

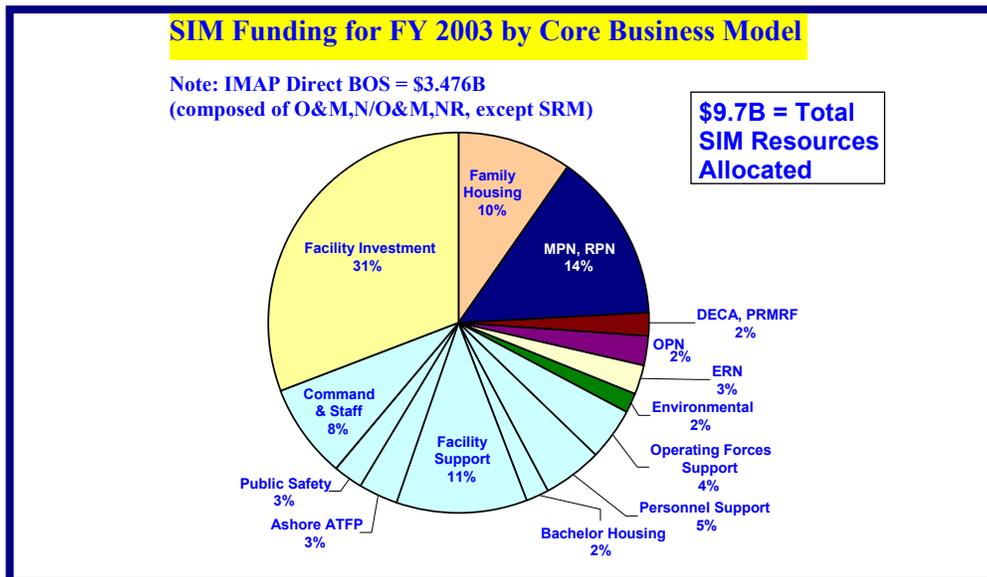
Executive Summary

Our Shore Installation Management (SIM) enterprise today is better positioned than at any time in years' past to meet fully, effectively, and efficiently the important and wide-ranging support requirements of the operational forces and other mission commanders. While this report will focus primarily on Fiscal Year 2003, progress over the past five years has been particularly noteworthy and characterized across the entire shore installation business spectrum by areas of significant and positive change and improvement. Appendix H notes some of the progress achieved to date. Our Regions have made exceptional strides under very challenging circumstances to improve support of their warfighter and other mission customers. We are aligned better for effectiveness, organized and structured for efficiency, and have made clearer connections between the inextricable links to Fleet readiness and the support provided through our shore installations. Moreover, it is important to note that, throughout all of the many transformation initiatives, they all have been undertaken with the welfare of our Sailors and their families first and foremost. Our total workforce team has itself never been supported better, a fact evidenced in part by today's unprecedented retention rates.

A key component of this progress as evidenced within many of the Installation Management Accounting

Project (IMAP) Core Business Model (CBM) business areas, has been the development of robust performance models whereby we can both assess, and better measure service delivery outputs compared against resources, and specifically, those resources planned, budgeted and executed as part of the Defense PPBES cycle. And importantly, this new process makes us identify and assess the risks or consequences of varying service or capability levels. The result has been a quantum improvement in our ability to better assess, and meet more effectively and efficiently, customer requirements while balancing limited fiscal resources against the attendant risks. It is this ability to better assess and quantify risk vis-à-vis specific resource allocations that will improve markedly our ability to provide the "right" readiness at the "right" cost.

Navy has taken a number of steps and specific actions during the past year to further enhance overall SIM support capabilities including the establishment of Commander, Navy Installations Command (CNI), which among other things, significantly reduced the number of Installation Major Claimants from eight to one. While the formal establishment of CNI was not effective until 29 September 2003, considerable planning and preparatory efforts began early and continued aggressively throughout



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the Fiscal Year. This single and important CNO alignment action will have a large and important impact in the coming years on how we provide Fleet support. The standup of CNI, as well as other important issues including security concerns pursuant to the terrorist attacks of 9/11, the Iraqi War, ongoing operations to counter terrorist threats worldwide, and the emergence of supplemental appropriations associated with the above, have presented unique and special challenges in an unusual year. This report describes not only how the SIM community responded in light of the above concerns, but also, the effectiveness of the SIM enterprise in utilizing the funding allocated to deliver services to the warfighter and other mission commanders.

Approximately \$9.7B of Navy's FY 2003 Total Obligation Authority (TOA) was allocated for SIM (the \$9.7B figure represents an increase over the FY 2002 total of \$8.5B, and largely is the result of increased facilities investment, utilities support, and facilities related cost). Final FY 2003 funding was the result of a process that began with PR-03, and which was initiated in the fall of 2000. Last year's Stockholders' Report, among other things, addressed several issues associated with Other Base Operating Support (OBOS), including the fact that OBOS represented some 20 different base support functions.

These functions accounted for more than 77% (\$2.4B) of the total O&M,N/NR Navy Base support funding for installations, exclusive of facilities maintenance. The inability in the past to get below the "OBOS level" of detail, and to identify the discrete parts of the overall OBOS funding line, contributed to an inability to individually track funds, measure detailed outcomes or outputs, and break out the "pieces" of OBOS into discrete parts. That limitation contributed to credibility issues in requirements justification, migration of funds, and determining appropriate SIM funding allocations. In FY 2003, the Navy Comptroller office provided authorization and direction that enabled categorization of OBOS into distinct elements each identified by new Special Interest Items (SII) codes assigned for each. These new SIIs took effect in FY 2004. The new SIIs will provide better visibility throughout the programming and budget process including "in-year" execution. This will become increasingly important with CNI assuming execution year tracking responsibilities as the Budget Submitting Office (BSO). A chart of these new codes can be found in Appendix B.

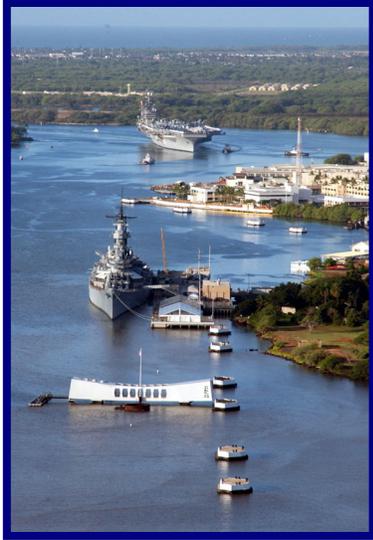
Other important SIM actions underway in FY 2003 have been the careful examination of the various component functions and tasks within shore

IMAP 2003 INSTALLATION CORE BUSINESS MODEL
(Extract to depict the SIM Integrated Process Teams (IPTs))

	Operating Forces Support			Community Support		Base Support			
Core Business	Air Operations	Port Ops	Operations Support	Personnel Support	Housing	Facility Support	Environmental	Public Safety	Command & Staff
Function	Airfield Operations	Port Services	Other Ops Support	MWR	Family Housing	Utilities	Compliance	Force Protection	Command
	Aviation Support	Other Port Ops	Supply	Child Development	Bachelor Quarters Ops	Facility Services	Conservation	Federal Fire	Resource Mgmt.
				Galley		Facility Mgmt	Pollution Prevention	Disaster Prep.	Info. Tech. Services
				Fleet and Family Support		Base Supp. Vehicle & Equip		Safety	MILPERS Services
				Other Community Support		SRM			

Blue IPTs ■
 Gold IPTs ■
 New IPTs ■

installation support that must be performed to properly support the operational forces and optimize shore readiness. This process has included a SIM Integrated Process Team (IPT) approach that includes twenty-two discrete functional area teams each comprised of subject matter experts. These IPT groups serve as Navy's primary advisory groups for their respective SIM functional area. The IMAP chart (bottom of previous page) depicts the areas that are represented by IPTs. The blue areas are the most mature SIM IPTs (and the most resource intensive), with the gold areas next. The two business areas highlighted in green will be initiated in FY 2004.



Since first being chartered in the spring of 2000, the IPTs have been developing individual performance models as part of their chartered tasks. These models (a number of which already have undergone Navy's Verification, Validation, and Accreditation (VV&A) process) are being utilized to support development of Capability Plans as part of the Planning and Programming process, and for budget and budget execution as well. Key elements of each performance model include requirements determination, setting of Navy-wide standards, identification of key associated metrics and discreet levels of capability (Capability Levels – CLs). Each Capability Level is characterized by succinct written descriptors. Last year's report termed these CLs as Service Levels. They have been re-named to better demonstrate their output-related importance.

Accordingly, each IPT has focused diligently on ensuring that all elements of the performance model, i.e. the macro and micro metrics, standards, capability levels and the capability level descriptors are related directly to the key Fleet and other mission commander outputs and mission (see each chapter and associated appendix for detailed discussion for each SIM program area). An overarching aim of this report is to demonstrate “what we got for our money” by comparing CLs achieved for a particular function with the Status of Resources and Training System (SORTS)/C-Level Readiness Rating that were used in the OPNAV N46 Baseline Assessment Memorandum (BAM) submission for PR-03. These

SORTS/C-Level Readiness Ratings Definitions

- **C-1:** Unit possesses the required resources and is trained to undertake the **full** wartime mission(s) for which it is organized or designed – meets 95 to 100% of the mission requirement.
- **C-2:** Unit possesses the required resources and is trained to undertake **most** of the wartime mission(s) for which it is organized or designed – meets 90 to 94% of the mission requirement.
- **C-3:** Unit possesses the required resources and is trained to undertake **many, but not all** portions of the wartime mission(s) for which it is organized or designed – meets 85 to 89% of the mission requirement.
- **C-4:** Unit **requires additional resources and/or training** in order to undertake its wartime mission(s), but it may be directed to undertake portions of its wartime mission(s) with resources on hand – meets 84% or less of the mission requirement.

Generic Capability Level Definitions

- **CL 1:** Installation possesses the required resources and expertise to execute its **full** mission (full quantity and quality requirement).
- **CL 2:** Installation possesses the required resources and expertise to execute **most** of its mission (with degradation in both quantity and quality).
- **CL 3:** Installation possesses the required resources and expertise to execute **many, but not all** portions of its mission (with degradation in both quantity and quality).
- **CL 4:** Installation **requires additional resources and/or training** to execute its mission but may be directed to execute portions of its mission with resources on hand.

C-Ratings were used in PR-03 for the development of overall requirements since CLs did not exist at the time of the start of PR-03.

While there is not a direct correlation between the C-Readiness Ratings (C-1 – C-4) and the Capability Levels (CL 1 – CL 4), there were reasonably close parallels for rough parity, pending development and completion of SIM specific capability levels. Future year Stockholders' Reports incrementally will include expected versus actual comparisons of Capability Levels vice use of C-ratings. In creating Capability Levels, we made an initial assumption that parallels to the extent possible, SORTS/C-Ratings with Capability Level ratings as summarized on page v.

This report is organized into chapters reflecting the IMAP 2003, Core Business Model structure. The CBM was developed to provide more accurate and consistent cost accounting at installations, and to provide better OBOS granularity for added fiscal visibility. Importantly, IMAP provides a common, standard terminology and way of describing the types of services that SIM provides. These functional area descriptions are used as well in building more accurate and detailed Capability Plan requirements. A chapter is devoted to each Core Business Area.

The ten performance levels in the Objective Matrix (ranging from a low of 1 to a high of 10) were divided into four Capability Level categories, each broadly described in terms of the resources and expertise required to perform the mission (below).

IPT Name		Quantity	Quality	Performance	CL
630	630	950	950	10	CL1
900	900	900	900	9	CL1
800	800	800	800	8	CL2
700	700	700	700	7	CL2
600	600	600	600	6	CL3
500	500	500	500	5	CL3
400	400	400	400	4	CL4
300	300	300	300	3	CL4
200	200	200	200	2	CL4
100	100	100	100	1	CL4
<100	<100	<100	<100	0	CL4

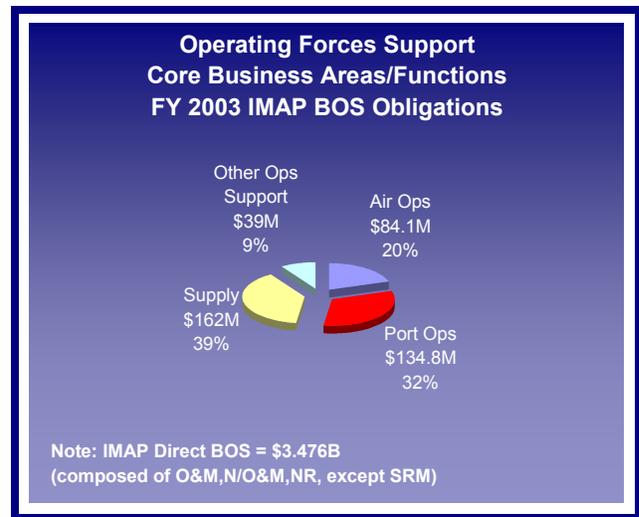
6	6	Score
49	51	Weight
294	306	Value

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At the conclusion of the overview in each chapter is a “Product of the Plan” shaded box summarizing key accomplishments and SIM concerns for FY 2003. Chapter 12 includes important lessons-learned recognizing that important work remains to advance and refine even further our business practices and processes to realize improved effectiveness and further efficiencies in the delivery of SIM services. Also included are anecdotal “success stories” at the beginning of each chapter that describe briefly actual SIM community inter-actions that show how SIM affects the Navy and community as a whole (more such anecdotes are listed in Appendix H, with detailed stories on the CNI website at www.cni.navy.mil).

Operating Forces Support

The Core Business Areas under Operating Forces Support include Air Operations, Port Operations, and Operations Support (Other Operations Support and Supply functions). They provide the clearest linkage and most direct support to the Fleet and a direct link to readiness. Significantly, the associated funding for these areas comprises only 12% of the IMAP direct BOS obligations for FY 2003, which was very similar to the case in FY 2002, with 13%.



The Air Operations, Port Operations, and Supply IPTs have been leaders within the SIM enterprise in developing strong performance metrics and Capability Level descriptors. Considering the relatively small total budget percentage of the Other Ops Support function and other pending issues within OPNAV regarding Navy weapons and ranges, the decision was made not to establish an IPT at this

time to address the associated requirements for these activities. Within Operating Forces Support, all of the functions were again included under Special Interest Item (SII) OB (Other Base Support) in FY 2003, and are combined as a portion of OB within the larger category of Base Support. For FY 2004, new SII codes are provided for all areas which will provide for better fiscal visibility and tracking of expenditures.

For FY 2003, Air and Port Operations were programmed at a readiness level of C-2, while Supply was programmed at C-3. Based upon the Navy-wide performance metric data calls conducted during the year, performance in all three key areas was assessed at Capability Level 2, which met or exceeded both the programmed readiness and/or expected Capability Levels as resourced by the Navy. Examples of the outcomes produced within the Operating Forces Support Core Business Areas include: Air Operations shore activities supported more than 220,000 hours of operation at air installations throughout the Navy; Port Operations across all regions supported 15,714 Ship Movements and 70,690 Berth-Days.

Operating Forces Support			
Core Business Area/Function	FY 2002 Performance: Capability Level	FY 2003 Performance: Score	FY 2003 Performance: Capability Level
Air Operations	CL-2	8.37	CL-2
Port Operations	CL-2	8.38	CL-2
Ops Support	Not measured	Not measured	Not measured
• Other Ops Support	Not measured	Not measured	Not measured
• Supply	CL-2	7.08	CL-2

This productivity was achieved with 85% (Air Operations) and 83% (Port Operations) respectively of the stated funding requirements in FY 2003, but in both areas, at the expense of deferred maintenance and in some cases, aging and deteriorating facilities. As noted in last year's report, concerns remain for overall facility conditions, and lack of replacement aviation ground electronics equipment; the overall condition of the Navy's inventory of service craft and boats, and a pressing need for a systematic approach to meeting Magnetic Silencing requirements of the future.

Community Support

The two Core Business Areas within Community Support (Personnel Support and Housing) address key quality of life issues, each with both direct and tangential linkages to recruitment and retention, and other important factors for both sailors and their families. Community Support comprises 17% of the total SIM resource allocation as detailed on page (i) of this Executive Summary.

Personnel Support includes Morale, Welfare, and Recreation (MWR), Child Development, Galley, Fleet and Family Support Program (FFSP), and Other Community Support. Of these, the largest in terms of fiscal obligations is MWR. Analysis indicates that Navy overall achieved the expected Capability Level in Community Support based on the funding provided within each discreet function.

Although Navy Military Personnel Command funding is not recorded as part of IMAP (approximately \$58M), the pie chart on page viii displays the relative percentages of the Personnel Support functions by the reported direct IMAP BOS obligations. MWR, Child Development, and FFSP functions were resourced at a C-2 readiness rating in PR-03, while the remaining functions were resourced at C-3.

MWR provided increased support to deployed and deploying units for Operations Enduring Freedom and Iraqi Freedom. This support included the procurement and distribution of more than 169,000 pieces of recreation equipment to afloat units and an increase in the number of entertainment shows onboard ships by 30%. In moving forward to meet DoD Fitness standards, Navy MWR centrally funded and procured \$3.4M in fitness equipment for 108 MWR locations. The MWR IPT made substantial



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progress in the development of standards and metrics for an expanded number of MWR programs to include: MWR Overhead, Auto Skills, Category B Bowling, Fleet Recreation (Fleet Support), and Afloat Recreation (Shipboard). The MWR IPT also developed an agreed overall priority list of programs for this function within the Personnel Support Core Business Area. The overall MWR performance for FY 2003, was recorded at a low Capability Level 2, matching FY 2002, performance.

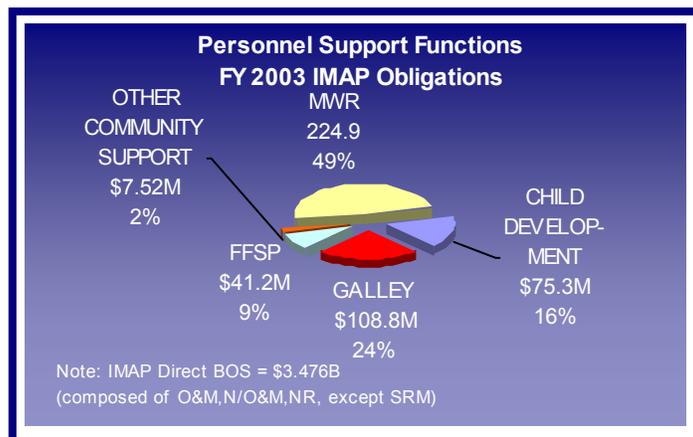


In FY 2003, Navy's Child Development Program (CDP) achieved its fiscal year goal of meeting 73% of the DoD potential child care need in terms of spaces versus the 80% DoD goal. The current funding stream will not enable the program to achieve the DoD goal of 80% by FY 2007. In FY 2003, 100% of the Navy's CDPs were DoD certified. Although the CDP continued to follow the MEO resulting from its implementation of the 2001 Functionality Assessment (FA), and therefore, does not have equivalent Capability Levels, the overall program in FY 2003 performed at the equivalent of a Capability Level 1.

The Navy's 70 Galleys in FY 2003 served more than 10.389 million rations to Sailors and cash-paying customers. The Galley IPT completed its work in developing Navy-wide Capability Levels, which were subsequently approved by the SIPB/RCC. The overall Galley performance for FY 2003 was recorded at a Capability Level 2, with an overall score of 7.55 out of 10. This exceeded the FY 2003 expectations when compared against the PR-03 programmed resources at a C-3 readiness level. Additional in-year funding was provided in order to cover increased contract costs associated with added contract labor requirements.

The Fleet and Family Support Program (FFSP) has 55 centers delivering services at 65 installations throughout the U.S., 9 foreign countries, and U.S. territories. The FFSP system was once again heavily committed with the increased activities and demands in support of units and personnel deploying for Operations Enduring Freedom and Iraqi Freedom. Funding (both Navy and DoD) was adequate to ensure strong program and service delivery throughout the year. The FFSP IPT developed standards, metrics, and Capability Levels, all of which were approved by the SIPB. The FFSP IPT also developed an agreed overall priority list of programs for this function within the Personnel Support Core Business Area. FY 2003, performance for the FFSP was reported at a Capability Level 2, with an overall score of 8.21 out of 10. This level of performance was in line with the expectations set for FY 2003.

OPNAV N1 and N4 established a working group in late FY 2003, to identify options and alternatives for aligning PERS-65 & PERS-66 with CNI to improve overall the various functions and processes where it makes sense, and achieve increased effectiveness and efficiencies. A final report and recommendations are expected early in 2004, with implementation planned for 1 October 2004.



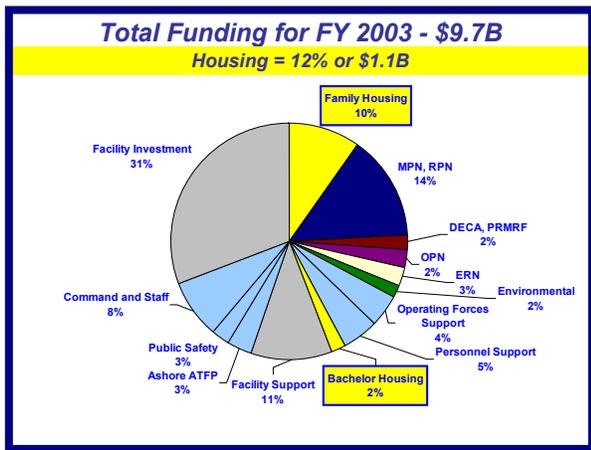
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Community Support			
Core Business Area/Function	FY 2002 Performance: Capability Level	FY 2003 Performance: Score	FY 2003 Performance: Capability Level
MWR	CL-2	7.12	CL-2
Child Development	CL-1	N/A	CL-1
Galley	Not measured	7.55	CL-2
Fleet & Family Support	CL-2	8.21	CL-2
Other Community Support	Not measured	Not measured	Not measured
• Family Housing	CL-2	7.61	CL-2
Bachelor Quarters Ops	CL-2	7.87	CL-2

than in the previous year. The level of performance was achieved with fiscal 03 expenditures which approximated 83% of the PR-03 stated requirement in terms of obligations, and remaining virtually constant with the level of funding in FY 2002. Steady progress was also made toward meeting the FY 2008 goals for eliminating inadequate permanent party Bachelor Housing and the Homeport Ashore program.

Base Support

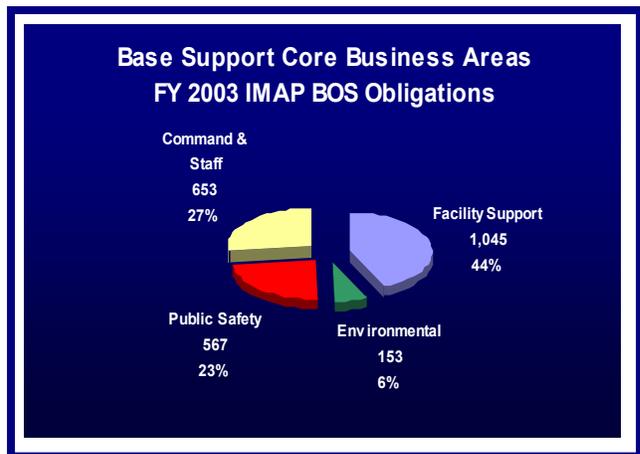
The Base Support portion of the Core Business Model comprises a wide spectrum of functions that range from Utilities to Disaster Preparedness to MILPERS Services. Base Support includes the Core Business Areas of Facility Support, Environmental, Public Safety, and Command and Staff. Together these account for approximately 68% of the total FY 2003 IMAP direct BOS obligations. The largest single fiscal obligation component is in the Facility Support Core Business Area.



Facility Support, as a part of overall Base Support, covers a broad scope of functions and activities. MILCON execution data is not captured as part of IMAP, while SRM data is in IMAP, but addressed separately from BOS obligations. Facility Support includes the five basic functions of Utilities; Facility Services; Facility Management; Base Support Vehicle and Equipment; and Sustainment, Restoration & Modernization (SRM) Facility Investment. All Facility Support functions were programmed for

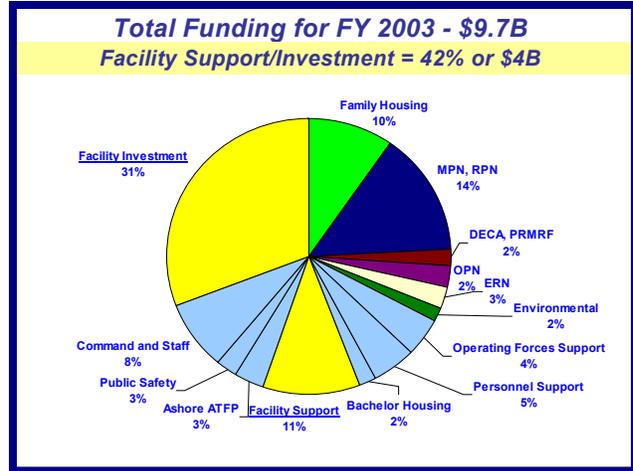
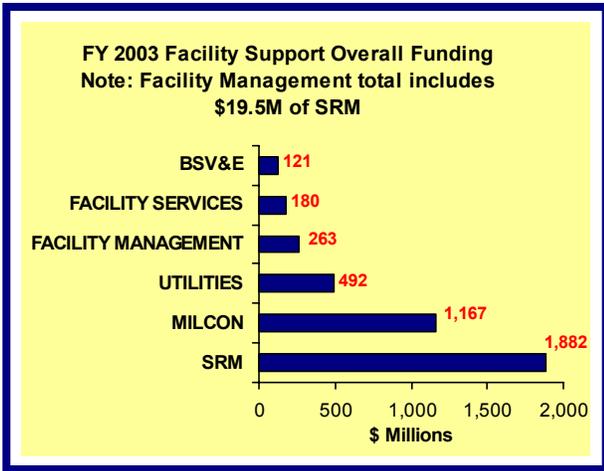
Navy's Sheltering program, which includes Family Housing and Bachelor Quarters Ops, accounts for 12% of the total SIM Funding. The Navy's Housing program currently addresses approximately 28% of the total requirement based on the personnel spectrum. The FH program is on track to meet Defense Planning Guidance requirements to eliminate inadequate houses by FY 2007, through a mix of traditional MILCON, Basic Allowance for Housing (BAH), and privatization. The performance level for the Family Housing function in FY 2003, was reported at Capability Level 2, matching the FY 2002, recorded performance.

The Bachelor Quarters Operations functional area again performed well in FY 2003, with another Capability Level 2 performance equaling that of FY 2002. The performance data call for FY 2003 was significantly improved and more comprehensive



Note: IMAP Direct BOS = \$3.476B (composed of O&M,N/O&M,NR, except SRM)

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FY 2003, at a C-3 readiness rating with the exception of Utilities, which was programmed at C-2.

A majority of the Facility Support funding in FY 2003 was allocated for SRM and MILCON. SRM funding in FY 2003 increased to \$1.882B, up from the \$1.292B in FY 2002. The FY 2003 MILCON funding noted a sizeable Congressional add to the DoD budget request. In sum, the SRM and MILCON programs in FY 2003 accounted for nearly 75% of the overall Facility Support and Facility Investment program. The Utilities program was the next largest at 12% of the total, and the other functions at much smaller percentages.

Over the course of FY 2003, significant progress was made in refining the standards and metrics for many of the functions within the Facility Support Core Business Area. The Navy's Program Managers within the Facility Support Core Business Area conducted a series of Navy-wide performance data calls in FY 2003, addressing the basic facility functions. The Utilities function scored a very high Capability Level 1, and saw an overall increase in funding from \$442.8M in FY 2002 to a total of \$491.6M in FY 2003. This performance was above the Navy's target of Capability Level 2, but is reflective of the volatile fiscal realities associated with today's Utilities commodity. The other functions of Facility Services, Facility Management, and Base Support Vehicle and Equipment all performed at Capability Level 3, with Facility Services very close to Capability Level 2. Total fiscal obligations for these three functions increased by more than \$70M in FY 2003.

The FY 2003, MILCON program had total funding of \$1.167B including Congressional adds of \$198M and \$177M in Defense Emergency Response funds. This MILCON funding covered 95 MCON projects for the active Navy, and 13 MCNR projects for the Naval Reserves.

Visibility and fidelity within the SRM functional area has increased steadily, due in large measure to OSD efforts to develop and benchmark metrics and requirement models. This initiative is marshalling overall efforts to standardize many aspects and methods of Facility Management. Navy in FY 2003 programmed for 84% Sustainment. Navy also programmed for a 116-year recapitalization rate and attained a recapitalization rate of 75 years through Congressional adds. The SRM funding was again not proportionately obligated across the year with 46% of funding allocated in the 4th quarter. The phasing of SRM funding in FY 2003, by quarter indicates inefficiencies in that the phasing of the funds forces a "back-loading" of execution vice executing in accordance with the original plan for SRM projects. Indicative of this "back-loading" is the accompanying table of quarterly obligations of SRM data for FY 2003. The SRM obligations exceeded the plan by over \$180M with a total increase exceeding \$560M over that in FY 2002. This increase in funding over the pan was in part a planned buy-ahead of FY 2004, special projects.

SRM Quarterly Obligations			
1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr
\$245M	\$288M	\$477M	\$870M
Source: IMAP FY 2003 Obligations Shown for SRM			

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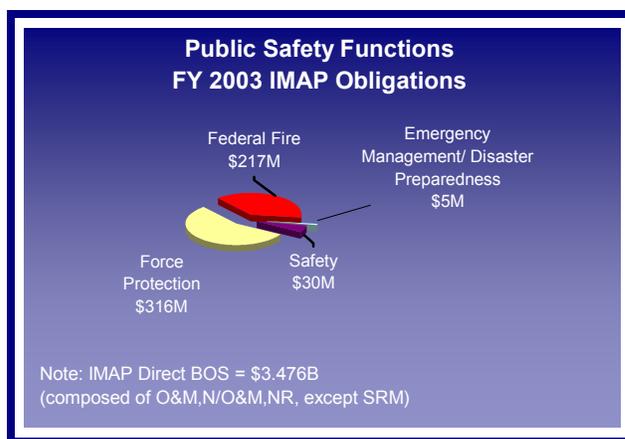
The Navy's Centralized Demolition Program remains a success story. Eliminating excess infrastructure avoids recurring annual costs for sustainment, restoration and modernization, and BOS. The Navy demolished 2.38 Million Square Feet Equivalent (MSFE) in FY 2003, improving on the FY 2002 goal of 2.00 MSFE. FY 2003, execution was at \$38M, with an O&M,N/NR savings of \$11.6M.

The Navy's obligations for FY 2003 came to a total of \$314.44M for Navy BRAC. The BRAC program continued progress toward meeting the FY 2005, goal for remaining cleanup and base transfers to local communities. FY 2003 also saw the establishment of the CNI organization including responsibilities for oversight of BRAC 05 activities.

The Environmental Core Business Area includes Environmental program activities required to meet Federal, state, tribal and local laws. Funding is programmed to ensure 100% compliance and to meet legal requirements. During FY 2003, the SIM community in concert with the Operational Commanders and SYSCOMS established a split between SIM and Mission Environmental programs and funding. An organization was set up for CNI Environmental at CNI and at the Regions. The Environmental IPT was reintroduced. The CNI and OPNAV N45 staffs worked to establish the ground rules and Charter for the future efforts of the revised IPT. An initial draft of the Environmental Capability Level Descriptors is in review. The overall recorded direct IMAP obligations for the Environmental Core Business Area in FY 2003 were \$155.77M. The Navy's Environmental program also includes ER,N funding for the Environmental Restoration Account and requirements. Navy's total for ER,N for FY 2003, was \$255.5M. This funding is for a centrally managed transfer account that funds analysis and cleanup of past contamination from toxic and hazardous substances, low-level radioactive materials and petroleum, oil and lubricants at DoD installations.

Considering only the IMAP obligations reported for FY 2003, the distribution of obligations within the Public Safety Core Business demonstrated that the preponderance of the obligations was within the Force Protection (\$315.7M) and the Federal Fire (\$216.8M) functions. There was limited funding for the Safety (\$29.8M) and Emergency Management/Disaster Preparedness (\$5.1M) functions. The PR-03

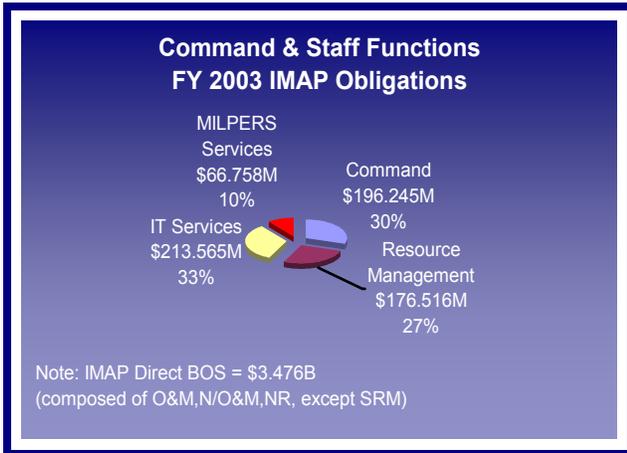
readiness level for Force Protection was set at a C-2 readiness with the other three functions for FY 2003 all set at C-3. No performance data call was conducted for either the Force Protection or the Emergency Management/Disaster Preparedness functions. For the Federal Fire function, the FY 2003 performance data call reported the function at an overall Capability Level 3. This level of performance corresponded with the level of funding and reported performance for FY 2002. Within the Safety program, the FY 2003, performance data call resulted in a Capability Level 3 overall score. This was consistent with the expected performance based on the funding allocated. In FY 2003, the Navy made significant progress in aligning its overall Public Safety posture—particularly for the Force Protection function. OPNAV N46/CNI established strong links to CFFC/N34/SYSCOMS on ATPF issues. CNI has established an IPT for both this function and for the Emergency Management/Disaster Preparedness function with initial meetings completed. The Federal Fire overall obligations increased in FY 2003, by \$15M (7%) over FY 2002. IRCA directed changes will result in significant future process changes for the Federal Fire program. Staffing shortages continue to result in increased overtime expenses. The Safety IPT was reactivated in FY 2003. Safety is developing a plan to achieve the DoD 50% mishap reduction goal in the next two years.



The four primary functions within the Command and Staff Core Business Area are Command, Resource Management, Information Technology (IT) Services, and MILPERS Services. They were all programmed at a C-3 readiness rating in PR-03. The FY 2003 Command and Staff Core Business Area represents

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20% of the total IMAP direct BOS obligations. The distribution of obligations amongst the four functions within the Command and Staff Core Business Area is relatively even with the exception of the MILPERS Services function, which at 9% of the total is the smallest. The only programs with sufficient maturity to develop a performance data call for FY 2003 were the IT Services function and the Religious Programs sub-function of the Command function. For FY 2003, the overall performance for IT Services was at Capability Level 3, while the Religious Programs was assessed at a low Capability Level 2, albeit with little customer satisfaction input for this initial review of standards implementation. None of the other functions or sub-functions within this Core Business Area was in a position to measure performance in FY 2003.



There are IPTs chartered for both the Command Admin sub-function and the Resource Management function. The Command Admin IPT was re-instituted in FY 2003, and made an initial presentation to the IMWG in September 2003. The IPT for Resource Management did not meet in FY 2003. For FY 2003, one of the highlights of the year for this Core Business Area was the success of the Religious Programs IPT in developing standards, metrics, and Capability Level descriptors for the sub-function and having the SIPB/RCC approve these measures at its Fall 2003 meeting. While progress was made across a number of functional areas within the Command and Staff Core Business Area, the efforts in this area more than most other Core Business Areas were centered on activities related to the establishment of CNI in FY 2003. This work had a significant impact in the Resource Management and the Command and Staff program areas in particular. While the progress

toward CNI establishment and the work to assimilate new installations into the regions produced excellent results, the functional oversight of the details of the programming and execution for these areas suffered. For FY 2004, CNI must reactivate the Resource Management IPT and reinvigorate the Command Admin IPT to accelerate the development of standards and metrics for these key functional areas.

Performance for Base Support is summarized in the accompanying table.

Base Support			
Core Business Area/Function	FY 2002 Performance: Capability Level	FY 2003 Performance: Score	FY 2003 Performance: Capability Level
Utilities	CL-2	9.6	CL-1
Facility Services	CL-3	6.6	CL-3
Facility Management	CL-3	6.5	CL-3
Base Support Vehicle & Equipment	CL-3	6.43	CL-3
SRM	Uses Sustainment and Recap Models vice CL	N/A	Uses Sustainment and Recap Models vice CL
Environmental	Not measured	Not measured	Not measured
Force Protection	Not measured	Not measured	Not measured
Federal Fire	CL-3	6.5	CL-3
Disaster Preparedness	Not measured	Not measured	Not measured
Safety	Not measured	5.5	CL-3
Command • Religious Programs	Not measured	Not measured	Not measured
	Not measured	7.02	CL-2
Resource Management	Not measured	Not measured	Not measured
Information Technology	CL-3	6.33	CL-3
MILPERS Services	Not measured	Not measured	Not measured



Balanced Scorecard

To assist the IPTs in defining their goals and metrics, the Navy SIM leadership used the Balanced Scorecard methodology to assess progress in the four primary areas of planned action, and developed seven metrics within the scorecard to assess the SIM community's performance.

The Balanced Scorecard provides a clear prescription as to what organizations should measure in order to "balance" the financial perspective, and has been used effectively in industry for more than ten years. The SIM community views the various functional areas from four perspectives: Customer, Process, Investment, and Workforce. Currently, the capability to fully populate all seven metrics on this

SIM Balanced Scorecard (BSC) Metrics	
<p style="text-align: center;">Customer</p> <ul style="list-style-type: none"> • % of Customers Satisfied with performance (by 2005/6) 	<p style="text-align: center;">Investment</p> <ul style="list-style-type: none"> √ Program to Requirements Ratio √ Budget to Program Ratio √ Execution to Budget Ratio
<p style="text-align: center;">Process</p> <ul style="list-style-type: none"> √ % of Functional Areas with approved standards • Capability level Ratio (by 2004) 	<p style="text-align: center;">Work Force</p> <ul style="list-style-type: none"> • Employee Satisfaction and Effectiveness (by 2005/6)

scorecard is not available because of data limitations/availability from POM/PR cycles that occurred prior to today's capability planning board on the newly developed performance models. Measurement, however, has begun on four metrics as depicted in Chapter 10 of this report.

2003 SIM Priority Actions

In 2001, the Installation Claimants and Regional Commanders identified, evaluated, and prioritized more than 60 priority SIM actions. From this initial list, the board members selected 13 actions (a Baker's Dozen – shown in table), which were considered to

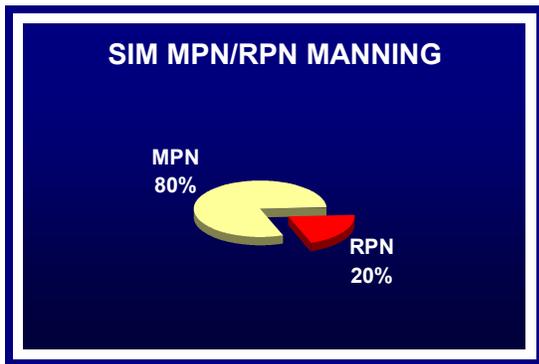
have the highest potential impact. These actions spanned all four Balanced Scorecard quadrants, and were deemed the major activities to be pursued. Good Progress has been made during the past year on all 13 priority items. The full report is included at Chapter 12.

“BAKER’S DOZEN” ACTIONS

<p style="text-align: center;"><u>CUSTOMER</u></p> <ol style="list-style-type: none"> 1) Identify Facility Requirements 2) Identify Standards of Services/Measures 3) Develop Measures of Customer Satisfaction 	<p style="text-align: center;"><u>INVESTMENT</u></p> <ol style="list-style-type: none"> 4) Develop Credible Link to Fleet Readiness (IPTs) 5) Develop Vision and Strategic Imperatives (NAV 2025) 6) Develop Communications Plan
<p style="text-align: center;"><u>PROCESS</u></p> <ol style="list-style-type: none"> 7) Align Financial Systems 8) Evaluate/Correct Organization Structure 9) Identify BOS Functional Owners 10) Deploy Activity Based Cost Management 	<p style="text-align: center;"><u>WORKFORCE</u></p> <ol style="list-style-type: none"> 11) Determine SIM Work Force Mix 12) Designate N4 as Manager for Ashore Personnel 13) Implement a SIM Work Force Development Program

Miscellaneous Items

The Military Personnel, Navy (MPN) and the Reserve Personnel, Navy (RPN) appropriations account for a significant portion of essential SIM funding with a total of \$1.387B in FY 2003, or some 14% of the \$9.7B total as indicated at the chart on page (i). It is imperative that on-going initiatives that may impact on the MPN/RPN billet base be evaluated carefully in light of key considerations such as sea-shore rotation, quality of life, and quality of work.



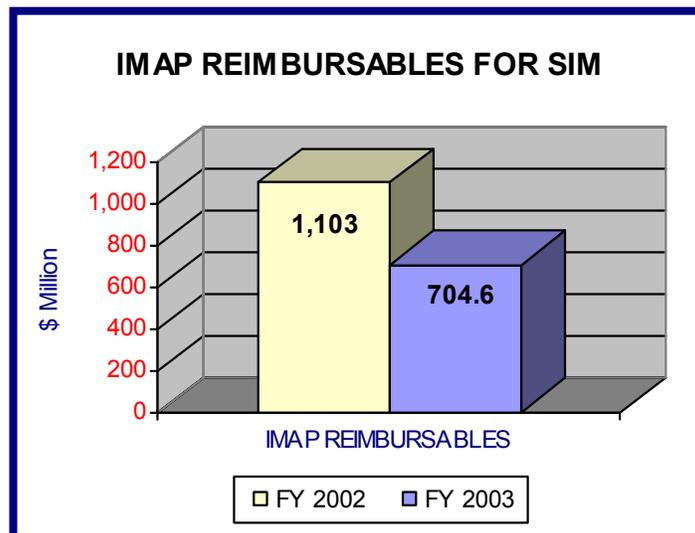
For SIM, the Other Procurement, Navy (OPN) account provided a total FY 2003 OPN authorized of \$236.7M; an increase of more than \$82M from FY 2002. The OPN growth in FY 2003, was largely for increases to Anti-Terrorism/Force Protection (ATFP) and ATFP-related issues. OPN program requirements must continue to be juxtaposed

carefully and balanced with the overall O&M,N/NR requirements.

OPNAV N46 provides BOS funding support to the Defense Commissary Agency (DeCA) for the entire Navy portion of the commissary operations bill. For FY 2003, Navy's portion of the bill was \$148.8M in support for a Department of Defense (DoD) bill totaling more than \$1B for commissary operations worldwide.

The Pentagon Reservation Maintenance Revolving Fund (PRMRF) finances the activities of Washington Headquarters Services in providing space, maintenance, protection, renovation, and a full range of building services for DoD Components, including the Military Departments and other activities housed within the Pentagon Reservation. It is designed to operate on a break-even basis over the long term. Revenue is generated from various sources, but is dependent primarily upon funds collected via a basic user charge for space and building services. The Navy's portion in FY 2003 was \$56.6M.

Within SIM, the Regional Commanders are the recipients of significant funding in the form of reimbursables. These can often drive the requisite size of SIM facilities or their capacity. While we do not program (POM) for reimbursables, they do have an impact on the size of our facilities and their capacity. For FY 2003, this reimbursable funding went down by over one-third.



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The accompanying chart summarizes the Capability Levels computed for FY 2003. C-Ratings were converted to Capability Levels for the PR-03 projections. FY 2006, will be the first year that we can

assess fully programming actions based on Navy-wide standards and Capability Level methodology and compare programmed Capability Levels with actuals.

SIM FY 2003 Performance by IMAP Core Business Area			
IMAP 2003 Installation Core Business Model	Core Business Area	Projected during PR-03 & converted to Capability Level	FY 2003 Performance: Capability Level
Operating Forces Support	Air Ops	C-2=CL 2	CL 2
	Port Ops	C-2=CL 2	CL 2
	Ops Support	C-3=CL 3	CL 2 ¹
Community Support	Personnel Support	C-2=CL 2	CL 2
	Housing	C-2=CL 2	CL 2
Base Support	Facility Support	CL 2/CL 3 ²	CL 1/3 ²
	Environmental	Meet Legal Requirements	Met Legal Requirements
	Public Safety	C-3=CL 3	CL 3 ³
	Command & Staff	C-3=CL 3	CL 3 ⁴
Notes: <ol style="list-style-type: none"> 1. Other Operations Support was not measured. Supply was the largest function in Operating Forces Support and performed at CL 2. Child Development performed at CL 1. 2. Utilities was funded at C-2 and performed at CL 1. All other functions were funded at C-3 and performed at CL 3. 3. All functions were funded at C-3, but Federal Fire and Safety were the only measured Capability Levels at CL 3. 4. All functions were funded at C-3. Religious Programs was measured at CL 2 and IT Services was measured at CL 3. Other functions were not measured. 			

Summary and Conclusions

Today, Navy SIM is better aligned and structured organizationally to optimize support to the operational forces and other mission commanders. While FY 2003 indeed has been a year of major challenge for our Nation, Navy, and Shore enterprise, the progress made in better defining our business processes, articulating requirements, aligning with the expectations of our war fighting and other mission customers, and modeling our support capabilities through output-based performance metrics, and discreet capability levels has been noteworthy. This report describes in considerable detail the various initiatives, actions, and innovative steps that either have been taken or were in progress during the past year. These actions and activities can be categorized generally into three areas; those related to organizational alignment, those steps taken to further

strengthen and build credibility, and still others that have enhanced our collective abilities to provide for better decision-making. It is imperative that we not lose the considerable momentum now underway as Navy considers further actions to better align and streamline to achieve even greater effectiveness and efficiency under Commander, Navy Installations (CNI).

In building credibility both within and outside of the Shore community, the importance of the IPTs in establishing Capability Levels, Metrics, Objective Matrices, and Navy-wide standards has been substantial, but the job is not complete. We must build on the successes, continue to “challenge the assumptions”, and leverage fully the strengths of our people. The development of discreet Performance Models, and the important next steps to incorporate as part of the models Required Operational Capability (ROCs)

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levels of our installations, coupled with Navy actions to improve the Planning, Programming, Budgeting, and Execution (PPBES), will continue to be especially helpful in providing for better and more timely decision-making. In particular, changes that have improved our ability to assess prior year execution and concomitantly, influence future programming requirements within a real-time feedback loop have assisted substantially efforts to manage programs and allocate resources based on capabilities, requirements, and realistic assessments of risk.

FY 2003 can be characterized as a year of major steps forward in the process of better defining SIM requirements not only in terms of funding, but importantly in terms of outcomes, outputs, risks, and capabilities — what are we buying, is it at the right price, what risk can we accept and does it afford the desired outcome(s)? The SIM return on investment (ROI) generally matched the programmed expectations, and as incorporated into the budget process. Progress in setting Navy-wide standards, capability levels, and key performance metrics that measure outputs was substantial. This includes models for the major core business program areas and comprises more than 80% of the resources allocated through SIM obligational authority. As noted, however, in the report, while we did make substantial progress, we did not execute consistently for all program areas, nor achieve therefore, optimum resource efficiency. Actions that have been taken preparatory to the standup of CNI, and underway now, should significantly improve future year execution performance. Those CNI plans and actions include the following guiding principles plus near and mid-term tasks. While not all inclusive, they can be grouped into focus areas as follows:

- Implement/improve standard business processes (common business rules)
- Reduce layering and establishing a common organizational structure
- Further reduce costs by streamlining delivery models and eliminating duplication

- Focus on metrics-based, output-driven resource investments
- Inculcate an atmosphere of Trust, Confidence and Communications
- Priorities:
 1. Standup CNI – Instill a sense of urgency for near and longer term change
 2. Capabilities-based resource management
 3. “Quick Hit” savings in near term
 4. IT Plan
- AT/FP Plan
- OBOS/SRM: Capability-based Budgeting
- Initiate Joint Business Connections
- CNI Staff established and sited
- Transformation Initiatives
- Recapitalization/Savings reinvestment
- PR-05/Budget follow-on
- BRAC planning and support
- Human Capital Development Plan
- Acquisition Efficiencies
- ABCM Implementation
- Establish readiness links through Required Operational Capability (ROC) 4X4 methodology

The FY 2003 SIM goals and objectives have been built in part on these points. This 2003, report on U.S. Navy Shore Installation Management – “Stockholders’ Report – The Product of the Plan” – provides a comprehensive look at the programs, initiatives, and numerous activities that have, and will continue to ensure that our fighting forces receive the very best support possible, now and well into the future.

