

DEFENSE LOGISTICS AGENCY
Defense-Wide Working Capital Fund
Defense Reutilization and Marketing Service
FY 2002 Amended Budget Submission
June 2001

FUNCTIONAL DESCRIPTION

The Defense Logistics Agency (DLA) Defense Reutilization and Marketing Service (DRMS) Activity Group is responsible for the reuse, or reutilization, of excess and surplus personal property within the Department of Defense (DoD). DoD inventory managers submit requirements to DLA via automated requisitions using standard requisition and issue procedures. Items received by the DLA Defense Reutilization and Marketing Offices (DRMOs) meeting Military Services item manager criteria are automatically referred through front-end screening notices. The Military Services reutilized approximately \$1.8 billion worth of personal property in FY 2000, 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.

The DLA disposal mission includes hazardous property disposition. In this capacity, DLA handles 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 process as all other DoD property. However, almost all hazardous waste is directly disposed of through contracts managed by DLA and direct funded by the Military Services.

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

The DLA reutilization mission is undergoing a significant business evolution into a knowledge-based organization that moves property through information management rather than by physically handling property. DLA has a commitment to continue providing world-class service during this transformation. Resources will continue to be

dedicated in support of the Military Services to provide the highest possible returns to the DoD and the Government.

In FY 2000, DLA awarded its first A-76 competition of the disposal logistics process at ten DRMOs in New England and the Mid-Atlantic States, affecting approximately 100 FTEs, to a private contractor. This decision was made after a detailed study indicated it was more cost effective to convert to the private sector. The contractor won the competition based on a total estimated savings of \$1M over five years.

Through its Enterprise Management initiatives, this Activity Group has achieved significant FTE reductions and cost savings. Several initiatives were in progress during the initial A-76 study -- automation, Infrastructure Reduction and Central/Satellite, to name a few. Infrastructure Reduction closed 70 of 138 CONUS DRMOs in the FY 1998/1999 timeframe affecting approximately 600 FTEs. The FY 2000 Central/Satellite initiative centralized full DRMO operations to 20 locations and the remaining 48 became forward receiving activities. This affected approximately 500 FTEs. These two initiatives have yielded significant cost savings and FTE reductions. They also serve as the initial re-engineering steps to determine the final strategic organization commensurate with automation re-engineering.

All of the initiatives together allow for systems integration and incremental organizational changes or business process re-engineering, thus moving DLA into a state of "Moving Information and not Property." As DLA becomes more developed in its new processes of moving information in an automated and linked network, it allows the DRMS organization to centralize its organizational presence at fewer strategic locations. These locations would be strategically placed to complement DRMS as an Inventory Control Point with supporting logistics network. The intent is to either maintain a most efficient centralized organization structure or competitively source to a more cost effective public or private party (DLA Defense Distribution Center and/or industry).

BUDGET HIGHLIGHTS

TRANSACTION ACTIVITY BILLING:

Historically, DLA has recovered operating costs with a combination of proceeds from the sale of surplus personal property to the public, reimbursements from specific customers for work performed and a Service Level Billing (SLB) paid by the Military Services and DLA Supply Management Activity Groups.

DLA developed Transaction Activity Billing (TAB) to recover mission costs through a process that provide customers (Military Services

and the DLA) bills based on actual services and workload for property disposition. Actual workload and cost data will be processed through the TAB model. Through this process, we can identify the end user and the working capital fund customer separately, providing visibility of the disposal cost in the life cycle of the item.

By having visibility of the cost for various services that DRMS provides, customers can influence their costs. TAB is a practical application of Activity Based Costing (ABC) principles to assess costs and set rates in accordance with the level of effort required to perform the service. This process will be tested and evaluated in FY 2002.

UNIT COST/PERFORMANCE INDICATORS:

The performance indicator for this Activity Group is unit cost. Unit cost 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. The unit cost goals are based on the four major work processes:

a. **Reutilization/Transfer/Donation.** The 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.** The unit cost goal is based on all costs associated with the public sale of excess personal property divided by net sales.

c. **Ultimate Disposal.** The 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 (A&D).** The 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 pounds of property disposed. This is a change in output measure, from line items to pounds disposed, and reflects the changing nature of workload. A larger part of A&D disposals are now comprised of scrap that is measured in pounds and not captured in workcounts. By changing the output measure to pounds, all workload will be included in this unit cost goal. This change began in FY 2001.

Costs are allocated using an ABC Model, which is continually updated and refined. Obligation Authority is earned through unit cost goals.

	Unit Cost		
	FY 2000 <u>Goal</u>	FY 2001 <u>Goal</u>	FY 2002 <u>Goal</u>
R/T/D	\$0.02025	\$0.01753	\$0.01930
Sales	\$1.3542	\$1.6087	\$1.5905
Ultimate Disposal	\$0.202	\$0.156	\$0.143
Abandon & Destruction	\$321.18	\$0.084	\$0.079

(Table 1)

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

In FY 2000, we will experience an NOR loss of \$168.3 million. The FY 2000 President's Budget included a legislative proposal that would allow the transfer of revenue from the Defense National Stockpile Center to DRMS, in lieu of a Military Services/DLA-financed Service Level Billing to finance operating costs for this Activity Group. Congress did not support this proposal, and as a result, DRMS operating costs for FY 2000 had no revenue stream. In FY 2001 this Activity Group is financed entirely by the DLA Supply Management Activity Group. In FY 2002, proposed TAB rates will be used to allocate costs to the Military Services and DLA ICPs in order to test this methodology for recovering mission costs based on the actual services provided by this Activity Group to its customers.

	NOR/AOR (\$ in Millions)		
	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
Revenue	\$169.8	\$416.4	\$397.4
Expenses	\$338.1	\$332.6	\$314.4
Operating Result	(168.3)	83.0	83.0
Other Changes Affecting NOR	0.0	0.0	0.0
NOR	(168.3)	83.0	83.0
Prior year AOR	1.5	(166.8)	(83.0)
Non-Recoverable Adjustment Impacting AOR	0.0	0.0	0.0
AOR	(166.8)	(83.0)	0.0

(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 enhance 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 the DRMS Activity Group. Full Time Equivalents are coming down more than 23% over the budget period.

Military and Civilian Personnel

	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
End Strength			
Military	19	12	12
Civilian	<u>2,291</u>	<u>2,002</u>	<u>1,835</u>
Total	<u>2,310</u>	<u>2,014</u>	<u>1,847</u>
Full-time Equivalents			
Military	19	12	12
Civilian	<u>2,496</u>	<u>2,189</u>	<u>1,915</u>
Total	<u>2,515</u>	<u>2,201</u>	<u>1,927</u>

(Table 3)

CAPITAL EXPENDITURES

DRMS monitors the condition of facilities and equipment at approximately 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. In FY 2002, DRMS will replace tool carriers and scrap handlers that have reached or exceeded their useful life at various DRMOs. The DAISY Mod systems change will facilitate property tracking, driven by the Commercial and Scrap Venture initiatives. Minor construction projects will construct new or renovate administrative facilities, mission operational facilities (such as scrap bins, truck scales, and open storage), and improve

fencing, drainage and roads. Table 5 depicts the capital program budget authority for FY 2000 through FY 2002:

Capital Program Budget Authority
(\$ in Millions)

	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
Non-ADP Equipment	\$1.2	\$1.2	\$3.2
ADP Equipment	1.1	0.0	0.0
Software Development	2.0	0.0	3.6
Minor Construction	5.8	6.0	6.0
Total	\$10.1	\$7.2	\$12.8

(Table 4)

DEFENSE LOGISTICS AGENCY
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Source of New Orders and Revenue
June 2001
(\$M)

	FY 2000	FY 2001	FY 2002
1. New Orders			
a. Orders from DoD Components	60.5	318.7	301.5
Army	25.1	27.4	108.9
Navy	24.3	26.5	90.6
Air Force	9.8	10.7	56.5
Other	1.4	254.2	45.6
b. Orders from Other Fund Activity Groups	15.8	17.8	22.4
c. Total DoD	76.3	336.5	323.9
d. Other Orders:	3.9	1.7	1.7
Other Federal Agencies	1.2	0.9	0.9
Foreign Military Sales	2.7	0.8	0.8
Total New Orders	80.2	338.2	325.6
2. Carry-In Orders	0.0	0.0	0.0
3. Total Gross Orders	80.2	338.2	325.6
4. Sales Proceeds	89.6	78.2	71.8
5. Total Gross Sales	169.8	416.4	397.4

**Defense Logistics Agency
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Changes in the Costs of Operation
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(\$ in Millions)**

	EXPENSES
FY 2000 Actual	338.1
FY 2001 Estimate in President's Budget	325.9
Estimated Impact in FY 2001 of Actual FY 2000 Experience	6.7
FY 2000 Experience:	
<u>Pricing Adjustments</u>	0.5
Labor	0.3
Nonlabor	0.2
<u>Program Changes</u>	6.2
Civilian Personnel Cost	6.2
Military Personnel Cost	0.4
Travel of Persons	2.1
Supplies	-0.2
Equipment	-0.6
Intrafund Purchases	-5.2
Transportation of Things	-1.4
Other Purchased Services	4.9
FY 2001 Current Estimate	332.6

**Defense Logistics Agency
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Defense Reutilization and Marketing Services
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Changes in the Costs of Operation
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(\$ in Millions)**

	EXPENSES
FY 2001 Current Estimate	332.6
Pricing Adjustments:	7.5
Labor	4.2
Nonlabor	3.3
Program Changes	-25.7
Civilian Personnel Cost	-20.9
Military Personnel Cost	-0.4
Travel of Persons	-0.4
Supplies	-0.1
Equipment	1.8
Intrafund Purchases	-1.3
Transportation of Things	-7.0
Depreciation	0.3
Hazardous Contracts	-1.1
Other Purchased Services	3.3
FY 2002 Current Estimate	314.4

DEFENSE LOGISTICS AGENCY
Defense-Wide Working Capital Fund
Reutilization and Marketing Service
FY 2002 Amended Budget Submission
Revenue and Expenses
June 2001
(\$ in Millions)

	FY 2000	FY 2001	FY 2002
Revenue			
Sales			
Operations	169.8	416.4	397.4
Total Income:	169.8	416.4	397.4
Expenses			
Salaries and Wages:			
Military Personnel Compensation & Benefits	1.2	1.3	1.1
Civilian Personnel Compensation & Benefits	123.3	118.9	102.3
Travel & Transportation of Personnel	5.8	7.7	7.4
Materials & Supplies (For Internal Operations)	1.1	3.2	3.2
Equipment	8.6	8.5	10.4
Other Purchases from Revolving Funds	31.5	25.1	24.3
Transportation of Things	14.8	10.8	4.0
Depreciation - Capital	9.3	10.2	10.4
Printing and Reproduction	1.1	1.1	1.1
Advisory & Assistance Services	0.6	0.5	0.4
Rent, Communication, Utilities & Misc. Charges	3.1	6.4	6.5
Other Purchased Services	137.5	138.9	143.3
Total Expenses	338.1	332.6	314.4
Operating Result	-168.3	83.8	83.0
Adjustments Affecting NOR	0.0	0.0	0.0
Net Operating Result	-168.3	83.8	83.0
Prior Year Adjustments -- Prior Year AOR	1.5	-166.8	-83.0
Other Changes Affecting AOR	0.0	0.0	0.0
Accumulated Operating Result	-166.8	-83.0	0.0
Non-Recoverable Adjustment Impacting AOR	0.0	0.0	0.0
Accumulated Operating Result for Budget Purposes	-166.8	-83.0	0.0

**Defense Logistics Agency
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FY 2002 Amended Budget Submission
International Travel
June 2001**

DEFENSE REUTILIZATION AND MARKETING SERVICE

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	<u>FY 2000</u>
Total Obligations (\$ In Thousands)	\$ 2,200
Total Number of Individuals	338