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THE ASSISTANT SECRETARY OF THE NAVY
(Research, Development and Acquisition)
WASHINGTON, D.C. 20350-1000

FEB 19 2004

MEMORANDUM FOR DISTRIBUTION

Subj: SHIPBUILDING PRICING FOR INFLATION

Ref: (a) DoN "Budget Guidance Manual" (Part I, Chapter 6)
"Pricing Guidance"

Shipbuilding inflation generally has been outpacing indices specified by OSD/OMB for SCN and (lead ship) RDT&E,N appropriations. Use of OSD/OMB projections for direct and indirect labor, material, and other separately identified costs in some of our shipbuilding programs has led to under-budgeted inflation. In turn, low inflation projections over lengthy shipbuilding contracts result in prior year shipbuilding cost growth.

Reference (a) requires the use of OSD/OMB indices except where other specific information is available. In keeping with your successful efforts to reduce prior year cost growth in shipbuilding programs, ship cost estimates and budgets are to reflect best available information regarding shipbuilding inflation. This includes, when available, application of Forward Price Rate Agreements, Bureau of Labor Statistics information, and other realistic inflation projections pertinent to ship costs. For long-term projections, where labor or material contract agreements either are not in place or end during contract execution, inflation rates in estimates and budgets should reflect a continuation of the rate trend established by best available information.

As we prepare for POM 06, Program Managers are directed to review the inflation assumptions and projections in shipbuilding programs to ensure inclusion of realistic pricing for inflation. This review process must include discussion of total program scope versus validated requirements. Discrepancies surrounding total program costs (including lifecycle) should be resolved with OPNAV resource sponsors to either ensure adequate funding or consider program descopes as appropriate. While it is recognized that this policy may bring bills to the Enterprise that may not be able to be funded in POM 06, it is imperative that the Fleet not bear any increase in costs. In conjunction, Program Managers need to notify ASN (RDA) of any potential Nunn-McCurdy breaches associated with proper pricing.

A handwritten signature in black ink, reading "John J. Young, Jr." in a cursive style.
John J. Young, Jr.

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