

DEFENSE LOGISTICS AGENCY
Transaction Fund
Defense National Stockpile Center
FY 2002 Amended Budget Estimates
Narrative

The National Defense Stockpile Center (DNSC) operates under the authority of the Strategic and Critical Stock Piling Act (50 U.S.C. 98-h-2 (a)). This act provides that strategic and critical materials are stockpiled in the interest of national defense to preclude a dangerous and costly dependence upon foreign sources of supply in times of a national emergency. The DNSC administers the acquisition, storage, management, and disposal of the Nation's inventory of strategic and critical materials.

Fiscal Year (FY) 2002 Budget Estimates recognize the sales of material as approved by Congress in the Annual Materials Plan (AMP). DNSC continues downsizing and is on track to sell out of and vacate all but 56 storage locations by the end of FY 01 down from 65 in FY 00. The FY 02 goal is to vacate 10 additional locations. Delays in shipping sold material or mandatory environmental cleanups may impede DNSC's ability to achieve these goals.

DNSC's current sales program reflects March 31, 2000 market prices with a 20 percent uncertainty factor to accommodate the volatility in the commodity markets today. The budget estimates include sales forecasts for all authorized commodities. Projected staffing levels may be impacted by delays in shipping sold material. These delays result in increased use of temporary and summer hires as required to maintain and ship material. DNSC will also use contractual services when necessary.

The sales program is classified by five main categories that represent what DNSC has been authorized by law to sell and what has been proposed in new laws:

Authorized

- ◆ Principle Sales
- ◆ Foreign Military Sales
- ◆ U.S. Treasury and Health & Human Services (HHS)
- ◆ U.S. Treasury (General Fund)
- ◆ World War II Memorial

Principle Sales

DNSC principle sales consist of disposals of commodities that were considered excess to the needs of national security prior to FY 96. In May 1995, the Deputy Under Secretary of Defense (Industrial Affairs) released a report on DNSC requirements that reduced Stockpile goal commodities to \$24 billion. The remaining \$6 billion were considered excess to the needs of the national defense. No new commodities were authorized for disposal in FY 96. Therefore,

commodities that were authorized prior to the release of this report are considered “principle business” and not related to the revised requirements. DNSC transferred \$150 million in FY 00 from receipts generated from Principle Sales to the Military Service Operations and Maintenance Accounts. This budget request includes proposed transfers of \$150 million to the Military Service Operations and Maintenance Accounts in FY 02.

Foreign Military Sales

Section 3402 of the FY 00 Defense Authorization Act, P.L. 106-65, authorized additional disposals to offset losses to the U.S. Treasury that would be incurred due to reduced surcharges in the Foreign Military Sales program. The following commodities and tonnage were authorized:

Aluminum	62,881 short tons
Cobalt	26,000,000 pounds
Columbium Ferro	930,911 pounds contained
Germanium Metal	40,000 kilograms
Indium	35,000 troy ounces
Palladium	15,000 troy ounces
Platinum	10,000 troy ounces
Rubber, Natural	125,138 long tons
Tantalum, Various types	796,000 pounds contained

The sales of these materials generated proceeds of \$461.4 million through FY 00 and are expected to generate a cumulative total of \$720 million through FY 09. Receipts are to be transferred from the Transaction Fund (T-Fund) and deposited into U.S. Treasury as receipts are realized. DNSC has transferred \$290 million through FY 00, \$124 million in FY 01, and plans to transfer \$62 million in FY 02.

U.S. Treasury and HHS

The FY 99 Defense Authorization Act, PL 105-261, authorized additional disposals of commodities. The receipts from these sales are to be deposited into the U.S. Treasury and to the Secretary of Health and Human Services. The T-Fund transferred a total of \$105 million through FY 00, \$102 million to the U.S. Treasury and \$3 million to Health and Human Services. \$174 million was transferred to the U. S. Treasury in FY 01 and \$180 million is projected in FY 02. Transfers to Health and Human Services are projected at \$50 million in FY 01, \$31 million in FY 02. The following commodities and tonnage were authorized:

Bauxite Refractory	29,000 long calcined ton
Beryllium Metal	100 short tons
Chromite Chemical	34,000 short dry tons
Chromite Refractory	159,000 short dry tons
Chromium Ferroalloy	125,000 short tons

Columbium Carbide Powder	21,372 pounds
Columbium Concentrates	1,733,454 pounds
Columbium Ferro	249,396 pounds
Columbium Metal-Ingots	161,123 pounds
Diamond, Stones	3,000,000 carats
Germanium Metal	28,198 kilograms
Graphite natural Ceylon Lump	5,492 short tons
Indium	14,248 troy ounces
Mica Miscovite Block	301,000 pounds
Mica phlogopite Block	130,745 pounds
Platinum	439,887 troy ounces
Platinum-Iridium	4,450 troy ounces
Platinum-Palladium	750,000 troy ounces
Tantalum Carbide Powder	22,688 pounds
Tantalum Metal Ingots	125,000 pounds
Tantalum Metal Powder	125,000 pounds
Tantalum Minerals	1,751,364 pounds
Tantalum Oxide	122,730 pounds
Tungsten Carbide Powder	2,032,896 pounds
Tungsten Ferro	2,024,143 pounds
Tungsten Metal Powder	1,898,009 pounds
Tungsten Ores & Concentrates	76,358,235 pounds

U.S. Treasury (General Fund)

Section 3402 of the FY 00 Defense Authorization Act, P.L. 106-65, contains a list of materials to be disposed of with the resulting revenue deposited into the U.S. Treasury. In addition, there are cumulative revenue targets of \$100 million by the end of FY 04 and \$300 million by the end of FY 09. The following commodities and tonnage were authorized:

Beryllium Metal	250 short tons
Chromium Ferro Alloy	496,204 short tons
Chromium Metal	5,000 short tons
Palladium	497,271 troy ounces

Section 3305 of the FY 98 Defense Authorization Act, P.L. 105-85 authorizes sales of cobalt from FY 03 through FY 07. The sale of cobalt is expected to generate receipts of \$235 million by the end of FY 07. These receipts are to be transferred from the T-Fund and deposited into the U.S. Treasury. This budget includes a transfer of \$20 million in FY 03 based on projected receipts from cobalt.

World War II Memorial

P.L. 106-398 authorized a new program to sell 30,000 short tons of titanium by September 30, 2010. Proceeds of \$6 million shall be transferred to the American Battle Monuments Commission for the World War II Memorial. \$4 million is authorized to be transferred in FY 01 and \$2 million in FY 02. The remainder of what is collected is to be deposited into the Miscellaneous Receipts Account.

Operations Obligations

The significant program changes between FY 00 and FY 01 are in Other Purchased Services, Rent and Equipment. Rent is reduced by \$1.5M based on projections using the Stockpile commodity sales plan.

Other Purchased Services, mainly Real Property Maintenance (RPM), is increased \$5.9M. This increase is to repair and replace sprinkler systems in the Somerville, Warren, New Haven and Hammond warehouses that have reached their life expectancy and still contain material.

Equipment obligations are down \$1.2M. This reduction reflects a decrease in the amount of equipment being purchased in anticipation of depot closures.

In FY 02 Labor costs are decreasing as a result of continued downsizing.

The DNSC RPM Program will reduce its budget in FY 02 by \$3.6M, as the sprinkler replacement efforts wind down.

Projected Rent costs are decreasing in FY 02 by \$1.2M as space is further vacated.

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Stockpile Financial Status Report
(\$M)

	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>
Treasury Cash Balance, End of Prior Year	743.9	1,100.1	974.7
Collections	574.6	479.6	453.0
Disbursements	<u>68.4</u>	<u>70.5</u>	<u>65.2</u>
Labor	16.0	17.4	16.7
Non-Labor	52.4	53.1	48.5
<u>Transfers:</u>	<u>150.0</u>	<u>534.5</u>	<u>223.5</u>
DOD (Military Services)	150.0	150.0	0.0
FMS	0.0	124.0	62.0
Treasury (HHS)	0.0	50.0	31.0
Treasury (General Fund)	0.0	178.0	108.0
Treasury (Spectrum)	0.0	32.5	22.5
Cash Balance	1,100.1	974.7	1,139.0

DEFENSE LOGISTICS AGENCY
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FY 2002 Amended Budget Estimates
Program and Financing
\$000

	FY 2000 act	FY 2001 est.	FY 2002 est.
Financing:			
Federal Orders	25,000	25,000	25,000
Non-Federal Orders	<u>439,900</u>	<u>454,600</u>	<u>428,000</u>
Total Orders	464,900	479,600	453,000
Obligations: Operating Expenses			
Civilian Personnel Compensation & Benefits	16,033	17,359	16,739
Travel and Transportation of Personnel	1,053	1,132	1,206
Materials and Supplies (For Internal Operations)	2,793	1,823	2,651
Equipment	2,393	1,235	838
Transportation of Things	986	883	504
Rent, Communication, Utilities & Misc Charges	18,169	16,604	15,394
Other Purchased Services	<u>25,641</u>	<u>31,522</u>	<u>27,882</u>
Total Expenses	67,068	70,558	65,214
Obligations: Payments to Receipt Account			
Offset for Loss of FMS Receipts (1)	0	124,000	62,000
Offset as Stated in FY 1999 Authorization Act (2)	0	174,000	100,000
Offset as Stated in FY 2000 Authorization Act (3)	0	32,500	22,500
Offset as Stated in FY 2001 Authorization Act (4)	0	4,000	8,000
Total			
Obligations: Transfer to HHS (2)	0	50,000	31,000
Total Obligations	0	384,500	223,500
(1) FY 1996 National Defense Authorization Act, Section 4303; FY 1997 National Defense Authorization Act, Section 3303; as amended by FY 2000 National Defense Authorization Act, Section 3402.			
(2) FY 1999 National Defense Authorization Act, Section 3303.			
(3) FY 2000 National Defense Authorization Act, Section 3402.			
(4) FY 2001 National Defense Authorization Act, Section 3303.			

DEFENSE LOGISTICS AGENCY
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Statement of Financial Condition
(\$M)

	FY 2000	FY 2001	FY 2002
ASSETS:			
Selected Assets:			
Cash	1,100.1	974.7	989.0
Accounts Receivable	202.2	190.5	179.7
Inventories	2,450.7	2,106.9	1,796.9
TOTAL ASSETS	3,753.0	3,272.1	2,965.6
LIABILITIES			
Selected Liabilities:			
Accounts Payable	20.4	11.3	11.3
Accrued Liabilities	411.8	234.0	302.1
Advances Received	58.2	36.0	30.0
Other Liabilities (undelivered orders)	112.9	5.0	5.0
TOTAL LIABILITIES	603.3	281.3	343.4
GOVERNMENT EQUITY			
Cumulative Results of Operations	3,149.7	2,990.8	2,622.2
TOTAL NET POSITION	3,149.7	2,990.8	2,622.2
TOTAL LIABILITIES AND EQUITY	3,753.0	3,272.1	2,965.6