



Highlights of [GAO-10-686](#), a report to the Chairman, Subcommittee on Defense, Committee on Appropriations, House of Representatives

Why GAO Did This Study

As fiscal constraints increasingly shape Navy shipbuilding plans, the pressure to increase efficiency mounts. Modernizing facilities and equipment at shipyards that build Navy ships can lead to improved efficiency, ultimately reducing the cost of constructing ships. In response to a request from the House Appropriations Subcommittee on Defense, GAO (1) identified investments in facilities and equipment at privately-owned shipyards over the last 10 years; (2) determined the Navy's role in financing facilities and equipment investments at these shipyards; and (3) evaluated how the Navy ensures investments result in expected outcomes. To address these objectives, GAO analyzed shipyard investment data over the past 10 years; interviewed shipyard, corporate, and Navy officials; and reviewed contracts, investment business cases, and other Navy and contractor documents.

What GAO Recommends

GAO recommends that the Navy develop a policy that identifies the intended goals and objectives of investment incentives, criteria for using incentives, and methods for validating outcomes. The Department of Defense concurred with this recommendation.

View [GAO-10-686](#) or [key components](#). For more information, contact Belva Martin at (202) 512-4841 or martinb@gao.gov.

DEFENSE ACQUISITIONS

Guidance Needed on Navy's Use of Investment Incentives at Private Shipyards

What GAO Found

Over the past 10 years, large shipyards that build Navy ships used public and corporate funds to invest over \$1.9 billion in facilities and equipment to improve efficiency, develop new shipbuilding capabilities, and maintain existing capabilities. Examples of each category include the following:

- *Improving efficiency*—General Dynamics Bath Iron Works built a new facility—the Ultra Hall—that improves efficiency by allowing shipbuilders to access work space more easily in a climate-controlled environment.
- *Developing capabilities*—Northrop Grumman Shipbuilding–Newport News built a replacement pier that allowed shipbuilders to work on two aircraft carriers simultaneously due to a Navy scheduling conflict.
- *Maintaining capabilities*—General Dynamics Electric Boat invested to repair docks in order to maintain the shipyard's ability to launch and repair submarines.

Investments at two smaller shipyards, Austal USA and Marinette Marine shipyard, were primarily to maintain and develop new capabilities as both are competing for new Navy contracts.

Over the last 10 years, the Navy expanded its use of investment incentives and has recently provided some form of investment support at all large shipyards. To incentivize facility and equipment investments, the Navy has (1) released money early from the reserve of contract funds normally held back to ensure ships are delivered according to specifications, (2) accelerated asset depreciation schedules, (3) tied a portion of the contractor's fee to investing in new facilities and equipment, and (4) adjusted the contract share-line to give the contractor more of the savings if costs decrease. The Navy also manages funds appropriated by Congress for Hurricane Katrina relief at shipyards in the Gulf Coast. Outside of Hurricane Katrina funding, the Navy has not supported investments at the two smaller shipyards. Navy officials stated that the Navy has to negotiate investment incentives with large shipyards because limited competition and instability of Navy work does not foster an environment for shipyards to invest without incentives. Shipyard officials argued that instability in Navy shipbuilding plans makes it difficult to invest without guaranteed work from the Navy and incentives are necessary to help meet corporate minimum rates of return needed to justify an investment, especially given the large dollar amounts involved with some investments.

The Navy lacks policy to help ensure it achieves goals and objectives from providing facility and equipment investment incentives at private shipyards. Absent this policy, individual program offices and contracting officers make decisions about what type of incentive to use, desired return on investments, and what kinds of investments to support. Without policy, program officers and contracting officers use different methods to validate expected outcomes and safeguard the Navy's financial support.