate for CVN-79 no longer exceeds the amount specified in subsection (a)(2).'

(e) Conforming Amendment- The heading of such section is amended to read as follows:

'SEC. 122. ADHERENCE TO NAVY COST ESTIMATES FOR CVN-78 CLASS OF AIRCRAFT CARRIERS.'

Regarding Section 122, S.Rept. 113-44 states:

**CVN-78 class aircraft carrier program (sec. 122)**

The committee recommends a provision that would amend section 122 of the John Warner National Defense Authorization Act for Fiscal Year 2007 (Public Law 109-364) by: (1) in subsection (a)(1), striking "\$10,500,000,000" and inserting "\$12,887,000,000;" (2) in subsection (b), adding a new factor for adjustment allowing increases or decreases in the cost of the ship that are attributable to the shipboard test program; and (3) changing the heading of the subsection to reflect that the name of the program has changed from CVN-21 to CVN-78.

The provision would require a quarterly report providing the CVN-79 program manager's cost estimate for CVN-79. The provision would require the Navy to halt payment of fee on any cost-type or incentive fee contract associated with CVN-79 until such time that the

variance between the total program cost estimate and the mandated cost cap has been corrected.

The changes in the CVN-78 cost cap are related to three major areas:

(1) reflecting allowable changes in the original cost cap due to economic inflation, changes in federal, state, or local laws, changes in nonrecurring design and engineering costs attributable to achieving compliance with the cost limitation, and changes to correct deficiencies that may affect the safety of the ship and personnel;

(2) cost increases from the shipyard, resulting from increases in labor costs, material costs, and design costs, offset by a reduction in shipyard's fee; and

(3) cost increases in government-furnished equipment.

The cost increases in the latter two categories are changes outside the original, allowable changes in the cost cap, and are troublesome. The Navy had envisioned the CVN-78 and CVN-79 (then called "CVNX-1" and "CVNX-2") as evolutionary ships that would implement new technologies gradually as they matured. However, the Department of Defense determined that planned incremental improvements for CVNX-1 did not justify the significant investments nor match the pace of technology, given the length of time needed to build the carrier. Instead, the CVNX-1 and CVNX-2 designs were combined into a single, transformational ship design, called "CVN-21," with the intent to skip a generation of technology, while meeting operational timelines for delivery.

This has resulted in cost increases in the shipyard, and costs increases in the new technologies developed and designed to be installed as government-furnished equipment. The shipyard has not been as efficient as it could be, but combining these two ships and maintaining the original construction schedule for operational reasons has resulted in reduced productivity and inefficiencies in the shipyard's effort. All told, this has resulted in roughly 40 percent of the reason to raise the cost cap.

There have also been cost increases in the equipment beyond the control of the shipyard. These include the "transformational" technologies of the electromagnetic aircraft launch system (EMALS), the dual-band radar (DBR), and advanced arresting gear (AAG). While each of these technologies represents an improvement in capability and promise substantial reductions in life cycle costs, collectively, these technologies resulted in roughly one third of the increase to the total construction costs of CVN-78.

As a result of the scrutiny of the CVN-78 program, the Navy believes that they and the shipyard can deliver the CVN-79 within the cost cap for the program recently adjusted by the Secretary of the Navy. This derives from a number of factors, including:

(1) CVN-79 construction will start with a complete design and a complete bill of material;

(2) CVN-79 construction will start with a firm set of stable requirements;

(3) CVN-79 construction will start with the development complete on a host of new technologies inserted on CVN 78 ranging from the EMALS and DBR, to key valves in systems throughout the ship; and

(4) CVN-79 construction will start with a revised construction plan that emphasizes the completion of work and ship outfitting as early as possible in the construction process to optimize cost and ultimately schedule performance.

The Administration and Congress chose to ignore the lessons repeatedly and painfully learned in previous shipbuilding programs that resulted in delays and cost increases. A decision to skip a generation of technology must be accompanied by an operational assessment of the need date for the operational capability and a plan to ensure new generations of technologies are developed, tested, and ready for installation at the optimum time during the construction of the ship. Unfortunately, the decision on the construction cycle for CVN-78 construction was driven more by the need to replace the USS Enterprise at the end of her service life and the need to maintain workload and the industrial base of suppliers for the sole U.S. builder of aircraft carriers. The committee is committed to working with the Department of the Navy to ensure these lessons are not learned again in future Navy vessel construction. (Pages 9-11)

S.Rept. 113-44 also states:

**Comptroller General review of the Ford-class aircraft carrier program**

The Navy is developing the Ford-class nuclear powered aircraft carrier (CVN-78) to serve as the future centerpiece of the carrier strike group. Ford-class carriers will introduce several advanced technologies that are intended to create operational efficiencies while enabling higher sortie rates with reduced manpower compared to current carriers. As discussed elsewhere in this report, however, these new technologies have led to cost and schedule problems in constructing the first ship of the class.

The Government Accountability Office (GAO) has recently reported on significant technology delays, construction inefficiencies, testing shortfalls, and cost and schedule pressures currently facing CVN-78. The committee remains concerned that these issues could delay and limit demonstration of eventual CVN-78 capabilities and potentially affect cost, schedule, and performance outcomes for the next ship, CVN-79.

Section 124 of the National Defense Authorization Act for Fiscal Year 2013 (Public Law 112-239) required the Secretary of the Navy to report what program management and cost control measures the Navy will employ in constructing the second Ford-class aircraft carrier. The Secretary of the Navy's report in response to that requirement identified a number of changes in the way CVN-79 will be built that will help improve on the performance on CVN-78.

In light of these concerns, the committee directs the GAO to undertake a follow-on review of Ford-class carrier acquisition program. Specifically, the committee directs the Comptroller General to review:

(1) program management and cost control measures the Navy plans to employ in constructing the CVN-79 ship, as identified in its May 2013 report to Congress, in order to determine the extent to which these may be effective in controlling costs. As part of this analysis, the Comptroller General should evaluate the Navy's plans for executing the detail design and construction contract for CVN-79, and should pay particular attention to components of the Navy's plan intended to accommodate remaining schedule risk in the CVN-78 building program;

(2) sufficiency of the Navy's post-delivery test plans for CVN-78 in facilitating timely demonstration of ship capabilities. As part of this analysis, the Comptroller General should evaluate the extent to which land-based testing delays for critical ship technologies have complicated the Navy's planned post-delivery testing activities and schedule;

(3) Department of Defense (DOD) analysis underpinning the Navy's current capability estimates for CVN-78, progress made in meeting the ship's capability requirements, and

gaps that may exist between the likely performance of the ship and its major capability requirements; and

(4) maturity and implementation of plans by the shipbuilder to manage the workforce during concurrent construction of CVN-78 and CVN-79.

The committee further directs the Comptroller General to submit a report on his review to the congressional defense committees by April 30, 2014. (Pages 21-22)

## **FY2014 DOD Appropriations Act (H.R. 2397/S. 1429)**

### **House**

The House Appropriations Committee, in its report (H.Rept. 113-113 of June 17, 2013) on H.R. 2397, recommends approving the Navy's requests for \$588.1 million in procurement funding to cover cost growth on CVN-78<sup>44</sup> and \$944.9 million in procurement funding for CVN-79 (page 163).

### **Senate**

The Senate Appropriations Committee, in its report (S.Rept. 113-85 of August 1, 2013) on S. 1429, recommends approving the Navy's request for \$588.1 million in procurement funding to cover cost growth on CVN-78<sup>45</sup> and reducing by \$27.313 million the Navy request for \$944.9 million in procurement funding for CVN-79, with \$16.2 million of the reduction being for "Restoring acquisition accountability: Reduction in change orders" and \$11.113 million of the reduction being for "Maintaining program affordability: SEWIP [Surface Electronic Warfare Improvement Program] Block 3 excessive cost growth" (pages 100 and 101).

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<sup>44</sup> This request is included in the \$625.8 million requested in line item 20, Completion of PY [prior-year] Shipbuilding Programs.

<sup>45</sup> This request is included in the \$625.8 million requested in line item 20, Completion of PY [prior-year] Shipbuilding Programs.

## **Appendix. March 2013 Report To Congress on Construction Plan for CVN-79**

This appendix reprints a March 2013 report to Congress on the Navy's construction plan for CVN-79.<sup>46</sup>

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<sup>46</sup> *Aircraft Carrier Construction, John F Kennedy (CVN 79), Report to Congress*, March 2013, 17 pp. An annotation on the report's cover page indicates that the report was authorized for public release on May 16, 2013. The report was posted at InsideDefense.com (subscription required) on June 21, 2013. See also Megan Eckstein, "Navy Plan To Congress Outlines New Strategies To Save On CVN-79," *Inside the Navy*, June 24, 2013.

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**AIRCRAFT CARRIER CONSTRUCTION  
JOHN F KENNEDY (CVN 79)  
Report to Congress  
March 2013**

The estimated cost of report or study for the Department of Defense is approximately \$13,000.00. This includes \$0.00 in expenses and \$13,000.00 in DoD labor.

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*PUBLIC RELEASE  
AUTHORIZED ON MAY 16, 2013*

Enclosure 2

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**AIRCRAFT CARRIER CONSTRUCTION  
JOHN F KENNEDY (CVN 79)  
Report to Congress**

The National Defense Authorization Act for FY 2013, Public Law 112-239 contained specific language regarding acquisition of the JOHN F KENNEDY (CVN 79). The language follows:

*SEC. 124. LIMITATION ON AVAILABILITY OF AMOUNTS FOR SECOND FORD CLASS AIRCRAFT CARRIER.*

- (a) *LIMITATION.*—Of the funds authorized to be appropriated or otherwise made available for fiscal year 2013 for shipbuilding and conversion for the second Ford class aircraft carrier, not more than 50 percent may be obligated or expended until the Secretary of the Navy submits to the congressional defense committees a report setting forth a description of the program management and cost control measures that will be employed in constructing the second Ford class aircraft carrier.
- (b) *ELEMENTS.*—The report described in subsection (a) shall include a plan with respect to the Ford class aircraft carriers to—
- (1) maximize planned work in shops and early stages of construction;
  - (2) sequence construction of structural units to maximize the effects of lessons learned;
  - (3) incorporate design changes to improve producibility for the Ford class aircraft carriers;
  - (4) increase the size of erection units to eliminate disruptive unit breaks and improve unit alignment and fairness;
  - (5) increase outfitting levels for assembled units before erection in the drydock;
  - (6) increase overall ship completion levels at each key construction event;
  - (7) improve facilities in a manner that will lead to improved productivity; and
  - (8) ensure the shipbuilder initiates plans that will improve productivity through capital improvements that would provide targeted return on investment, including—
    - (A) increasing the amount of temporary and permanent covered work areas;
    - (B) adding ramps and service towers for improved access to work sites and the drydock; and
    - (C) increasing lift capacity to enable construction of larger, more fully outfitted superlifts.

This document constitutes the report requested by Congress.

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### **Executive Summary**

The GERALD R FORD (CVN 78) Class, the first new aircraft carrier design in over 40 years, represents a quantum advance in operational capability, survivability, and flexibility to accommodate future improvements in technology and war fighting capability over a 50-year service life, all while lowering total ownership costs by \$4B when compared to the standard-bearing NIMITZ class. However, the scope of the CVN 78 "clean sheet" design, which touched virtually every element of the ship has presented challenges to the designer, supplier and shipbuilder for the lead ship both in terms of cost and schedule. The scope and volume of first of class issues on CVN 78 has been the primary factor driving growth in ship construction cost and schedule performance.

As a result of the lessons learned on CVN 78, the approach to carrier construction has undergone an extensive affordability review and the Navy and the shipbuilder have made significant changes on CVN 79 that will significantly reduce the cost to build the ship. These include four key construction areas:

- CVN 79 construction will start with a complete design and a complete bill of material
- CVN 79 construction will start with a firm set of stable requirements
- CVN 79 construction will start with the development complete on a host of new technologies inserted on CVN 78 ranging from the Electromagnetic Aircraft Launch System (EMALS), the Dual Band Radar, and the reactor plant, to key valves in systems throughout the ship
- CVN 79 construction will start with an 'optimal build' plan that emphasizes the completion of work and ship outfitting as early as possible in the construction process to optimize cost and ultimately schedule performance.

In addition to these fundamentals, the Navy and the shipbuilder are tackling cost through a series of other changes that when taken over the entire carrier will have a significant impact on construction costs. The Navy has also imposed cost targets and is aggressively pursuing cost reduction initiatives in its government furnished systems. A detailed accounting of these actions is included in this report.

The actions discussed in this report are expected to reduce the material cost of CVN 79 by 10-20% in real terms from CVN 78, to reduce the number of man-hours required to build the CVN 79 by 15-25% from CVN 78, and to reduce the cost of government furnished systems by 5-10% in real terms from CVN 78. The following table provides an executive summary of the cost reductions anticipated in the key focus areas described in this report.

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Focus Area	Anticipated reduction from CVN 78 to CVN 79
Improvements in material availability and pricing	10-20% in material cost
Major changes in build strategy and processes	10-15% in man-hours to build ship
Design changes for greater producibility	5-10% in man-hours to build ship
Government furnished equipment	5-10% in system costs

**Detailed Discussion**

**IMPROVEMENTS IN MATERIAL AVAILABILITY AND PRICING**  
**(10-20% Reduction in material cost)**

As previously discussed, many of the first in class issues experienced during construction of CVN 78 were driven by material availability, vendor qualifications, and material costs. A completed Class design enables the shipbuilder to fully understand the whole ship bill of materials for CVN 79 construction and more effectively manage the procurement of those materials with the knowledge of material lead times and qualified sources accrued from CVN 78 construction. The myriad of vendor first article testing and certification issues which contributed to delays in material delivery on CVN 78 should not recur for CVN 79. The shipbuilder is able to order complete ship-set quantities of material, with attendant cost benefits, and to ensure CVN 79 material will arrive on time to support construction need. Extensive improvements have been put in place for CVN 79 material procurement to drive both cost reductions associated with more efficient procurement strategies and production labor improvements associated with improved material availability. The improved procurement strategies being employed on CVN 79 are expected to yield in real terms a material cost reduction as compared to the CVN 78 of 10-20%. Improved material availability is also a critical enabler to many construction efficiency improvements in CVN 79 discussed later in this report.

In order to maximize material availability and minimize material costs the shipbuilder has developed an entirely new material management strategy for CVN 79. This new strategy consists of eight separate initiatives:

- a. **Define the "whole ship" bill of material** - This allows the shipbuilder to maximize opportunities for economic order quantity buy of material items from sub vendors. Reduced material costs will be realized and procurement effort is reduced – with an estimated 30% reduction in total number of purchase order lines as compared with CVN 78.
- b. **Establish a "ship view" of equipment by supplier to help incentivize suppliers and correlate supplier priorities based on construction progress and need** - Some sub vendors produce multiple types of components in different geographic locations. Grouping orders by component type and sub vendor subdivision and location helps the shipbuilder define and communicate material priorities to the sub vendor across his enterprise, thereby improving material availability and reducing cost. This also reduces shipbuilder procurement support effort.

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- c. **Accelerated production cost avoidance** - The shipbuilder has identified key components that can be purchased earlier than just-in-time construction need, allowing suppliers to level load their production lines and avoid incurring fees for accelerated production.
- d. **Multi-ship material buys to leverage economic order quantity pricing** - The shipbuilder is investigating opportunities to procure parts common to multiple ship programs (e.g. CVN 79, Virginia Class Submarines, NIMITZ Class Refueling Complex Overhaul) in a grouped manner to leverage better pricing for all programs. This concept could further be expanded to pursue grouped procurement of material for more than one FORD Class carrier at a time (such as CVN 80 and CVN 81).
- e. **Improved material ordering schedule** - Development of, and management to, a comprehensive material procurement plan that considers construction, sequencing, timing, and most recent experience with vendor procurement lead time to schedule a bundled or combined procurement to ensure material is available at the first instance of use.
- f. **Soliciting and implementing vendor cost reduction ideas** - The shipbuilder is working with its suppliers to identify cost reduction ideas that may simplify material production and reduce procurement cost. An example is encouraging vendors to recommend changes to ship specification requirements to achieve technical equivalency at reduced cost.
- g. **Leveraging supplier competition for cost avoidance** - An example is developing competition for steel supply by establishing a new supplier/source for non-armor steel plate.
- h. **Procuring commodity equipment from the original equipment manufacturer** - In many cases the shipbuilder can bulk order commodity equipment for a lower price than an individual sub vendor due to a larger order quantity. The shipbuilder would then provide the commodity material back to the sub vendor to assemble into the finished product at a lower cost. An example would be bundled procurement of motor controllers at a reduced price, some of which would then be provided to a system manufacturer such as the provider of air conditioning plants.

The shipbuilder has undertaken these initiatives in a multi-faceted approach with the objective of driving material cost down, and material availability up to support an optimized construction schedule, within the constraints of the funding available for each fiscal year. In addition the shipbuilder has an ongoing process to inventory all excess material procured on CVN 78 for transfer to CVN 79.

The Navy has also employed outside supply chain management experts to help develop additional optimal CFE material procurement strategies. Furthermore, the Navy has increased its oversight of contractor furnished material procurement, ensuring that material procurement is competed (where competition is available); that it is fixed priced; that commodities are bundled to leverage economic order quantities; and that the vendor base capacity and schedule for receipt supports the optimal build plan being developed for production of CVN 79. The increased oversight has included visits to several key vendors to ensure a deeper, first hand understanding of cost drivers and issues.

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**MAJOR CHANGES IN BUILD STRATEGY AND PROCESSES**  
**(10-15% Reduction in man-hours to build ship)**

The shipbuilder and the Navy have performed a comprehensive review of the build strategy and processes used in construction of Ford Class aircraft carriers as well as consulted with other Navy shipbuilders on best practices. As a result, the shipbuilder has identified and is implementing a number of changes in the way they build aircraft carriers, with a determined focus on executing construction activities where they can most efficiently be performed. This tends to result in moving production effort earlier in the value stream and in grouping similar work to enhance the effects of learning. Improved material availability as discussed above is a critical element to the success of this approach. The major changes in build strategy and process described below and being employed on CVN 79 are expected to yield a man-hour reduction as compared to the CVN 78 of 10-15%.

**1. Maximizing planned work in shops and early stages of construction**

Ship construction is most efficiently performed in a shop environment due to ease of access, lifting and handling gear, and environmental controls. The goal for CVN 79 is a 30% increase in front end shop work as compared to CVN 78. This work will result in an increase in pre-outfitting and work pulled to an earlier point in the construction process. It can be broken into two different measurable categories:

- a. Work that was originally planned to be performed in the shop on CVN 78, but was deferred due to late material, design maturity, etc. Implementation of lessons learned, a mature design, whole ship bill of materials ordering and more timely delivery of CFE all enable this work to be moved back into the shops on CVN 79 as part of the optimal build strategy.
- b. Work that was originally planned in the drydock on CVN 78 that will be moved to an earlier stage of construction for CVN 79 as an improvement to the optimal build strategy. CVN 79 superlift reviews are ongoing to determine what outfitting work should be moved earlier in the construction process. The results of this continuing effort will move a significant amount of work from the drydock back into the platen area (area where module assembly occurs) or the shops.

As part of this strategy, the shipbuilder has begun the shop construction of complex assemblies. These are assemblies of piping, valves, pumps, etc., that would previously have been 'stick built' on the final assembly platen or on the ship. Building these assemblies in a shop environment is far more efficient, allows shop testing and painting currently being done on the platen or ship to be done in the shop environment, and optimizes the eventual transportation of the complex assembly to the ship. The ship design is being reviewed to identify candidates for this complex assembly process with an expectation that over 1,000 assemblies could be shop built shifting hundreds of thousands of hours of work into more efficient shop construction areas. As an example, the first of these assemblies moved to the shop for CVN 79 are fire pumps. On CVN 78, fitting out a fire

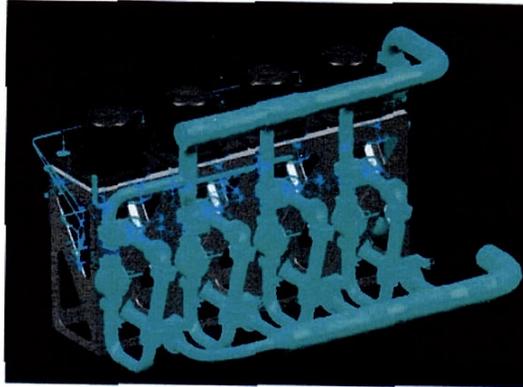
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pump room consisted of stick building multiple pumps, valves, actuators, pipe details, and foundations (approximately 250 pieces of material) in a constrained shipboard environment. The goal on CVN 79 is to build out the pump room as a complex assembly in the shop and then land, install, and connect the complex assembly as a single unit into the ship (see figure below).



**Example of Complex Assembly – Fire Pumps**

**2. Sequence construction of structural units to maximize the effects of lessons learned**

The shipbuilder has developed a ‘family of units’ concept to maximize the effects of lessons learned within construction of CVN 79 (in addition to lessons learned from construction of CVN 78). This concept is enabled on CVN 79 by the level of design completion and material availability present at the start of ship’s construction. Currently, structural units are built in numerous locations and are sequenced to support the ship’s schedule, not to best utilize the structural shop footprint and resources. By building units in families, the ship’s schedule will still be met, but the structural shop will be better able to shop-load their limited footprint, better utilize equipment, and better assign skilled resources.

The family of units concept allows two distinct execution methods. First, units of a similar construction are set up into flow lanes such that the unit is moved from station to station as various repeated work items are completed, very similar in concept to an assembly line of large components. This concept allows workers to perform repeated tasks on similar units, maximizing learning within a work cell. Unit family production reduces set-up time between units because the jigs and fixtures which support the unit and/or facilitate its construction do not have to be set up again until a new unit family is started. In addition, by organizing into an assembly line process structure, many of the ‘lean manufacturing’ assembly line controls can be implemented further increasing the efficiency of the process.

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Some structural units in CVN construction are too large to be efficiently moved in an assembly line fashion, but have similar construction methodologies. In these cases, the shipbuilder has established a process where a work cell of individuals is moved from unit to unit to accomplish the same repeatable work in a unit's build cycle, thereby maximizing the learning curve within the individual work cells. Many of the same benefits of the flow lane concept will be realized via this methodology as well.

### **3. Increase outfitting levels for assembled units before erection in the drydock**

Pre-outfitting is a key element for driving cost out of ship construction. This occurs prior to ship erection or ship launch. Installation efficiency increases and construction costs are reduced the earlier in production that piping, valves, ventilation, foundations, cabling, and other outfitting type items can be installed. This plan offers several advantages from easier installation access, to improved trade coordination, to the ability to load more complete assemblies into each unit prior to erection.

The shipbuilder has formed a team consisting of construction, planning, engineering and government personnel to challenge every item installed (or planned to be installed) in the dry-dock or after launch on CVN 78, and to incorporate all lessons learned into the build plan for CVN 79. To date these reviews have resulted in 12% of pipe and ventilation items in the units (totaling about 200 thousand hours) assessed being moved back to the pre-outfitting period on the final assembly platen or in the shop. The shipbuilder also expects to achieve improved performance in pre-outfitting by improving material availability.

### **4. Increase overall ship completion levels at each key construction event**

Fundamental changes to the build processes for CVN 79 and beyond, as described in the preceding paragraphs, are all designed to support accomplishment of work in a more efficient manner and lead to increased overall ship completion levels at each key construction event. The following paragraphs describe additional affordability initiatives being implemented that also facilitate this key focus area:

- a. **Batch manufacturing** - An additional benefit of the completed ship design is that the shipbuilder is able to plan for ship set quantity batched production of like items that are used in construction of the ship. The batched production leads to increased efficiency and decreased cost through reductions in planning, production control, material movement, and set up/ tear down times. An example of this is filter housings that are installed in the ship's ventilation system. A filter housing is a relatively simple structure that is inserted into ventilation ducting to retain an air filter. With the class design completed the shipbuilder has an exact requirement for the type and quantity of filter housings needed and can set up small assembly lines to produce these efficiently, whereas on CVN 78 many of these housings were built on

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an as needed basis as the design developed. The total number of work packages for CVN 79 filter housings will be reduced from 88 to 10.

- b. **Common Integrated Work Package** - One of the areas the shipbuilder is implementing to drive production costs out of CVN 79 is the common integrated work package. In the current state multiple work packages are developed to construct a single portion of the ship, there may be design, engineering, and production work packages that are all used to describe the assembly process. This system forces many handoffs between the various departments within the shipyard, increasing the likelihood of inefficiency, transcription errors, and production problems. The goal of integrating the various work packages into a common document is to provide the shipyard mechanic doing the actual work the information they need in a user-friendly, producible format to improve first time quality, overall productivity, innovation and job knowledge capture and transfer.
- c. **Flexible Infrastructure** - Flexible infrastructure is rapidly-reconfigurable, modular open systems and standards used in the design and construction of ship's spaces. It facilitates equipment installation, reconfiguration, technology insertion, and improved mission flexibility, while decreasing acquisition and life cycle costs. Flexible infrastructure, including flexible decking, overhead, and bulkhead mounting elements are being employed in the combat systems spaces in the FORD Class design. The shipbuilder is currently studying areas where flexible infrastructure for bulkhead installation of items such as electrical panels can be used in other areas of the ship to drive out construction costs.
- d. **Improved cable installation** - The FORD Class design has substantially more electrical cable than NIMITZ Class carriers (9.1M feet for CVN 78 versus 5.5M feet for CVN 77). The shipbuilder is working to improve the various processes associated with cable installation to allow as much cable as possible to be installed at each phase of construction. This includes employing additional analysis to accurately identify cabling with routes wholly contained within units or superlifts to ensure cable installation on platen. Also, analysis is being done to identify logical candidates for "coil and stow" options for cables runs not wholly confined to a unit or superlift. This would allow installation of much of the cable, with the portion crossing the erection break being coiled up and stowed for final installation after erecting the unit. The shipbuilder is also leveraging efforts to improve material availability and increase pre-outfitting of items such as hangers, shell-banks, and wireways to increase the amount of cable that can be installed during each phase of construction.
- e. **Pre-outfitting panels** - Steel bulkhead panels and decks are currently fabricated in the shop and then assembled to create units and superlifts. Once they are welded in place, holes are cut in the bulkheads and decks to install a wide variety of components such as coamings, penetrations and hangers. This requires hotwork on the ship, which is accomplished in a poor ergonomic work condition and impacts the start of outfitting. Pre-outfitting bulkheads and decks with these items before they are assembled into units and decks will allow the

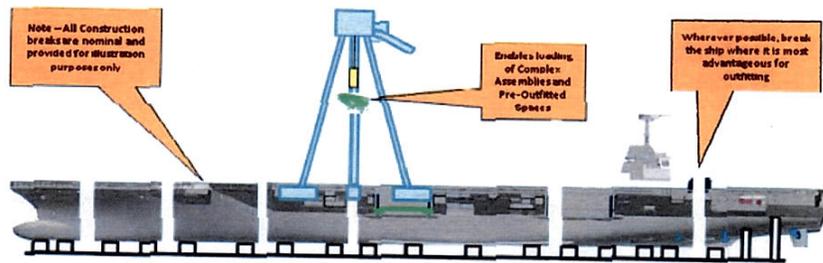
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work to be accomplished in a shop environment, instead of on the ship, and will significantly improve the shipbuilder's ability to start outfitting work earlier.

- f. **Further advancing CVN construction** - There is a steady strain on identification and implementation of producibility enhancements targeted for CVN 79. There are also some additional initiatives under consideration whose developmental timelines or infrastructure requirements preclude implementation on CVN 79, but are expected to yield marked shipbuilder construction cost reductions for CVN80 and follow FORD Class ships. An example is the Vertical Build Methodology - a methodology which will achieve full potential for shipbuilding cost reduction in CVN 80 and follow ships. When fully implemented, the Vertical Build Methodology will erect the ship in vertical sections thereby allowing easier access for installation of systems, components, equipment, and complex assemblies into the erection units which comprise each vertical section. When the vertical sections are complete, they will be "slid" together to complete assembly of the ship. The graphic below illustrates the concepts of Vertical Build Methodology.



**Vertical Build Methodology**

Overall, the efforts described in the preceding sections and above serve to move more work into the areas in which it can be most efficiently performed. For CVN 79 construction, an aggressive target has been established to increase the percent complete at launch above that of the CVN 78. The following table shows the planned increase in front end shop and platen work for CVN 79 construction.

Manufacturing & Assembly		
SFA	CFA	FAP
5-10%	20-30%	5-10%
SFA = Steel Fabrication and Assembly CFA = Component Fabrication and Assembly FAP = Final Assembly Platen		

**Estimated Increase in CVN 79 Front End Work**

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**DESIGN CHANGES FOR GREATER PRODUCIBILITY**  
**(5-10% Reduction in man-hours to build ship)**

In conjunction with the Navy and the shipbuilder's comprehensive review of the build strategy and processes used in construction of Ford Class aircraft carriers a number of design changes were identified that would result in more affordable construction. Some of these design changes were derived from lessons learned in the construction of CVN 78 and others seek to further simplify the construction process and drive cost down. The design changes described below and being employed on CVN 79 are expected to yield a man-hour reduction as compared to the CVN 78 of 5-10%.

**1. Incorporate design changes to improve producibility for FORD Class aircraft carriers**

The completion of the FORD Class design and ongoing construction experience on CVN 78 has allowed the shipbuilder to examine ways to improve the producibility of CVN 79. As a part of the design rollover from CVN 78 to CVN 79, shipbuilder design engineers are identifying specific improvements based on these lessons learned to reduce the cost of CVN 79.

One such example addresses CVN 78 producibility problems stemming from the use of thinner plate scantling decks and bulkheads as compared with those of NIMITZ Class. Thinner, lighter weight plate was selected as part of a design objective to reduce overall ship weight and restore growth margin in the ship's lifecycle – a KPP for the ship class. Use of the thinner steel plate has necessitated unplanned use of temporary bracing, as shown in the illustration below, to allow handling of modules during assembly as well as causing rework to flame straighten plates. While a normal evolution in shipbuilding, a greater degree of flame-straightening has been required on CVN 78. The thinner steel plate has also required additional work and structural reinforcement associated with some large heavy component and equipment foundations to achieve proper fit up. Light scantlings also detract from greater outfitting prior to module erection without incurring further deformation. The thinner plate has caused nearly twice the hours in installing temporary bracing and supports as compared to the CVN 77, and incurred indirect additional rigging costs associated with the added difficulty in moving and erecting units. The interference of the temporary bracing is also delaying planned elements of pre-outfitting from being installed on platen.

A multitude of efforts will be utilized on CVN 79 and future hulls to mitigate these disruptions to include: increased thicknesses of platforms and decks, redesigned elevator trunks reducing welding volume and parts, optimized temporary backing structure during lifting and handling, and improved straightening methods (induction heating). These changes will also enable increased pre-outfitting and joining of construction units to build more and larger superlift modules which will reduce the number of erectable modules and improve outfitting of those units. The additional weight associated with these changes can be accommodated within the design margin reserve such that the class KPP for weight service life allowance will still be met.

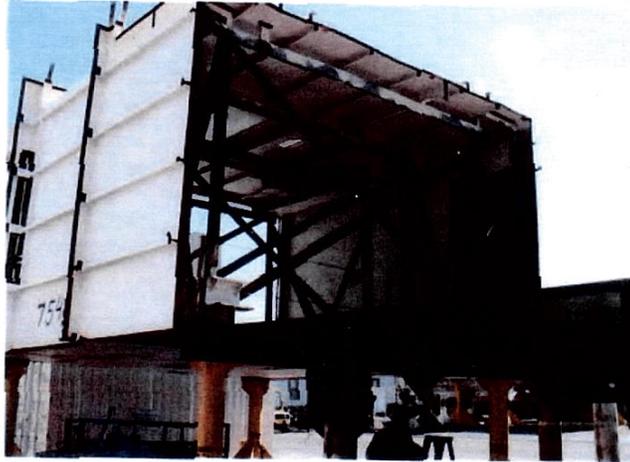
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**Example of Temporary Bracing Required During Erection Due to Thin Scantling**

Another example of design changes improving producibility is associated with a seawater piping system. The original ship design called for a 3 degree bend in a particular pipe to route it around an obstruction. When construction trades tried to produce this section of piping on CVN 78, they found the 3 degree bend extraordinarily hard to produce and properly fit into the piping assembly. Upon completion of the work, the shop foreman suggested the particular piping run be extended by two inches so that a more typical 45 degree piping bend could be inserted into the system. This suggestion is incorporated into the CVN 79 design, making it more producible. In another example, some of the seawater inlets on CVN 78 were produced via a casting process, which resulted in some downstream manufacturing challenges. For CVN 79, the shipbuilder is now producing these seawater inlets via a forging process which has resulted in a more efficient production of this component.

In addition to making design changes to address producibility issues encountered on CVN 78, the CVN 79 design is being reviewed for opportunities to drive out further cost through producibility enhancing design changes. One such opportunity being exploited on CVN 79 is in reducing the number of welded fittings required in the ship's piping systems. Below is a graphic which highlights this concept.

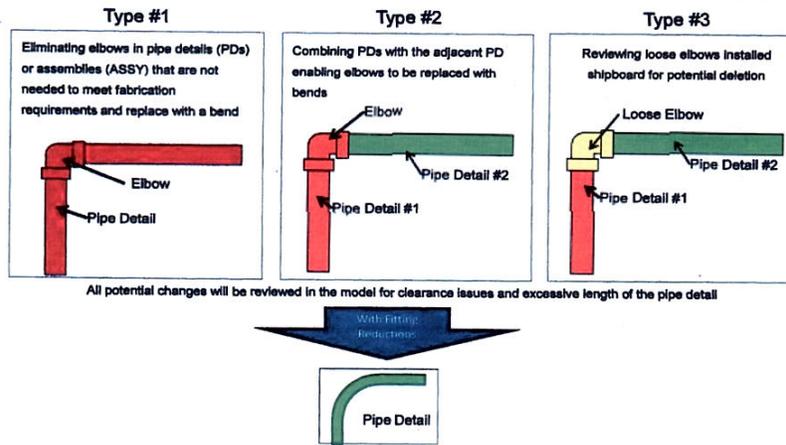
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### Illustration of Fitting Elimination Concept

Due to the incompleteness of the design during initial construction of CVN 78, many piping systems were built with temporary terminations, with a fitting added later to complete the piping as the follow on compartment was designed/built out. Now that the class design is complete, the shipbuilder is examining where fittings were used in piping systems with the goal of removing as many as possible by replacing the fitting with a bend. To date, more than 30 percent of the total number of elbows has been evaluated, with nearly 2,000 elbows being eliminated from the design, which in turn eliminates nearly 4,000 welds and reduces construction hours by 6 hours per joint on average. Each fitting eliminated removes the requirement for procuring and tracking the fitting as well as for performing two welds and a broad range of production activities.

Shipbuilder producibility reviews are not limited to the outfitting areas, but include structural and welding areas. As shown in the below graphic illustrating a portion of the island, 56 ft of butt weld joint is eliminated from this one area by simply extending thicker plate. There are numerous opportunities like this throughout the ship. These types of seemingly simple ideas when taken over the entire carrier have a significant impact on construction manhours and costs.

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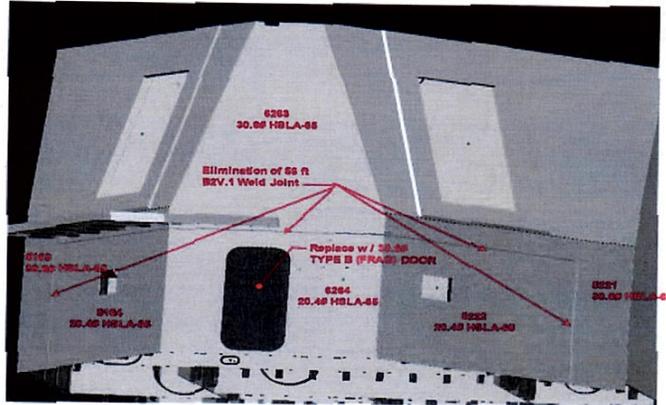


Illustration of Welding Reduction Studies Using 3D Product Model

**2. Increasing the size of erection units to eliminate disruptive unit breaks and improve unit alignment and fairness**

A completed class design allows the shipbuilder to evaluate the placement of ‘construction breaks’ between units that will eventually be erected into the drydock. In an ideal scenario, these construction breaks are minimized to allow for additional outfitting of material into construction units during preassembly and on the platen prior to their erection into the drydock. In reality, construction breaks are forced into construction by realistic limits on how much of a unit module can be transported around the shipyard and the weight of a unit module that can be lifted by the gantry crane into the drydock. However, on CVN 78, more construction breaks were used in the original design because of unknowns associated with the first of class build than were actually needed. For CVN 79, the shipbuilder has reduced the number of construction breaks by approximately 5% to allow piping, cabling and ventilation trunks to be extended to the maximum extent feasible. These efforts are raising the level of pre-outfitting on CVN 79 well above that for CVN 78.

As part of the study to remove unnecessary construction breaks from the design, the shipbuilder is evaluating where previously first and final erectable units can be combined onto existing superlifts or combined together to create new superlifts. Creating new superlifts has multiple benefits. A superlift is built from multiple smaller units, and contains piping, machinery, electrical, and ventilation. Each new superlift thus lowers the number of units that need to be independently erected into the drydock, helping to alleviate demands on the gantry drydock crane and decreasing the number of times welders have to work in a constrained environment to weld construction units into the ship. Superlifts allow for more pre-outfitting on the final assembly platen and shops, prior to ship erection, thereby increasing ship construction efficiency.

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CVN 79 superlift reviews are ongoing and will continue. To date, the shipbuilder has decreased the number of erectable units from CVN 78 by 20 –nearly a 5% reduction. Decreasing the number of erectable units has multiple benefits including reducing the number of lifts required by the 1,050 ton crane – a natural bottleneck in the CVN construction process. Fewer erectable units also reduces the number of unit breaks between sections thereby allowing additional outfitting and improving unit alignment and fairness.

#### **FACILITIES**

In addition to the material procurement improvements, build strategy and construction process changes, and design changes described in the preceding sections, the shipbuilder is evaluating capital improvements to facilities that would serve to reduce risk and improve productivity.

**Improve facilities in a manner that will lead to improved productivity; and ensure the shipbuilder initiates plans that will improve productivity through capital improvements that would provide targeted return on investment**

The shipbuilder is considering what additional facilities, or modifications to existing facilities could be employed to further enhance efficient manufacturing and construction. The shipbuilder has developed a plan to renovate existing facilities to support shop manufacture and assembly of small complex assemblies as well as building a new facility to accomplish the same for large complex assemblies. Additional facilities are also being considered for pre-outfitting structural panels and decks and possibly for increasing the covered work areas on the Final Assembly Platen. Due to the amount of welding involved in carrier construction, the shipbuilder continues to add to its mechanized welding capability.

The shipbuilder is studying capital investment opportunities that could result in reduced risk and additional cost reductions for CVN 79 and/or follow ships in the class. Some initiatives include:

- a. **Increasing the Amount of Temporary and Permanent Covered Work Areas** - The shipbuilder has identified the need to increase the amount of covered workspace for the construction of CVN 79. This supports build strategy changes that will move significant outfitting work from the ship to the final assembly platen. These facilities could include both permanent and temporary (moveable) structures. This would include a facility for pre-outfitting structural panels and decks before they are used to build units and superlifts. A recent improvement was made where the shipbuilder tripled the amount of space they had available for blast and coat of assembly units by building two additional blast and coat facilities.
- b. **Adding Ramps and Service Towers for Improved Access to Work Sites and the Drydock** - The shipbuilder has added a drydock elevator to allow easier access to drydock num-

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ber 12. This addition was done toward the later stages of CVN 78 drydock construction and therefore had limited benefit for CVN 78, but is expected to increase the efficiency of movement of material into the drydock for CVN 79 and alleviate the bottleneck imposed by the limited number of lifting cranes. Additional ramps and elevators could further improve the movement of material from material laydown areas to the ship as well as reducing the number of required crane lifts.

- c. **Increasing Lift Capacity to Enable Construction of Larger, More Fully Outfitted Superlifts** - Prior to construction of CVN 78, the lifting capacity of the gantry crane used to erect superlifts was increased from 900 to 1050 tons. While this upgrade did show some benefit on CVN 78, many of the superlifts for CVN 78 were not able to fully utilize the capacity increase due to the incompleteness of the design. With the class design complete and the true weight of erectables determined, the shipbuilder is able to plan more efficient combinations of erectables into superlifts to allow for fuller utilization of this increased capacity.

**GOVERNMENT FURNISHED EQUIPMENT (GFE)**  
**(5-10% Reduction in GFE cost)**

In addition to the substantial improvements being implemented to address shipbuilder costs, aggressive measures have been put in place for cost control in GFE. Recurring engagement and review at the Flag Officer level between Program Executive Officer Aircraft Carriers (PEO CV) and those executives responsible for providing GFE to CVN 79 establishes and maintains the framework in which this occurs.

- a. **“Will Cost” / “Should Cost” Management** – For providers of platform GFE (non-reactor plant GFE), “should cost” targets are established at the system level. Specific initiatives to drive cost out of the GFE systems, as well as timelines for realization of the savings for each of the initiatives, are identified and captured on scorecards. These scorecards are evaluated and reviewed between the CVN 79 Program Office and the GFE providers on a routine, recurring basis to ensure actions are on track realize the identified cost reduction opportunities and to identify additional opportunities. Examples of these opportunities include: bundling of procurements with other ship programs, refurbishment of assets recovered from decommissioning ships in lieu of procurement of new assets, reductions in projected systems engineering and installation support based on anticipated lessons learned from CVN 78 installations, and continued or expanded use of fixed price production contracts where appropriate.
- b. **Ship Project Directives** – Detailed agreements are being established between the CVN 79 Program Office and platform GFE providers to provide a greater degree of control in management of on-time delivery of expected equipment, critical for avoiding shipbuilder disruption, and for control of cost.

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- c. **Stringent restrictions on change** – Changes from the CVN 78 baseline are being minimized to limit their disruption to the shipbuilder and the potential impact on cost. Where change is unavoidable, such as in the case of systems no longer being available due to obsolescence, a rigorous change control process is in place to fully explore alternatives and mitigate potential cost impacts. Where a GFE system change is proposed to provide additional capability to the ship, a disciplined resource and requirements review process at the senior Flag Officer level within the Pentagon is followed to thoroughly vet the proposed change.

The FORD Class aircraft carrier brings tremendous new capability to 21<sup>st</sup> century naval aviation with reduced manpower and sustainment requirements leading to a substantially reduced total ownership cost. This is in large part due to advanced government furnished systems incorporated in the design. As described in the preceding paragraphs, the Navy is focused on delivering these capabilities with costs reduced 5-10% in real terms from CVN 78.

#### **COMPARISON TO CVN 77 AND CVN 78**

After accounting for the \$3.2B non-recurring cost to design the FORD Class aircraft carrier, the cost of the first of class CVN 78 is, in real terms, 18% more than the tenth NIMITZ Class aircraft carrier, the CVN 77, for a class of ship that will provide a 33% increase in warfighting capability, unmatched flexibility for future missions, and cost the taxpayer approximately \$4B per ship less than a NIMITZ class carrier over its 50-year service life. Recognizing the responsibility to build aircraft carriers in the most affordable way possible, the Navy and shipbuilder have taken the actions described in this report to drive down the construction cost for CVN 79. These actions are expected to reduce the material costs for CVN 79 by 10-20% in real terms from CVN 78, and to reduce the man-hours required to build the CVN 79 by 15-25% from CVN 78. The man-hours required to build CVN 79, the second ship of the FORD Class, are expected to be 5-10% less than those required to build CVN 77.

#### **Conclusion**

The Navy and HII-NNS have made fundamental changes in the manner in which the JOHN F KENNEDY (CVN 79) will be built to eliminate the key roadblocks that were realized and were the largest impacts to cost performance during the construction of CVN 78. Simply addressing lessons learned and working harder is not good enough. The approach to carrier construction has undergone an extensive affordability review. As described in this report, the Navy and HII-NNS are committed to making the fundamental changes necessary to drive down and stabilize aircraft carrier construction costs for CVN 79 and beyond.

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