DEFENSE-WIDE WORKING CAPITAL FUND
FY 2001 BUDGET ESTIMATES
DEFENSE LOGISTICS AGENCY
DISTRIBUTION DEPOTS

FUNCTIONAL DESCRIPTION

The Defense Logistics Agency (DLA) Distribution Depot Activity Group is responsible for the receipt, storage and issue of approximately 24 million lines of workload. In Fiscal Year (FY) 1998, DLA realigned the DLA distribution depots from two regions into one center -- the Defense Distribution Center (DDC) at New Cumberland, PA. In April 1999, two former Navy depots (Pearl Harbor, HI and Yokosuka, Japan) were consolidated into the DLA Defense Distribution System. Each of the 24 distribution depots now reports to the DDC. Customers include components of all Military Services, defense agencies and authorized civil agencies within designated geographical areas. The realignment is part of an overall reduction of Department of Defense (DoD) support activities and allows Distribution to bring its operating costs into line with today's smaller military force. The new management structure is now streamlined with 339 personnel managing the depot system. This is a significant reduction from the pre-consolidation workforce.

From FY 1992 through FY 1999, with the implementation of Base Realignment and Closure (BRAC) Commission decisions, DLA has been able to reduce its end strength from 27,000 in FY 1992 to 10,876 in FY 1999, a 59.7 percent decrease. In addition, the number of distribution depots has decreased from 30 depots within the continental United States to 21 depots within the continental United States. Nine distribution depots have already closed (Oakland, CA; Memphis, TN; Charleston, SC; Columbus, OH; Ogden, UT; Letterkenny, PA; Tooele, UT; Pensacola, FL; San Diego, CA). Two more depots will close in FY 2001: San Antonio, TX and McLellan, AL.

In 1998, DLA began the process of competing the first 3 of 18 depots with private industry. All CONUS depots, except the two sites scheduled for closure under Base Realignment and Closure (BRAC), are to be competed. One of those BRAC depots, San Antonio, TX, was directly converted to contractor operations in March 1998. Experience has shown that this contractor operation is experiencing higher costs than originally anticipated due to higher than anticipated workload. Six additional depots were announced for study in April 1999. Seven depots will be announced in FY 2000. DLA will begin the A-76 process in FY 2001 for selected non-core functions at the last two sites, Susquehanna, PA and San Joaquin, CA. The competition process takes 18 months to 2 years from time of announcement to contract award.

Under the A-76 competition process, this budget assumes a savings equivalent to 20 percent of the labor costs associated with the competed depots. These savings will be derived by either implementing the government most efficient organization (MEO) or by award to the private sector. This budget request also assumes that one-half of all depot competitions will be awarded to private contractors. The first three depot competitions have been completed (Defense Depot Columbus, Ohio (DDCO), Defense Depot Warner Robins, Georgia (DDWG) and Defense Depot Barstow, California (DDBC)). The first competition was won by the public sector; the next two were won by the private sector. These decisions have been protested. The budget assumes that 50 percent of all depots competed will go to the private sector and reflects 20 percent labor savings for all competitions. Experience from these initial awards may require modifications to future obligation projections for A-76 competed activities.

Estimated costs/assumptions for the competitions are as follows:

(1) Study costs estimated at $2,000 per full-time equivalent (FTE);

(2) Severance costs for personnel reductions and contract conversions for half of the depots being studied estimated at $28,000 per FTE.

The FTE and labor savings reflect MEO savings and will be adjusted as necessary based on actual award decisions. Costs and savings were prorated to the fiscal year in which they are expected to occur. The entire A-76 process should be completed by the end of FY 2003.

In an effort to boost productivity and effectiveness at the Defense Depot Susquehanna, Pennsylvania (DDSP), DLA is sponsoring the DDSP 2001 Initiative. DDSP consists of distribution depots at two sites in central Pennsylvania – New Cumberland and Mechanicsburg. The intent of this initiative is to maximize use of the existing capabilities at both these facilities by consolidating fast-moving, high demand items to New Cumberland from Mechanicsburg and utilizing Mechanicsburg for slow-moving, inactive items. This internal workload realignment enables DLA to reduce infrastructure and achieve an estimated 33 percent increase in productivity at the two sites. There will be a total reduction of 460 DDSP personnel with net cumulative savings of $10.5M for FY 2001. Net cumulative savings through FY 2006 are estimated to be $193M. The DDSP 2001 Initiative will reduce the depot footprint, while simultaneously maximizing efficiency and effectiveness.

The Distribution portion of the FY 2000 Performance Contract outlines the new metrics for this activity group. These metrics include unit costs for processing, storage and reimbursable workloads and total cost for distribution services; the costs are to be controlled/reduced through the use of competitive sourcing. Other metrics include optimizing the DLSC distribution system and conducting public/private competitions.

The primary focus of these efforts is to reduce logistics cycle times and to streamline the infrastructure. In addition, DLA is moving to a much more agile and responsive distribution system. Processing time frames have been dramatically reduced in an effort to help the Services and DLA achieve the various Streamlining Logistics efforts ongoing DoD-wide. Internally, DLA has begun to measure our depot cycle times in hours, instead of days, in an effort to further improve our responsiveness to customer needs.

DLA has been able to make great steps in reducing the number of depots through BRAC Commission decisions in 1993 and 1995, from 30 CONUS depots in 1992 to 21 CONUS depots in 1999. (This includes the addition in FY 1999 of the Defense Distribution Mapping Depot located in Richmond, VA.) The San Antonio depot operations (a site closing undr BRAC) were outsourced March 1998. The contractor will redistribute remaining materiel to other DLA storage locations as directed, with closure scheduled for July 2001. The last BRAC depot scheduled for closure is McClellan. Workforce reductions occur from FY 1998 through FY 2000. Closure date is July 2001. There will be 22 depots remaining worldwide after the BRAC-designated depots have been closed. These closures result in significant future savings that will be passed on to customers and are reflected in this budget. Two Navy depots that support the Pacific theater were transferred to DLA in FY 1999, bringing the number of depots outside of the continental United States to three (Pearl Harbor, Yokosuka,Japan and Europe).

Two years ago Distribution established a one-day standard for materiel release, much timelier than previous performance. The goal has been met and customer support directly benefits. To date, overall performance has improved while costs continue to decrease. Continuing process efficiencies and a steady drop in mission workload have led to significant reductions in cost and to the required distribution workforce. Civilian endstrength dropped from 27,000 in FY 1992 to 10,876 in FY 1999, a reduction of 16,124 personnel, or a 59.7 percent decrease. Reductions to date have been accomplished mainly through the use of Voluntary Separation Incentive Pay (VSIP) and Voluntary Early Retirement Authority (VERA). However, involuntary Reductions-in-Force (RIFs) were required in FY 1998 and more may be required in FY 2000/2001 to maintain the appropriate balance of workforce to workload. Military endstrength increases with the absorption of the two Navy depots at Yokosuka, Japan and Pearl Harbor. Portions of the expenses at Yokosuka are paid by the Host Government under burden-sharing agreements.

PERSONNEL PROFILE:

	FY 1999	FY 2000	FY 2001
Civilian End Strength	10,876	10,882	9,816
Civilian Full Time Equivalents (FTEs)	11,248	11,124	10,103
Military End Strength	88	184	184

BUDGET HIGHLIGHTS:

WORKLOAD:

Lines Received and Shipped:

Lines processed (either received or shipped) is the basic work count. Lines received and shipped are budgeted to decline 10.6 percent over the budget period. This continues a long-lived trend, as changes in logistics methods reduce distribution depot workload. Reengineering initiatives, such as Premium Service, Virtual Prime Vendor and the Central Depot concept, along with a general decline in customer demands will continue this trend into the foreseeable future. These estimates reflect the latest forecasts.

Lines Received and Shipped
(Millions)

FY 1999	FY 2000	FY 2001
24.6	22.9	22.0

Storage:

In FY 1996, Discrete Pricing was implemented to allow, for the first time, the separate recovery of the cost to store DoD materiel. This initiative charges inventory owners for the storage of materiel based on occupied space in warehouses. Occupied cubic feet shows significant declines (-19.6 percent) over the budget period as a result of continued scrutiny of storage data reports and initiatives to maximize use of commercial vendor stocks. Customers have a financial incentive to reduce inventory as they pay for storage.

Average Cubic Footage Occupied
(Millions)

	FY 1999	FY 2000	FY 2001
Covered Storage Space	291.8	241.3	234.5
Storage Space	78.6	69.8	63.8

REVENUE:

Revenue for the Distribution Depot Activity Group consists of payments from the Supply Management Activity Groups of DLA and the Military Services for lines received and shipped, for storage space occupied, and reimbursable funding provided by inventory managers or local activities to depots for special project work. Inventory Control Points (ICPs) in supply management include their distribution depot costs in surcharges applied to sales of materiel that they manage.

The current rate structure includes a discrete pricing structure (a matrix of discrete prices for lines received and shipped), a separate pricing structure for storage services, and an hourly reimbursable rate.

Lines Received and Shipped:

Inventory Control Points reimburse Distribution for lines received and shipped charges based on a discrete pricing structure matrix.

Lines Received and Shipped:	FY 1999	FY 2000	FY 2001
Receipts			
Bin	$28.72	$24.55	$20.92
Medium Bulk	40.11	38.59	31.96
Heavy Bulk/Hazardous	53.85	63.29	71.20
Issues On-Base:			
Bin	16.07	13.95	11.27
Medium Bulk	32.64	31.10	23.50
Heavy Bulk/Hazardous	63.16	57.34	44.15
Issues Off-Base:			
Bin	16.96	17.18	16.84
Medium Bulk	43.16	38.49	33.98
Heavy Bulk/Hazardous	81.71	88.88	113.20
Transshipments	3.22	5.25	6.24
Composite Rate	$27.97	$26.34	$24.36
Percentage Change	+26.6%	-5.8%	-7.5%

FY 1999 processing and storage rates were set to recoup FY 1997 and FY 1998 losses that primarily resulted from higher workload declines than expected. Having recouped these losses, we were able to reduce our FY 2001 rates and still recover total costs.

Storage Rates:

In FY 1999, we changed the unit rate from gross square feet occupied to cubic feet of warehouse space occupied in order to better reflect the actual cost of storage and to give our customers visibility of their occupied space and associated costs. Storage costs continue to experience significant declines, -13.3 percent over the budget period. Customer reaction has caused our storage workload (cubic feet occupied) to decrease faster than we can reduce our fixed costs in the short term. However, due to our positive FY 1999 net operating result, we are able to maintain our rates with only a negligible rate increase ($0.01) to open storage rates. A rate adjustment is necessary to insure that revenue covers costs as we continue our efforts to shed infrastructure.

Average Cost Per Cubic Foot

	FY 1999	FY 2000	FY 2001
Covered Storage	$0.83	$0.86	$0.86

Open Storage	$0.16	$0.16	$0.17

Capital Investments:

The Capital Investment Program for Distribution finances the reinvestment of the infrastructure for this activity group. The Distribution Depot Activity Group submits the following requirements:

		($000)	
	FY 1999	FY 2000	FY 2001
Equipment (non-ADP)	15,804	16,017	16,435
Equipment (ADP/T)	6,673	5,652	12,019
Software Development	15,493	9,279	6,825
Minor Construction	5,995	5,100	9,200
TOTAL	43,965	36,048	44,479

The increase in ADP Equipment in FY 2001 is a planned shift of investments towards the Information Technology infrastructure due to normal maturation and replacement of Local Area Network equipment. The increase also allows for telecommunication upgrades to 14 sites. The increase in Minor Construction in FY 2001 is not due to an increase in requirements. We deferred $2.0M in Minor Construction programmed funding to FY 2001 in order to accommodate the DSS Rehost software development requirement in FY 2000.

Operating Result:

Distribution budgeted for and achieved a positive net operating result for FY 1999 in order to recoup prior year losses. Because of the successful completion of this business plan, proposed rates are requested to meet only the total costs of current operations.

Net Operating Result (NOR)/Accumulated Operating Result (AOR)
(Dollars in Millions)

	FY 1999	FY 2000	FY 2001
NOR	146.3	-19.1	22.1
Prior Year AOR	-105.1	41.2	22.1
AOR	41.2	22.1	0

DEFENSE LOGISTICS AGENCY
Defense-Wide Working Capital Fund
Distribution Depots Activity Group
FY 2001 Budget Estimates
Revenue and Expenses
(Dollars in Millions)

	FY 99	FY 00	FY 01
Revenue:			
Gross Sales	0.0	0.0	0.0
Operations	1,428.8	1,305.9	1,221.7
Capital Surcharge	0.0	0.0	0.0
Depreciation excluding Maj Const	22.3	57.1	46.5
Other Income			
Total Income:	1,451.1	1,363.0	1,268.2
Expenses:			
Cost of Material Sold from Inventory	0.0	0.0	0.0
Salaries and Wages:			
Military Personnel	10.2	9.5	10.7
Civilian Personnel	529.3	557.0	521.4
Travel & Transportation of Personnel	7.2	7.0	7.8
Materials & Supplies (for Internal Operations)	51.2	29.7	27.6
Equipment	1.7	1.4	1.3
Other Purchased Services from Revolving Funds	81.5	58.6	54.2
Transportation of Things	399.9	402.7	391.0
Depreciation-Capital*	22.3	57.1	46.5
Printing and Reproduction	1.6	2.4	1.5
Advisory and Assistance Services	0.3	1.9	1.8
Rent, Communication, Utilities, & Misc. Charges	11.3	50.8	45.9
Other Purchased Services	253.7	203.9	180.6
Total Expenses	1,370.2	1,382.1	1,290.3
Operating Result	80.9	(19.1)	(22.1)
Less Capital Surcharge Reservation	0.0	0.0	0.0
Plus Appropriations Affecting NOR/AOR	0.0	0.0	0.0
Other Changes Affecting NOR/AOR**	65.4	0.0	0.0
Net Operating Result	146.3	(19.1)	(22.1)
Prior Year AOR	(105.1)	41.2	22.1
Accumulated Operating Result	41.2	22.1	0.0
Non-Recoverable Adjustment Impacting AOR	0.0	0.0	0.0
Accumulated Operating Results for Budget Purposes	41.2	22.1	0.0

*Nonrecoverable MILCON Depreciation expenses ($34.9M) and $31.8 reversal of current year expenses that are applicable to FY 98 for prior year depreciation for DSS System)

**Nonrecoverable loss due to Bosnia transportation (FY 98 - $13.2M and FY 99 - $52.2M)

Defense Logistics Agency Defense-Wide Working Capital Fund Distribution Depots Activity Group FY 2001 Budget Estimates Source of New Orders and Revenue (Dollars in Millions)			
	FY 99	FY 00	FY 01
1. New Orders			
a. Orders from DoD Components:	82.5	72.0	73.3
Other Services (Appropriated)			
DLA	31.9	28.3	36.9
Army	36.0	34.8	34.2
Navy	0.0	0.0	0.0
Air Force	3.9	8.9	2.2
Marine Corps	0.0	0.0	0.0
DERA	10.7	0.0	0.0
b. Orders from Other Working Capital Fund Activity Groups:	1,368.6	1,291.1	1,194.9
DLA	753.2	648.9	618.8
Army	176.9	230.0	217.5
Navy	163.1	167.4	139.0
Air Force	267.2	237.4	212.4
Marine Corps	8.4	7.3	7.1
c. Total DoD:	1,451.1	1,363.0	1,268.2
d. Other Orders:	0.0	0.0	0.0
Other Federal Agencies			
Trust Fund			
Non Federal Agencies			
Foreign Military Sales			
2. Carry-In Orders	0.0	0.0	0.0
3. Total Gross Orders	1,451.1	1,363.0	1,268.2
4. Funded Carry-over	0.0	0.0	0.0
5. Total Gross Sales	1,451.1	1,363.0	1,268.2

Defense Logistics Agency
Defense-Wide Working Capital Fund
Distribution Depots Activity Group
FY 2001 Budget Estimates
Changes in Cost of Operations
(Dollars in Millions)

		EXPENSES	
FY 99 Estimated Actual		1,452.7	
FY 99 Actual		1,363.5	
Impact in FY 00 of Actual FY 99 Experience:			
Depreciation		21.2	
Personnel Costs		(53.7)	
Supplies and Material		8.2	
Transportation		(54.9)	
Travel & Transportation of Personnel		3.3	
Rent, Communication, Uitlities, & Misc. Charges		(2.6)	
Other Services		(28.6)	
Pricing Adjustments:			
Annualization of FY 99 Pay Raise		4.6	
FY 00 Pay Raise		18.4	
General Purpose Inflation		11.7	
Program Changes:			
Depreciation		(5.1)	
Personnel Costs		(6.0)	
Travel		(0.5)	
Transportation		3.3	
DISA Info.System		0.6	
Pearl/Yokosuka		18.1	
Workforce Development		(4.0)	
Other Services		(4.6)	
FY 00 Current Estimate		1,382.1	

Exhibit Fund-2 Changes in the Costs of Operation

Defense Logistics Agency
Defense-Wide Working Capital Fund
Distribution Depots Activity Group
FY 2001 Budget Estimates
Changes in Cost of Operations
(Dollars in Millions)

		EXPENSES	
FY 00 Current Estimate		1,382.1	
Pricing Adjustments:			
Annualization of FY 00 Pay Raise		6.2	
FY 01 Civilian Personnel Pay Raise		16.6	
FY 01 Military Personnel Pay Raise		0.4	
General Purpose Inflation		12.1	
Program Changes:			
A-76		(0.7)	
Susquehanna Restructuring		(10.5)	
BRAC		1.3	
DDJC Distribution Center 2000		(10.0)	
Inventory Accuracy		(5.7)	
Depreciation		(10.6)	
Overocean Transportation		(5.0)	
Yokosuka and Pearl		(2.9)	
Real Property Maintenance		(2.0)	
Environmental (Non-DERA)		(2.1)	
DFAS		(1.3)	
Military Personnel		1.1	
Corporate Overhead Allocation		7.1	
DDST Contract		(2.4)	
Workload Cost Decrease		(54.0)	
FY 99 Personnel under-execution		(29.4)	
FY 01 Estimate		1,290.3	

Exhibit Fund 2 Changes in the Costs of Operation