DEFENSE WORKING CAPITAL FUND

DEFENSE-WIDE

FISCAL YEAR (FY) 2001 BUDGET ESTIMATES

OPERATING AND CAPITAL BUDGETS

FEBRUARY 2000

CONGRESSIONAL DATA

DEPARTMENT OF DEFENSE

FISCAL YEAR (FY) 2001 BUDGET ESTIMATES

DEFENSE-WIDE WORKING CAPITAL FUND

DEPARTMENT OF DEFENSE

FISCAL YEAR (FY) 2001 BUDGET ESTIMATES

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DEFENSE-WIDE WORKING CAPITAL FUND

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CAPITAL BUDGET

DEFENSE-WIDE WORKING CAPITAL FUND
DEFENSE-WIDE FY 2001 BUDGET ESTIMATES

DEFENSE-WIDE SUMMARY

Defense Agencies will operate nine activity groups within the Defense-Wide Working Capital Fund during FY 2001. The Defense Logistics Agency (DLA) will operate four activity groups; the Defense Finance and Accounting Service (DFAS) and the Defense Information Systems Agency (DISA) will each operate two; and the Defense Security Service (DSS) will operate one.

The former DLA Information Services activity group was reorganized within the other four DLA activity groups to directly support their customers. DLA's Defense Automated Printing Service changed its name to the Document Automation and Production Service.

DFAS was formed in January 1991 from the Military Services finance and accounting functions to improve financial accounting support to DoD-wide activities and to reduce costs by adapting standard policies, procedures, forms, data, and systems; streamlining and consolidating operations; and eliminating redundancies.

DISA was reorganized in 1991 from the former Defense Communications Agency. Its responsibilities include obtaining common telecommunication and information services for command and control and providing assistance in other communication support to meet customer needs.

DLA, formed in the early 1960s, operates the Distribution Depot, Reutilization and Marketing, Supply Management, and Document Automation and Production Service activity groups. Distribution Depots receive, store, and ship inventory. Reutilization and Marketing functions include the reutilization of excess and surplus property and the donation, sale, or disposal of surplus DoD personal property. Supply Management conducts the procurement, inventory management, and technical operations functions for consumable defense inventory. The Document Automation and Production Service provides printing services to customers.

DSS, formerly known as the Defense Investigative Service, was formed in 1972. The mission of DSS is to administer the Personnel Security Investigations (PSI) program and the National Industrial Security Program (NISP) for the Department. The mission of the PSI program is to conduct background investigations on individuals assigned to or affiliated with the Defense Department. The purpose of the NISP program is to ensure that private industry, while performing government contracts, properly safeguards classified information in its possession.

DEFENSE-WIDE WORKING CAPITAL FUD
SUMMARY
FY 2001 BUDGET ESTIMATES
REVENUE AND EXPENSES
(Dollars in Millions)

	FY 1999	FY 2000	FY 2001
Revenue:			
Gross Sales	19,897.1	18,788.0	21,059.9
Operations	19,553.8	18,388.7	20,687.7
Capital Surcharge	0.0	0.0	0.0
Depreciation excluding Major Construction	251.3	298.2	271.1
Major Construction Depreciation	0.0	0.0	0.0
ADPE & Telecommunications Equipment	92.0	101.1	101.1
Other Income	700.0	924.2	1,111.5
Refunds/Discounts (-)	(403.0)	0.0	0.0
Total Income	**20,194.1**	**19,712.2**	**22,171.4**
Expenses:			
Cost of Materiel Sold from Inventory	8,875.5	10,557.3	10,096.9
Materiel-Related	0.0	0.0	0.0
Salaries and Wages:			
Military Personnel Compensation & Benefits	93.5	88.9	91.2
Civilian Personnel Compensation & Benefits	2,741.2	2,746.7	2,678.3
Travel & Transportation of Personnel	87.0	84.2	84.6
Materials & Supplies (For Internal Oper)	277.1	134.0	127.9
Equipment	269.7	182.5	170.2
Other Purchases from Revolving Funds	1,060.3	1,186.4	1,422.4
Transportation of Things	925.9	927.5	917.1
Major Maintenance & Repair	0.0	0.0	0.0
Depreciation - Capital	359.1	414.4	389.2
Printing & Reproduction	215.0	213.2	214.0
Advisory and Assistance Services	40.4	21.9	21.5
Rent, Communication, Utilities, & Misc.	1,670.6	1,715.7	1,662.5
Other Purchased Services	3,021.6	2,775.9	2,801.6
Total Expenses	**19,636.8**	**21,048.6**	**20,677.3**
Operating Result	**557.3**	**(1,336.4)**	**1,494.1**
Less Capital Surcharge Reservation	0.0	0.0	0.0
Plus Passthroughs or Other Approp Affecting NOR	0.0	0.0	0.0
Other Adjustments Affecting NOR	65.4	0.0	0.0
Net Operating Result (NOR)	**622.7**	**(1,336.4)**	**1,494.1**
Prior Year Adjustments	0.0	0.0	0.0
Other Changes Affecting AOR	(1,333.1)	(14.6)	4.7
Prior Year AOR	310.9	(297.4)	(1,414.0)
Accumulated Operating Result (AOR)	**(399.6)**	**(1,648.4)**	**84.8**
Non-Recoverable Adjustments Impacting AOR	7.6	0.0	0.0
Accumulated Operating Results for Budget Purposes	**(392.0)**	**(1,648.4)**	**84.8**

ACTIVITY GROUP ANALYSIS
DEFENSE-WIDE WORKING CAPITAL FUND - TOTAL
SOURCE OF NEW ORDERS AND REVENUE
FY 2001 BUDGET ESTIMATES
(Dollars in Millions)

	FY 1999	FY 2000	FY 2001
1. New Orders:			
a. Orders from DoD Components			
Army	3,839.3	3,836.7	4,022.7
Navy	4,410.3	4,078.4	4,819.2
Air Force	5,212.5	4,618.0	5,670.2
Marine Corps	510.8	522.6	548.6
Other	900.9	697.4	1,027.8
b. Orders from Other Fund Activity Groups	3,044.7	3,176.5	3,196.6
c. Total DoD	17,918.6	16,929.6	19,285.1
d. Other Orders:			
Other Federal Agencies	598.7	571.8	580.9
Trust Fund	38.4	38.3	37.3
Exchange Activities	191.0	201.1	203.3
Non Federal Agencies	66.2	42.7	89.1
Foreign Military Sales	605.0	613.8	661.4
2. Carry-In Orders	1,359.2	1,337.1	1,333.6
3. Total Gross Orders	20,777.0	19,734.4	22,190.7
4. Funded Carry Over	1,317.9	1,287.3	1,287.1
5. DRMS Sales Proceeds	117.0	110.0	90.0
6. Total Gross Sales	19,576.1	18,557.1	20,993.6

DEFENSE-WIDE WORKING CAPITAL FUND
FY 2001 BUDGET ESTIMATES
OVERVIEW

DEFENSE LOGISTICS AGENCY

The Defense Logistics Agency (DLA) is a Combat Support Agency responsible for providing the Military Services with a broad range of logistics support. Responsibilities include the acquisition, storage, and distribution of most of the Department of Defense's spare parts and other consumable items, contract administration services, reutilization and marketing of excess military property, document automation services, and operation of the Defense National Stockpile. DLA directly contributes to the warfighting readiness and sustainability of U.S. forces, literally "around the clock - around the world".

Most of these responsibilities are carried out by activity groups operating within the Defense-Wide Working Capital Fund (DWWCF). Through Fiscal Year (FY) 1999, the DLA portion of the Fund consisted of the following five activity groups:

- Supply Management
- Distribution Depots
- Reutilization and Marketing Service
- Defense Automated Printing Service
- Information Services

The Information Services Activity Group was devolved and realigned to the remaining DLA activity groups on September 30, 1999. Therefore, for the budget year, the DLA portion of the Fund will only consist of the remaining four activity groups. In FY 2000, the Defense Automated Printing Service was renamed the Document Automation and Production Service.

This submission reflects our continued commitment to execute our Strategic Plan through aggressive use of business process reengineering, competitive sourcing and privatization, acquisition reform, and use of emerging technology to reduce infrastructure costs while sustaining readiness support to the warfighter. Specifically, this submission addresses:

♦ DLA Performance Contract goals and metrics for all major DLA Commands

- Actions to reduce infrastructure costs in the Distribution, Defense Reutilization and Marketing, and Document Automation and Production Activity Groups via Competitive Sourcing

- Full-time equivalent personnel reductions of 18.1 percent during the period from the beginning of FY 1999 through FY 2001

As noted above, DLA signed a performance contract with the Defense Management Council in October 1999. The purpose of this contract is to articulate expectations for DLA’s performance in FY 2000 through FY 2005. The standards and goals set forth in this contract cover all of DLA’s major missions and activity groups. The budget narratives included in each activity group section in this budget provide detailed information on the goals and objectives included for each group in the performance contract.

Detailed budget highlights by activity group follow:

Supply Management Activity Group

The DLA Supply Management Activity Group incorporates those activities, programs and costs related to material management. Costs include operations (salaries and expenses), material (items sold to the military services), and capital investments (purchase of equipment, software development and minor construction). Approximately 20 million requisitions are received annually from the military services and other federal agencies for the four million consumable items managed by DLA.

The DLA Supply Management Activity Group consists of four Inventory Control Points (ICPs) and a small number of supporting activities, including the Defense Logistics Information Service (DLIS). Materiel management is organized around Fuel, Troop and General Support, and two Weapons Systems Support ICP activities.
Based upon the DLA’s FY 2000 Performance Contract commitments, DLA was tasked to determine how to achieve a weapon system supply availability goal of 85 percent for each military service. Although the Agency is already achieving an aggregate weapon system supply availability of 85 percent, Air Force and Navy aviation support rates are below that level. Analysis has indicated that overall supply availability is being negatively impacted by items related to aviation

support. To improve the availability of aviation spare parts and to achieve required readiness, $500 million in appropriated funding is included in the Air Force and Navy Operations and Maintenance accounts for additional aviation support beginning in FY 2001 through FY 2004. The amounts included are $100 million, $147.9 million, $133.1 million and $119 million, respectively, across those fiscal years. DLA will procure $334 million in aviation spare parts, $120 million in aviation engine spares, and $46 million to support aviation non-demand items. Procurement actions begin during FY 2000.

Based on the March 1997 decision by the Deputy Under Secretary of Defense (Logistics), DLA has begun implementing the centralization of cataloging functions at DLIS. DLIS is resourced through a Service Level Billing (SLB) to each DoD Supply Management Activity Group (Army, Navy, Air Force and DLA). In FY 1999, each component paid an equal share of total DLIS costs, which included costs for information management and dissemination. Beginning in FY 2000, cataloging costs were added to the SLB and the method of allocating SLB changed to recognize a more direct customer/provider relationship. No longer will each activity pay an equal share of DLIS costs. Instead, workload will determine the amount included in each SLB.

The standards and goals set forth in the Performance Contract for Supply Management include:

(1) Customer Price Change (the average change in price from one year to the next) of no greater than the realized increases in the DoD composite inflator,
(2) Supply Availability (or fill rate), at a specified percentage each year,
(3) Logistics Response Time (the number of days that it takes to fill a customer's requisition),
(4) Product Conformance (the number of National Stock Numbers (NSNs) that pass random testing for critical and major defects/characteristics divided by the total number of NSNs tested), and
(5) Customer Satisfaction Index (the percentage of customer responses of 4 or greater on a 5-point Likert scale).

DLA develops and the Department of Defense reviews and approves the change in customer rates for the non-energy segment of the activity group. Normally, these changes in customer price are driven by inflation and the basic costs incurred to deliver the products to the customers relative to the sales volume. For FY 2000, the change is primarily driven by cash buy-down in the FY 1999 rates. DLA's FY 2001 customer price change is +4.5 percent and is primarily the result of the decision to finance the full Defense Reutilization and Marketing Service non-recoverable cost in DLA’s Supply Management rates, rather than sharing the cost among the Army, Navy, Air Force, and DLA Supply Management activity groups. Without the increase for DRMS non-recoverable costs, the FY 2001 customer price change would be 1.4 percent.

Unlike non-energy, fuel rates are established by the Office of Management and Budget (OMB) with input from the Departments of Defense, Energy, Treasury, and Commerce. The single most important cost factor is the world petroleum market price/product cost. While product cost is outside DLA's direct control, several acquisition and materiel management techniques are used to mitigate rising costs. Actual fuel costs in FY 2000 are expected to significantly exceed the budgeted FY 2000 fuel rates. As a result, the fuel prices in FY 2001 have been increased to recover the losses recorded in FY 1999 and expected to occur in FY 2000.

In FY 1999, the Supply Management Accumulated Operating Result (AOR) was -$149.3 million as a result of Congressional direction to transfer $569 million from the DWWCF cash account to the military services Operations and Maintenance accounts for profits generated from lower than budgeted fuel prices. In FY 2000, fuel costs are expected to significantly exceed the FY 2000 President’s Budget projection resulting in an AOR of -$1,340.1 million. Increases to the standard unit price of fuel in FY 2001 will generate revenue to offset this loss and bring the FY 2001 AOR to zero.

The capital budget estimate for FY 2001 of $147.4 million includes a $40.3 million increase over the FY 2000 requirements, which is driven by the replacement of the Supply Automated Materiel Management System (SAMMS) through Business Systems Modernization (BSM). SAMMS is DLA’s main supply system. SAMMS functions are performed by five main subsystems: requirements, distribution, financial, technical, and contracting. While it served the Agency well over the past 30 years, SAMMS is not capable of meeting DLA’s strategic vision of a virtual DLA. The integrated system is a product of decades of accumulated business practices, using technology that is obsolete, and is no longer supported by the original vendors. Although SAMMS contains several million lines of code, it provides no analytical capability or real-time data access. These shortfalls (age, complexity, and size) lead to its fragility, high maintenance cost, and increasing unreliability. BSM enables the successful integration of business processes in a closed loop logistics system using electronic conventions and client/server capabilities in a shared data environment.

Activity Group Profile

	($ in Millions)		
	FY 1999	FY 2000	FY 2001
Cost of Goods Sold	$8,875.5	$10,557.3	$10,096.9
Net Operating Results	$652.2	-$1,190.8	$1,340.1
Accumulated Operating Results	-$149.3	-$1,340.1	$0
Civilian End Strength	10,382	10,867	10,371
Military End Strength	377	369	369
Civilian Full-Time Equivalents	10,540	10,989	10,422
Military Workyears	377	369	369
Capital Budget Program Authority	$67.5	$107.1	$147.4

Distribution Depots Activity Group

The DLA Distribution Depots Activity Group is responsible for the receipt, storage, and issue of approximately 24 million lines of workload. In 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 DoD support activities and allows Distribution to bring its operating costs into line with today's smaller military force.

The Base Realignment and Closure process has closed nine distribution depots to date, will close one additional depot in FY 2001, and has led to the outsourcing of one depot to a private firm until its closure in FY 2001.

In 1998, DLA began the process of competing the first 3 of 18 depots with private industry. The competition process takes 18 months to 2 years. 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. 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.

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. The entire A-76 process should be completed by the end of FY 2003.

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; these costs are to be controlled/reduced through the use of competitive sourcing. Other metrics include optimizing the 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.

Two years ago, Distribution established a one-day standard for material 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.

Lines processed (either received or shipped) is the basic work count for this activity group. Lines processed 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.

In FY 1996, Discrete Pricing was implemented to allow, for the first time, the separate recovery of the cost to store DoD material. This initiative charges inventory owners for the storage of material 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.

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, Distribution was able to reduce FY 2001 rates and still recover total costs and obtain an AOR of zero by the end of the budget period.

<u>Activity Group Profile</u>

	($ in Millions) FY 1999	FY 2000	FY 2001
Cost of Goods Sold	$1,370.2	$1,382.1	$1,290.3
Net Operating Results	$146.3	-$19.1	$22.1
Accumulated Operating Results	$41.2	$22.1	$0
Civilian End Strength	10,876	10,882	9,816
Military End Strength	88	184	184
Civilian Full-Time Equivalents	11,248	11,124	10,103
Military Workyears	88	184	184
Capital Budget Program Authority	$44.0	$36.0	$44.5

Reutilization and Marketing Activity Group

The primary mission of the Defense Reutilization and Marketing Service (DRMS) Activity Group is the reuse, or reutilization, of excess and surplus property within the Department of Defense (DoD) and the disposal of remaining property through transfer, donation or sales. The Military Services reutilized approximately $2.6 billion worth of personal property in FY 1999, resulting in savings to the DoD and the Government. DRMS also has the mission of hazardous property disposition.

DRMS headquarters, responsible for operational control, is located in Battle Creek, Michigan. The operational core of this organization lies with individual Defense Reutilization and Marketing Offices (DRMOs) located on military installations throughout the world. DRMOs receive, classify, segregate, demilitarize, account for and report excess material for screening, lotting, merchandising, and sales.

DRMS is undergoing a significant business evolution into a knowledge-based organization that moves property through information management rather than by physically handling property. In FY 1999, DRMS completed deployment of the Recycling Control Point (RCP) Program at wholesale distribution sites. This is a major milestone in the transition to moving information not property. To minimize property handling, the RCP automates the screening and sales processes via the DRMS Internet World Wide Web site and reduces labor requirements for current manual receipt, warehousing, and data entry functions associated with physically handling the property at DRMOs. In addition, DRMS will continue expansion of automation enhancements to support the Reutilization/Transfer/Donation (R/T/D) process. More effective automation will make the R/T/D process more efficient and customer-friendly. It will also ensure that all R/T/D customers, regardless of geographic location, will get an equal opportunity to access excess property.

DRMS application of automated technology will support internal DRMS operations by eliminating duplicative and repetitive data entry and providing accurate and current management data. Technology will support DRMS customers by providing on-line information to include pictures as well as expanded narrative descriptions of property, catalogs, and asset interrogation capabilities.

In FY 1999, DRMS expanded the Commercial Venture initiative to new supply classes. This initiative partners DRMS with a contractor having commercial expertise in selling, while maintaining the utility functions of management oversight that are inherently part of the DRMS mission. In FY 2000, DRMS entered into its first A-76 competition, which competes the logistics process at 10 DRMOs in the Northeastern United States. DRMS continues to be a center of excellence for environmental management and compliance.

The above initiatives will allow DRMS to complete implementation of significant infrastructure reductions. These reductions are in line with the Quadrennial Defense Review infrastructure and outsourcing initiatives that direct operational streamlining and partnerships with industry.

The DRMS unit cost goals are based on the four major work processes: (1) R/T/D, (2) Sales, (3) Ultimate Disposal; and (4) Abandonment and Destruction. Two of these unit cost goals, Ultimate Disposal and Abandonment and Destruction, are in the DLA FY 2000 Performance Contract. The Ultimate Disposal performance contract goal is to reduce costs at least in proportion to the decline in workload. The Abandonment and Destruction performance contract goal is to provide disposal at an average cost not to exceed the stated unit cost.

DRMS ended FY 1999 with a negative Accumulated Operating Result (AOR) and a further loss is projected for FY 2000. The budget goal is to achieve a zero AOR by FY 2002.

Reductions in employment levels, without degradation of mission support, are achieved primarily by two factors:

automation and management improvements. Automating the reutilization and marketing processes and management information systems reduces the need for manual intervention. Management improvements such as reorganizing, reengineering processes, and realigning workloads are general means to further productivity.

DRMS monitors the condition of facilities and equipment at more than 95 DRMOs to maintain a safe and healthy workplace in accordance with stringent environmental and safety and health regulations. Minor Construction projects are to enhance operations at various storage facilities to promote proper handling of hazardous materials, hazardous waste, and items requiring demilitarization.

Activity Group Profile

	($ in Millions)		
	FY 1999	FY 2000	FY 2001
Cost of Goods Sold	$333.0	$352.8	$325.9
Net Operating Results	-$44.1	-$159.1	$101.6
Accumulated Operating Results	-$44.1	-$203.2	-$101.6
Civilian End Strength	2,570	2,280	1,990
Military End Strength	7	19	12
Civilian Full-Time Equivalents	2,779	2,518	2,105
Military Workyears	7	19	12
Capital Budget Program Authority	$7.5	$8.4	$7.2

Document Automation and Production Service Activity Group

The Document Automation and Production Service (DAPS), formerly named the Defense Automated Printing Service, is responsible to ensure compliance with the Federal Printing Program for the DoD printing and document automation programs. This responsibility encompasses the full range of automated printing services to include: conversion, electronic storage and output, and the distribution of hard copy and digital information. DAPS provides time sensitive, competitively priced, high quality products and services that are produced either in-house or procured through the Government Printing Office (GPO). In addition, the Joint Committee on Printing (JCP), Congress of the United States, exercises oversight of all federal printing including the DAPS in-house printing capability.

DAPS manages this worldwide mission through a customer service network comprised of a Headquarters located at Mechanicsburg, Pennsylvania, 80 major field locations and 200 smaller document automation facilities.

In August 1999, DLA notified Congress of its decision to conduct a public-private competition for the production functions of DAPS. Approximately 1,400 DAPS employees, within the continental United States, will be affected. Because of the complexity of DAPS overseas operations, those functions were excluded from the competition.

DAPS continues to rightsize its workforce. This submission reflects full-time equivalent personnel reductions of 5.0 percent in FY 1999, 10.6 percent in FY 2000, and 5.2 percent in FY 2001.

Since becoming the Department’s single manager for printing and duplicating in 1992, DAPS has closed or consolidated approximately 200 printing facilities. Continuing this trend of streamlining operations, DAPS closed or consolidated an additional 10 facilities in FY 1999. In FY 2000, DAPS will consolidate from four regional areas to two regional areas. Savings resulting from these actions are reflected in this submission.

DAPS’ change in workload reflects the transition within the Department from “hard copy” to digital documents. The number of pages converted to digital by DAPS increased by 100 percent from FY 1998 to FY 1999. Hard copy pages fell 12.5 percent during this same period. This trend is expected to continue with a resulting decrease in total units and increase in unit cost because of the higher cost associated with producing digital documents. DAPS loss in FY 1999 is primarily attributable to a decrease in workload and one-time unprogrammed costs.

DAPS has four performance indicators in the FY 2000 DLA Performance Contract. They are: (1) number of pages converted to digital form in-house or by contract; (2) customer satisfaction; (3) rework; and (4) discrepancy reports. In FY

1999, DAPS achieved all of its measurable performance contract goals.

DAPS primary challenge is to reduce short-term fixed costs in response to reductions in customer demand to achieve Net Operating Result objectives. To meet this challenge, this budget submission incorporates productivity improvements and cost savings from capital investments, consolidation actions, and management initiatives.

Activity Group Profile

	($ in Millions) FY 1999	FY 2000	FY 2001
Cost of Goods Sold	$409.6	$370.7	$363.8
Net Operating Results	-$26.5	-$5.1	$25.6
Accumulated Operating Results	-$37.3	-$42.4	-$16.8
Civilian End Strengt	1,695	1,609	1,486
Military End Strength	0	0	0
Civilian Full-Time Equivalents	1,843	1,647	1,561
Military Workyears	0	0	0
Capital Budget Program Authority	$1.8	$8.7	$5.9

Information Services Activity Group

This activity group consists of a Central Design Activity, the DLA Systems Design Center, and the Defense Automated Addressing Center. There are eight major sites, located throughout the Continental United States, and each is in close proximity to its customer base.

Since 1996, its inaugural year as a business entity, the Information Services activity group strove to meet the needs of its customers within a technically and economically competitive environment. By early FY 1999 the rapidly changing information technology environment -- one that emphasized commercially available software versus in-house development -- precluded the continuation of organically developed systems and software solutions. However, a need exists to maintain legacy systems until they are replaced by newer, commercial-off-the-shelf technology. Therefore, DLA functionally transferred its Information Services activity group resources devoted to legacy system design and maintenance to other DLA activity groups.

The Information Services Activity Group was devolved and realigned to the remaining DLA activity groups on September 30, 1999. Some of these activity group costs and revenue will continue into FY 2000. Residual obligation, disbursing, and accounting of the devolved activity group will occur after September 30, 1999. Civilian personnel payroll direct charges occur for several additional days as the pay period extends over the end of the fiscal year. These costs will be budgeted in the successor DLA activity groups. The current estimated expense associated with these transactions is $9.0 million.

Activity Group Profile

	($ in Millions) FY 1999
Cost of Goods Sold	$109.6
Net Operating Results	-$0.3
Accumulated Operating Results	-$16.9
Civilian End Strength	987
Military End Strength	3
Civilian Full-Time Equivalents	1,028
Military Workyears	3
Capital Budget Program Authority	$0.9

DEFENSE LOGISTICS AGENCY
DEFENSE-WIDE WORKING CAPITAL FUND
FY 2001 BUDGET ESTIMATES
PROGRAM AND FINANCING
(Dollars in Thousands)

Identification code:		FY 1999 Actual	FY 2000 est.	FY 2001 est.
	Direct Program:			
20400	DoD Working Capital Funds	0	0	0
	TOTAL DIRECT PROGRAM/TOA	0	0	0
	Reimbursable Program:			
R00000	TOA OFFSET ADJ	0	0	0
R02000	DISTRIBUTION DEPOTS	1,316,566	1,371,000	1,242,400
R12000	DEFENSE REUTILIZATION AND MARKETING	330,668	343,410	316,850
R15000	DEFENSE AUTOMATED PRINTING SERVICE	187,025	365,514	357,253
R17000	INFORMATION SERVICES	111,615	0	0
R25000	SUPPLY MANAGEMENT, DEFENSE-WIDE	12,883,657	14,054,700	13,842,000
R42000	CAPITAL BUDGET - DISTRIBUTION DEPOTS	44,065	36,000	44,400
R52000	CAPITAL BUDGET - REUTILIZATION AND MARKETING	7,442	8,425	7,155
R55000	CAPITAL BUDGET - DEFENSE AUTOMATED PRINTING SERVICE	2,585	8,700	5,900
R57000	CAPITAL BUDGET - INFORMATION SERVICES	1,033	0	0
R65000	CAPITAL BUDGET - SUPPLY MANAGEMENT, DEFENSE-WIDE	65,905	107,200	147,500
	REIMBURSABLE TOTAL	14,950,561	16,294,949	15,963,458
	TOTAL PROGRAM	14,950,561	16,294,949	15,963,458
	Financing:			
	Offsetting collections from:			
F11010	Federal Funds(-)	(15,112,281)	(14,450,225)	(15,230,305)
F14010	Non-Federal sources(-)	(335,527)	(33,100)	(33,700)
	TOTAL ORDERS	(15,447,808)	(14,483,325)	(15,264,005)
F17010	Recovery of Prior Year Balances	(584)	0	0
F21980	Unobligated balance start of year, F/B	(219,460)	(996,347)	815,277
F22980	Unobligated balance to other - FB	(446,572)	0	0
F22985	Funds Transfered From Other Accounts	0	0	0
F24980	Unobligated balance end of year, F/B	996,347	(815,277)	(1,514,730)
F32490	Balance C/A W/D	1,966,239	0	0
F39.0001	Budget authority	1,798,723	0	0
F41980	Transfer to Other Accounts - U-S	(569,000)	0	0
F69150	Cont Auth Indef	2,367,723	0	0

DEFENSE LOGISTICS AGENCY
DEFENSE-WIDE WORKING CAPITAL FUND
FY 2001 BUDGET ESTIMATES
PROGAM AND FINANCING
(Dollars in Thousands)

Identification code:		FY 1999 Actual	FY 2000 est.	FY 2001 est.
	Reimbursable obligations:			
	Personnel Compensation:			
T21111	Full-time Permanent	1,071,177	1,131,348	1,091,325
T21131	Other than Permanent	17,771	35,054	36,945
T21151	Other Personnel Compensation	57,097	68,018	64,374
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T211.901	Total personnel compensation	1,146,045	1,234,420	1,192,644
T21171	Military Personnel Compensation	39,682	37,328	40,959
T21171	Personnel Benefits: Civilian Personnel	273,256	148,629	140,938
T21301	Benefits to Former Employees	48,350	41,538	33,917
T22101	Travel and transportation of persons	47,728	43,980	45,589
T22201	Transportation of Things	914,368	586,883	553,993
T22311	Rents - GSA	5,457	7,684	7,755
T22321	Rents to Others	14,140	13,249	12,254
T22331	Communications, Utilities and other Misc	50,767	44,726	41,314
T22401	Printing and Reproduction	94,287	197,622	198,172
T22511	Advisory/Asst Services	29,688	21,682	25,366
T22521	Other Services	393,530	154,121	138,253
T22531	Goods/Services from Other Agencies	166,632	304,512	279,435
T22532	Pay - Foreign National	13,514	14,982	15,222
T22533	Buys from Revolving Funds	1,417,119	825,011	736,819
T22541	O&M of Facilities	50,145	49,991	49,003
T22571	O&M of Equipment	49,759	72,963	67,935
T22601	Supplies and Materials	9,910,914	12,268,720	12,119,667
T23101	Equipment	256,662	160,908	198,223
T23201	Land and Structures	23,068	66,000	66,000
T24101	Grants-Subs-Etc.	1,019	0	0
T24201	Insurance Claims	0	0	0
T24301	Interest and Divs	4,431	0	0
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	Total Reimbursable obligations	14,950,561	16,294,949	15,963,458
	Total Obligations	14,950,561	16,294,949	15,963,458