

**DEFENSE-WIDE WORKING CAPITAL FUND
FY 2001 BUDGET ESTIMATES
DEFENSE LOGISTICS AGENCY
DEFENSE REUTILIZATION AND MARKETING SERVICE**

FUNCTIONAL DESCRIPTION

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). DoD inventory managers submit requirements to DRMS via automated requisitions using standard requisition and issue procedures. Items received by the Defense Reutilization and Marketing Offices (DRMOs) meeting Military Services' (MILSVCs') item manager criteria are automatically referred through front-end screening notices. The MILSVCs reutilized approximately \$2.6 billion worth of personal property in Fiscal Year 1999, resulting in savings to the DoD and the Government. If property is not reutilized, it can be transferred to other Federal agencies. Remaining property becomes surplus and is made available for donation to authorized state agencies and charitable organizations. The balance of property is offered for competitive sale to the public.

DRMS also has the mission of hazardous property disposition. In this capacity, they handle the vast majority of DoD property governed by the Resource Conservation Recovery Act (RCRA) of 1976, as amended. Some hazardous material has reutilization and/or sales value and goes through the same procedure as all other DoD property. Almost all hazardous waste is directly disposed of through contracts managed by DRMS and direct funded by the MILSVCs.

DRMS headquarters, responsible for operational control, is located in Battle Creek, Michigan. The operational core of this organization lies with individual 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.

CHANGES IN OPERATIONS

DRMS is undergoing a significant business evolution into a knowledge-based organization that moves property through information management rather than by physically handling

property. DRMS has a commitment to continue providing world-class service during this transformation. Resources will continue to be dedicated in support of the MILSVCs to provide the highest possible returns to the DoD and the Government.

In FY 99, 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. This is an integral part of DRMS's vision of becoming an information broker. 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. DRMS is integrating systems requirements and ensuring they are in consonance with the vision of moving information, not property, in the DRMS Automated Information System (DAISY). While maintaining accountability and integrity of DRMS disposal assets, DAISY has shifted from a transactional to a process oriented system.

In FY 99, 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. This is a proceeds- and risk-sharing initiative that will encourage the contractor to minimize costs and maximize returns. In FY 00, 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 (QDR) infrastructure and outsourcing initiatives that direct operational streamlining partnerships with industry.

BUDGET HIGHLIGHTS

UNIT COST/PERFORMANCE INDICATORS:

Unit cost, as a performance indicator, helps managers make more informed resource allocation decisions. It encourages managers to focus on not only the total cost of the business, but also on the components that make up the business. Unit cost highlights operational efficiency and provides more information to measure and evaluate performance. DLA entered into a contract with the Defense Management Council that articulates DLA performance in FY 00 through FY 05. DRMS has two unit cost goals in the FY 00 Performance Contract; they are Ultimate Disposal and Abandonment and Destruction. The DRMS unit cost goals are based on the four major work processes:

- a. **R/T/D** unit cost goal is based on the total cost associated with the R/T/D process divided by the acquisition value of the property disposed via R/T/D.
- b. **Sales** unit cost goal is based on all costs associated with the public sale of excess personal property divided by net sales.
- c. **Ultimate Disposal** unit cost goal is based on the non-contract costs associated with environmentally regulated disposal of hazardous waste divided by the number of pounds of hazardous waste disposed. The Performance Contract goal is to reduce costs at least in proportion to the decline in workload.
- d. **Abandonment and Destruction** unit cost goal is based on the cost of either storing in a landfill or destruction of those non-hazardous items that remain at the end of the process divided by the number of line items of property disposed. The Performance Contract goal is to provide disposal at an average cost not to exceed the stated unit cost.

Costs are allocated using an Activity Based Costing (ABC) Model. DRMS continues to update and refine the ABC Model. DRMS earns its obligation authority through unit cost goals. The FY 99 through FY 01 goals are reflected in Table 1:

	Unit Cost		
	FY 1999	FY 2000	FY 2001
	<u>Goal/Workload</u>	<u>Goal/Workload</u>	<u>Goal/Workload</u>
R/T/D <u>1/</u>	\$0.01553/\$4,333.8	\$0.01976/\$3,420.0	0.01603/\$3,780.0
Sales <u>2/</u>	\$1.2748/\$117.0	\$1.4001/\$110.0	\$1.5346/\$90.0
Ultimate Disposal <u>3/</u>	\$0.147/293.2	\$0.195/221.8	\$0.184/210.7
Abandonment and Destruction <u>4/</u>	\$274.73/0.016	\$299.44/0.018	\$269.22/0.018

1/ Workload in millions of dollars

2/ Workload in millions of dollars

3/ Workload in millions of pounds (Performance Indicator)

4/ Workload in millions of lines (Performance Indicator)

(Table 1)

NET OPERATING RESULT (NOR)/ACCUMULATED OPERATING RESULT (AOR)

The NOR measures the short range, single fiscal year, impact of revenue and expenses incurred by the business. For example, a positive annual NOR demonstrates that revenues exceeded expenses for the business activity, a negative NOR-- just the opposite.

The AOR reflects the long term, multi-year results of previous NORs. Its measurement describes the accumulated effects of NORs and demonstrates the fiscal strength over a longer time. The goal is to break even by FY 02. Table 2 reflects NOR/AOR impacts for FY 99 through FY 01.

NOR/AOR
(\$ in Millions)

FY 99 FY 00 FY 01

Revenue	\$288.9	\$193.7	\$427.5
Expenses	\$333.0	\$352.8	325.9
Operating Result	(44.1)	(159.1)	101.6
Other Changes Affecting NOR	0.0	0.0	0.0
NOR	(44.1)	(159.1)	101.6
Prior year AOR	0.0	(44.1)	(203.2)
Non-Recoverable Adjustment			
Impacting AOR	0.0	0.0	0.0
AOR	(44.1)	(203.2)	(101.6)

(Table 2)

MILITARY AND CIVILIAN PERSONNEL

Reductions in employment levels, without degradation of mission support, are achieved primarily by two factors: automation and management improvements. Automating our 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. Productivity measures include the number of people employed or, more importantly, the full-time equivalents used. Table 3 identifies budget estimates for full-time equivalents and end strength for DRMS and corporate allocations.

Military and Civilian Personnel

	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>
End Strength			
Military	7	19	12
Civilian	2,570	2,280	1,990
Total	2,577	2,299	2,003
Full-time Equivalents			
Military	7	19	12
Civilian	2,779	2,518	2,105
Total	2,786	2,537	2,118

(Table 3)

CAPITAL EXPENDITURES

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. Table 4 depicts the capital program budget authority for FY 99 through FY 01:

Capital Program Budget Authority
(\$ in Millions)

	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>
Non-ADP Equipment	\$1.2	\$1.4	\$1.2
ADP Equipment	0.0	1.2	0.0
Software Development	0.4	0.0	0.0
Minor Construction	5.9	5.8	6.0
Total	\$7.5	\$8.4	\$7.2

(Table 4)

DEFENSE LOGISTICS AGENCY			
Defense Wide Working Capital Fund, Defense Reutilization and Marketing Service			
FY 2001 Budget Estimates			
Revenue and Expenses			
(\$M)			
	FY 1999		
Revenue:			
Gross Sales			
Operations	288.9	193.7	427.5
Total Income:	288.9	193.7	427.5
Operating Expenses:			
Salaries and Wages:			
Military Personnel Compensation & Benefits	1.6	1.2	0.9
Civilian Personnel Compensation & Benefits	136.4	132.6	112.4
Travel & Transportation of Personnel	7.7	6.3	5.5
Materials and Supplies (For Internal Operations)	0.6	3.2	3.4
Equipment	6.3	13.1	9.1
Other Purchases from Revolving Funds	21.4	31.2	30.5
Transportation of Things	8.5	11.2	12.3
Depreciation - Capital	9.2	9.4	10.2
Printing and Reproduction	2.0	1.1	1.1
Advisory and Assistance Services	1.4	0.5	0.7
Rent, Communication, utilities & Misc. Charges	3.5	4.4	4.6
Other Purchased Services	134.4	138.6	135.2
 Total Operating Expenses	 333.0	 352.8	 325.9
Operating Result	(44.1)	(159.1)	101.6
Other Changes Affecting NOR:	0.0	0.0	0.0
Net Operating Result	(44.1)	(159.1)	101.6
Other Changes Affecting AOR (Prior year AOR)	0.0	(44.1)	0.0
Accumulated Operating Result	0.0	(203.2)	(101.6)
Non-Recoverable Adjustment Impacting AOR	0.0	0.0	0.0
Accumulated Operating Result for Budget Purposes	(44.1)	(203.2)	(101.6)

DEFENSE LOGISTICS AGENCY
Defense Wide Working Capital Fund
Defense Reutilization and Marketing Service
FY 2001 Budget Estimates Submission
Source of New Orders and Revenue
(\$M)

	FY 1999	FY 2000	FY 2001
1. New Orders			
a. Orders from DoD Components	151.5	66.0	318.7
Army	49.6	27.7	27.7
Navy	38.4	14.5	14.5
Air Force	40.1	20.5	20.5
Other	23.3	3.3	256.0
b. Orders from Other Fund Activity Groups	18.5	16.0	17.1
c. Total DoD	170.0	82.0	335.8
d. Other Orders:	1.9	1.7	1.7
Other Federal Agencies	1.0	0.9	0.9
Foreign Military Sales	0.9	0.8	0.8
Total New Orders	171.9	83.7	337.5
2. Carry-In Orders	0.0	0.0	0.0
3. Total Gross Orders	171.9	83.7	337.5
4. Sales Proceeds	117.0	110.0	90.0
5. Total Gross Sales	288.9	193.7	427.5

DEFENSE LOGISTICS AGENCY
Defense Wide Working Capital Fund
Defense Reutilization and Marketing Service
FY 2001 Budget Estimate
Changes in the Costs of Operation
(\$M)

	EXPENSES
FY 1999 Actual	339.9
FY 2000 Estimate in President's Budget	353.0
Estimated Impact in FY 2000 of Actual FY 1999 Experience	-0.2
FY 1999 Experience:	
<u>Pricing Adjustments</u>	1.6
Labor	1.9
Nonlabor	-0.3
<u>Program Changes</u>	-1.8
Civilian Personnel Cost	12.2
Military Personnel Cost	0.0
Travel of Persons	1.2
Supplies	0.1
Equipment	0.1
Interfund Purchases	1.7
Transportation of Things	0.3
Depreciation	-0.1
Hazardous Contracts	-6.9
Other Purchased Services	-10.5
FY 2000 Current Estimate	352.8
Pricing Adjustments:	8.2
Labor	5.0
Nonlabor	3.2
Program Changes	-35.1
Civilian Personnel Cost	-25.1
Military Personnel Cost	-0.4
Travel of Persons	-0.9
Supplies	0.1
Equipment	-4.2
Interfund Purchases	-1.2
Transportation of Things	0.9
Depreciation	0.8
Hazardous Contracts	0.0
Other Purchased Services	-5.1
FY 2001 Current Estimate	325.9