DEFENSE-WIDE WORKING CAPITAL FUND
DEFENSE LOGISTICS AGENCY
FY 2002 AMENDED BUDGET SUBMISSION

DISTRIBUTION DEPOTS

FUNCTIONAL DESCRIPTION

The Defense Logistics Agency (DLA) Distribution Depots Activity Group is responsible for the global distribution and warehousing of wholesale DoD weapon systems parts and other defense related consumable items and reparables, as well as end items. In FY 2001, twenty-three Defense Distribution Depots, strategically located throughout the world, received and issued approximately 23 million lines and stored over 294 million cubic feet of material. The Defense Distribution Depot network insures that America's war fighters receive the best value in distribution services by providing "around the clock - around the world" world-class service for the least cost to the taxpayers. All items are typically prepared and shipped within one day of receiving a shipping order.

CHANGES IN OPERATIONS

In FY 1998, plans were developed to reengineer DLA's two Primary Distribution Sites (PDSs) located at the Defense Distribution Depot San Joaquin California and at the Defense Distribution Depot Susquehanna Pennsylvania. At both PDSs, the reengineering efforts involved rewarehousing material from nearby facilities and eliminating duplicate functions. These actions resulted in the reduction of more than 700 employees and a substantial increase in productivity at the two sites.

Also, in FY 1998, DLA began the process of competing the first 3 of 16 depots with private industry. The process follows federal policy for deciding whether to retain recurring, commercial-like activities within the government or contract them out to a private sector source. The goal of the program is to reduce operational costs through the competitive process and through process reengineering. The first competition award, announced in November 1999, resulted in the Defense Distribution Depot Columbus, OH retaining depot operations and management in house. The next two competition awards, announced January 2000 for the Defense Distribution Depot Barstow, CA and February 2000 for the Defense Distribution Depot Warner Robins GA, resulted in both depots contracting out their operations and management functions. The two contracts are for three years with one two-year option period. These competitions will provide quality support and significant cost savings to the war fighters in the years to come.

Six additional depots were announced for study in April 1999. To date, two additional competition awards have been announced. Both depots, Distribution Depot Cherry Point, NC and Distribution Depot Jacksonville, FL were awarded to private contractors. The remaining four depots will be announced throughout the remainder of FY 2001 and FY 2002. This budget includes a revision to our A-76 schedule. Studies that were scheduled to begin in FY 2000 are now planned to begin in FY 2001, pending a review of execution. DLA plans to compete all other CONUS depots, except the two sites scheduled for closure under Base Realignment and Closure (BRAC). The two BRAC distribution depots, at Kelly AFB in San Antonio, TX, and at McClellan AFB in Sacramento, CA, will close by July 2001. The distribution depot in San Antonio was outsourced and has been operated by the private sector since 1998 and will end its distribution status with the closure of Kelley Air Force Base. DLA will announce the two final studies of the support functions at the Primary Distribution Sites (PDSs) in FY 2002. The entire A-76 process ends in FY 2005.

The performance metrics for this activity group include unit costs for processing, storage and reimbursable workloads and total costs for distribution services; these costs are to be controlled/reduced through the use of competitive sourcing.

DLA has been able to make great strides in reducing the number of distribution depots through mergers and BRAC Commission decisions in 1993 and 1995, going from 30 CONUS depots in 1992 to 18 CONUS depots by the end of 2001. Since distribution depot consolidation, three depots have been established in the European and Pacific theatres (Pearl Harbor, Hawaii; Yokosuka, Japan; and Germersheim, Germany) and one specialized distribution depot for handling maps has been added.

Consistent with activity based costing techniques, in FY 2002 DLA will implement the Net Landed Cost pricing mechanism at the Distribution Depots. The current discrete pricing methodology does not reflect the varying levels of distribution services rendered. Customers are not aware of the cost implications of specifying either routine, priority; special levels/value of added services; or of the cost drivers of the varying materiel that DLA handles. The continued use of average line item costs does not reflect the actual level of effort expended with respect to individual items processed. Without this level of detail, precise costs cannot be determined and subsequently used as a mechanism for developing competitive prices. However, Net Landed Cost will provide our customers with visibility of their distribution costs by commodity, customer, and transactions so that they may make more informed supply decisions as well as develop more accurate surcharges. Net Landed Cost is the next generation of discrete pricing to (1) fairly allocate costs to the level of services desired, (2) allocate costs to the customer driving the costs, and (3) align costs more accurately.

To date, overall performance has improved while costs continue to decrease. Continuing process efficiencies and steady drops in mission workload have led to significant reductions to the distribution workforce. Endstrength will drop from 25,000 in FY 1992 to an estimated 8,783 in FY 2002, a reduction of 18,217 personnel, a 67 percent decrease. Personnel 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 2000 and more will be required in FY 2001/2002 to maintain the appropriate balance of workforce to workload and as a result of competition awards.

PERSONNEL PROFILE:

	FY 2000	FY 2001	FY 2002
Civilian End Strength	9,214	9,145	8,783
Civilian Full Time Equivalents (FTEs)	10,210	9,305	8,954
Military End Strength	135	177	178

BUDGET HIGHLIGHTS:

WORKLOAD:

Lines Received and Shipped:

Lines processed (either received or shipped) are the basic work count. Workload is budgeted to decline 4.3 percent in FY 2002. This continues a persistent trend, as changes in logistics methods reduce distribution depot workload. Reengineering initiatives, such as Premium Service and Virtual Prime Vendor, and 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 2000	FY 2001	FY 2002
23.0	23.2	22.2

Storage:

In FY 1996, DLA implemented Discrete Pricing 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 continues to show declines, totaling 9.7% over the budget period, as a result of continued scrutiny of storage data reports and due to initiatives to maximize use of commercial vendor stocks.

Average Cubic Footage Occupied (Millions)

	FY 2000	FY 2001	FY 2002
Covered Storage Space	241.3	233.0	220.8
Open Storage Space	69.8	61.6	61.4

REVENUE:

Revenue for the Distribution Depots Activity Group consists of payments from the Supply Management Activity Groups of the Military Services and DLA 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 in supply management include their distribution depot costs in surcharges applied to sales of materiel that they manage.

Lines Received and Shipped:

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.

Discrete Pricing:

Lines Received and Shipped:	FY 2000	FY 2001	FY 2002
Receipts			
Bin	$24.55	$20.92	Net
Medium Bulk	38.59	31.96	
Heavy Bulk/Hazardous	63.29	71.20	Landed
Issues On-Base:			
Bin	13.95	11.27	Cost
Medium Bulk	31.10	23.50	
Heavy Bulk/Hazardous	57.34	44.15	(see below)
Issues Off-Base:			
Bin	17.18	16.84	
Medium Bulk	38.49	33.98	
Heavy Bulk/Hazardous	88.88	113.20	
Transshipments	5.25	6.24	
Composite Rate (with transportation)	$26.34	$24.36	$26.12

This budget submission provides our customers, through the implementation of Net Landed Cost (NLC) in FY 2002, greater visibility of their distribution costs by commodity, customer, and transactions in order for them to make more informed supply decisions. Inventory Control Points reimburse Distribution for lines received and shipped charges based on a discrete pricing structure matrix. Current pricing methodology does not reflect the varying levels of distribution services rendered. In an attempt to provide each customer greater visibility of their costs, the following changes will occur under NLC:

(1) Transportation costs are not included in NLC rates. Customers will be billed the actual transportation cost for each transaction. Linking actual transportation with the customer's bill will involve them in the decision process and will be a key element in driving distribution costs to the proper levels. This is a significant

change from the current process where customers can make decisions that require premium transportation without any direct financial impact on their costs.

(2) Receipts, Issues, Issues from Receiving, and Off-base Transshipments will include a basic charge and will also incur a charge for extended weight of the line.

(3) Value Added Services – Returns, Hard to Handle, Hazardous, Controlled Items, Foreign Military Sales, Out-of-Cycle, and Local Delivery items will incur additional charges. These are services that are beyond the basic services, requiring additional processing.

The following table outlines our rate schedule under Net Landed Cost:

Net Landed Cost Rates

FY02

Receipt

Base	$21.88	per line
Plus		
1-40 lbs.	$1.37	per line
40-150 lbs.	$8.41	per line
150-2000 lbs.	$21.95	per line
2000+ lbs.	$0.0080	per lb.+ $21.95
Return	$3.87	per line additional
Hazardous	$13.11	per line additional
Hard-to-Handle	$13.11	per line additional

Issue

Onbase	$8.92	per line
Plus		
1-40 lbs.	$1.37	per line
40-150 lbs.	$8.41	per line
150-2000 lbs.	$21.95	per line
2000+ lbs.	$0.0080	per lb.+ $21.95
Offbase Base	$13.00	per line
1-40 lbs.	$2.34	per line
40-150 lbs.	$18.69	per line
150-2000 lbs.	$37.51	per line
2000+ lbs.	$0.0105	per lb.+ $37.51
Hazardous	$13.11	per line additional
Controlled Item	$6.47	per line additional
Hard-to-Handle	$13.11	per line additional
FMS	$6.43	per line additional
Out-of Cycle	$17.60	per line additional
LocalDelivery	$1.25	per line additional

Issue from Receiving

Base	$1.17	per line
Plus		
1-40 lbs.	$1.37	per line
40-150 lbs.	$8.41	per line
150-2000 lbs.	$21.95	per line
2000+ lbs.	$0.0080	per lb. + $21.95

Transshipments

MarkFor	$4.72	per line
Onbase	$8.61	per line
Offbase	$17.99	per line
1-40 lbs.	$2.34	per line
40-150 lbs.	$18.69	per line
150-2000 lbs.	$37.51	per line
2000+ lbs.	$0.0105	per lb. + $37.51

Estimated Transportation	$151,856,200
Total Processing Costs	$585,600,000
Composite Rate with Transportation	$26.12
Composite Rate w/o Transportation	$19.18

Storage Rates. In FY 1999, we changed the unit measure from gross square feet occupied to cubic feet of warehouse space occupied in order to better reflect the cost of storage and to give our customers visibility of their occupied space and associated costs. As stated previously, storage workload (cubic feet occupied) is decreasing faster than we can reduce our costs. Because the workload is decreasing faster than costs, and in keeping with aligning costs where costs belong, our unit cost for storage will increase. DLA is committed to reducing these costs by getting material to the customer without storing or double handling of materiel.

The last two distribution depots affected by BRAC will close operations in FY 2001, leaving an infrastructure still in excess of distribution depot requirements. Nine distribution depots have been closed under the BRAC process. To the extent possible, we are continuing to vacate warehouse buildings within the remaining distribution depots and returning them to hosts/owners. Only through reduced inventory can we reduce our fixed costs – infrastructure – and pass these savings to our customers.

Average Cost Per Cubic Foot

	FY 2000	FY 2001	FY 2002
Covered Storage	$0.83	$0.83	$0.99
Open Storage	$0.17	$0.17	$0.20

Reimbursables. A nationwide reimbursable rate of $66.89 per direct labor hour was established in FY 1998. In FY 1999 we realigned workload associated with Principal End Items. In an effort to respond to our customers' concerns with respect to one nationwide rate and in keeping with aligning costs where costs belong, we have changed the pricing structure for our Reimbursable work. We have realigned overhead costs and established two rates to capture workload performed 1) at DLA facilities and 2) at customer facilities. We are continuing to pursue a NLC pricing structure for reimbursable workload to provide more visibility and cost control to our customers.

	FY 2000	FY 2001	FY 2002
DLA Facilities	$65.95	$68.36	$63.12
Non-DLA Facilities	$52.55	$52.55	$52.55

Over-Ocean Transportation/Container Consolidation Point (OOT/CCP). We budgeted for full recovery of Over-Ocean Transportation (OOT) and Container Consolidation Point (CCP) costs. Transportation costs to Bosnia decreased from $30M in FY 2000 to $15M in FY 2002. In anticipation of higher transportation costs as a result of fuel price escalation and a more accurate realignment of overhead costs, FY 2002 OOT/CCP workload (excluding Bosnia), is $42 million higher than reflected in last year's President's Budget.

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:

($ in Millions)

	FY 2000	FY 2001	FY 2002
Equipment (non-ADP)	$14.6	$16.6	$16.4
Equipment (ADP/T)	4.8	12.0	6.9
Software Development	2.9	5.9	3.8
Minor Construction	5.2	10.2	7.3
TOTAL	$27.5	$44.7	$34.4

The decrease in Automated Data Processing Equipment is a due to a reduction in the number of depots that are scheduled for Local Area Network upgrades in FY 2002. Software development investments are for System Change Requests (SCRs) for the Distribution Standard System (DSS). Additional SCR's were programmed for FY 2000 and FY 2001 for the mandated migration from MILS (obsolete DoD unique EDI standard format) to the Defense Logistics Management System (DLMS). FY 2002 Software Development reflects a reduction in functional SCR costs. The fluctuation in the Minor Construction budget is due to a reprogramming in FY 2000 from Minor Construction to Software Development for DSS. A reprogramming in FY 2001 subsequently restored the Minor Construction. In FY 2002, the Minor Construction budget returns to an average investment level of $7.3M.

Operating Result:

In the FY 2002 budget estimate, we have developed all distribution rates based on full cost recovery. We anticipate achieving an Accumulated Operating Result of zero by FY 2002, and therefore breaking even in the budget year. FY 2002 Other Changes Affecting Net Operating Result reflects a requested direct appropriation of $0.7M for increased utilities costs. The proposed rates are requested to meet only the total costs of current operations less a prior year gain.

Net Operating Result/Accumulated Operating Result
($ in Millions)

	FY 2000	FY 2001	FY 2002
Revenue	$1,309.8	$1,265.7	$1,255.2
Expenses	$1,265.8	$1,324.3	$1,282.5
Operating Result	44.0	(58.6)	(27.3)
Other Changes Affecting NOR	0.0	0.0	0.7
NOR	44.0	(58.6)	(26.6)
Prior year AOR	41.2	85.2	26.6
Non-Recoverable Adjustment Impacting AOR	0.0	0.0	0.0
AOR	85.2	26.6	0.0

DEFENSE LOGISTICS AGENCY
Defense-Wide Working Capital Fund
Distribution Depots Activity Group
FY 2002 Amended Budget Submission
Changes in Cost of Operations
(Dollars in Millions)

		EXPENSES	
FY 00 Estimated Actual		1,342.0	
FY 00 Actual:		1,294.2	
Estimated Impact in FY 01 of Actual FY 00 Experience:			
Depreciation		(24.4)	
Personnel Costs		18.0	
Supplies and Material		(3.2)	
Transportation		(7.6)	
Interfund Purchases		(3.2)	
Other Services		(28.6)	
Pricing Adjustments:			
Annualization of FY 00 Pay Raise		5.9	
FY 01 Pay Raise		13.7	
General Purpose Inflation		11.2	
Program Changes:			
Personnel Costs		(37.2)	
Travel		1.0	
Transportation		40.0	
Other Services		(3.3)	
FY 01 Current Estimate		1,324.3	

DEFENSE LOGISTICS AGENCY
Defense-Wide Working Capital Fund
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FY 2002 Amended Budget Submission
Changes in Cost of Operations
(Dollars in Millions)

		EXPENSES	
FY 01 Current Estimate		1,324.3	
Pricing Adjustments:			
Annualization of FY 01 Pay Raise		4.2	
FY 02 Civilian Personnel Pay Raise		12.2	
General Purpose Inflation		12.4	
Program Changes:			
Personnel Costs		(16.3)	
Material & Supplies		(3.7)	
Travel and Transportation of Personnel		(0.7)	
Transportation of Things		(14.9)	
Depreciation		4.1	
Other Purchases from Revolving Funds		(4.7)	
Other Purchased Services		(27.9)	
Military Personnel		0.8	
Interfund Purchases		(7.3)	
FY 02 Estimate		1,282.5	

DEFENSE LOGISTICS AGENCY
Defense-Wide Working Capital Fund
Distribution Depots Activity Group
FY 2002/2003 Budget Estimates
Changes in Cost of Operations
(Dollars in Millions)

		EXPENSES	
FY 02 Current Estimate		1,288.1	
Pricing Adjustments:			
Annualization of FY 02 Pay Raise		4.2	
FY 03 Civilian Personnel Pay Raise		10.4	
General Purpose Inflation		11.8	
Program Changes:			
Personnel Costs		(23.3)	
Transportation of Things		(11.1)	
Depreciation		(7.3)	
Other Purchased Services		(1.8)	
Materials and Supplies		(0.9)	
Travel and Transportation of Personnel		0.2	
Other Purchases from Revolving Funds		0.3	
FY 03 Estimate		1,270.6	

Defense Logistics Agency Defense-Wide Working Capital Fund Distribution Depots Activity Group FY 2002 Amended Budget Submission Source of New Orders and Revenue (Dollars in Millions)			
	FY 00	FY 01	FY 02
1. New Orders			
a. Orders from DoD Components:	54.1	55.9	50.1
Other Services (Appropriated)			
DLA	7.5	16.0	3.0
Army	22.7	21.8	26.5
Navy	0.0	0.0	0.0
Air Force	12.6	1.7	0.0
Marine Corps	0.0	0.0	0.0
DERA	0.0	0.0	4.2
DDMA	11.3	16.4	16.3
b. Orders from Other Working Capital Fund Activity Groups:	1,255.8	1,209.8	1,205.2
DLA	653.8	615.2	627.4
Army	220.3	216.7	226.2
Navy	146.3	158.6	146.5
Air Force	228.7	213.7	199.3
Marine Corps	6.7	5.5	5.7
c. Total DoD:	1,309.8	1,265.7	1,255.2
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	1,309.8	1,265.7	1,255.2
4. Funded Carry-over	0.0	0.0	0.0
5. Total Gross Sales	1,309.8	1,265.7	1,255.2

Defense Logistics Agency
Defense-Wide Working Capital Fund
Distribution Depots Activity Group
FY 2002 Amended Budget Submission
Revenue and Expenses
(Dollars in Millions)

	FY 00	FY 01	FY 02
Revenue:			
Gross Sales	0.0	0.0	0.0
Operations	1,272.6	1,219.2	1,204.6
Capital Surcharge	0.0	0.0	0.0
Depreciation excluding Maj Const	37.2	46.5	50.6
Other Income			
Total Income:	1,309.8	1,265.7	1,255.2
Expenses:			
Cost of Material Sold from Inventory	0.0	0.0	0.0
Salaries and Wages:			
Military Personnel	9.2	10.7	11.4
Civilian Personnel	515.6	470.1	470.3
Travel & Transportation of Personnel	7.5	8.8	8.2
Materials & Supplies (for Internal Operations)	51.6	32.8	28.7
Equipment	0.8	1.8	1.7
Other Purchased Services from Revolving Funds	94.5	58.5	54.7
Transportation of Things	387.1	431.4	423.3
Depreciation-Capital	37.2	46.5	50.6
Printing and Reproduction	1.5	2.3	2.2
Advisory and Assistance Services	0.4	2.3	2.1
Rent, Communication, Utilities, & Misc. Charges	9.9	8.7	9.4
Other Purchased Services	150.5	250.4	219.9
Total Expenses	1,265.8	1,324.3	1,282.5
Operating Result	44.0	(58.6)	(27.3)
Less Capital Surcharge Reservation	0.0	0.0	0.0
Plus Appropriations Affecting NOR/AOR	0.0	0.0	0.7
Other Changes Affecting NOR/AOR*	0.0	0.0	0.0
Net Operating Result	44.0	(58.6)	(26.6)
Prior Year AOR	41.2	85.2	26.6
Accumulated Operating Result	85.2	26.6	(0.0)
Non-Recoverable Adjustment Impacting AOR	0.0	0.0	0.0
Accumulated Operating Results for Budget Purposes	85.2	26.6	(0.0)

DEFENSE LOGISTICS AGENCY
Defense-Wide Working Capital Fund
Distribution Depots Activity Group
FY 2002 Amended Budget Submission
International Travel

Component: Distribution Depots

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Date: June 2001

	FY 2000
Total obligations ($ in millions):	$0.5
Total number of individuals:	153