

**DEFENSE LOGISTICS AGENCY**  
**Defense-Wide Working Capital Fund**  
**Defense Reutilization and Marketing Service**  
**Fiscal Year (FY) 2003 Budget Estimates**  
**February 2002**

**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). 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 \$1.4 billion worth of personal property in FY 2001, 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, once it has been screened for potential reutilization or sales value, all hazardous waste is directly disposed of through contracts managed by DLA and 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 organization is at the halfway point in a transformation that by 2005 will result in an entity little more than one-third of its 1996 size. Throughout this transformation, DRMS is maintaining quality service to its customers, but delivering these services through innovative contracts and more effective use of information technology.

DRMS recognizes that disposal workload has and probably will continue to decline. In response to this workload decline, DRMS eliminated over 1,500 FTEs between FY 1997 and FY 2001 and projects continued reductions of 384 FTEs over the budget period. The projected FTE reduction outpaces the decline in workload due to initiatives that have resulted in more streamlined work processes and the movement of commercial type processes to the private sector. The number of line items received from FY 1997 through FY 2005 is projected to decrease at an average annual rate of five percent per year while FTEs are programmed to decrease at an average annual rate of eight percent per year. This results in an average annual increase in productivity of seven percent per year. DRMS also does not plan to retain the current DRMO infrastructure. DRMS reduced the number of DRMOs in the continental United States (CONUS) by approximately one-half in an Infrastructure Reduction initiative begun in late FY 1997. This was a major task, which took two years to complete.

DRMS also conducted an A-76 public/private competition on the logistics stock, store and issue functions at 10 DRMOs. The first DRMS A-76 competition was completed in FY 2000 and resulted in the conversion to contract of the affected functions. DRMS is proceeding with a second A-76 competition of the warehouse logistics functions at the 61 CONUS DRMOs not yet studied. DLA issued the public announcement of the A-76 competition on October 9, 2001. It will impact approximately 400 FTEs.

DRMS has a long-range goal of becoming a broker of information, which will result in the more efficient management of property. Initiatives have been focused on enacting process improvements that will allow DRMS to better achieve this goal. As DRMS transitions to an organization that is more adept at "moving information and not property", DRMS will be able to centralize its organizational presence at fewer strategic locations. This will allow DRMS to perform its mission with substantially reduced infrastructure, labor and cost.

## **BUDGET HIGHLIGHTS**

### TRANSACTION ACTIVITY BILLING:

Historically, DRMS 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 provides customers (Military Services and DLA) bills based on actual services and workload for property disposition. Estimated workload and cost data are processed through the TAB model. Through this process, DRMS 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. DRMS implemented the system and began testing in FY 2001, and we will use FY 2002 data to validate the application of the TAB rates and workload estimates. In FY 2003 the SLB is based on TAB rates and workload estimates.

DRMS is changing processes and investing in technology to enable decreased reliance on physical infrastructure. As DRMS makes the transition from performing disposal with a network of warehouses and scrapyards to managing information with no movement of the property until the final disposition is determined, the cost to physically turn property in to a DRMO will increase. The additional cost of physical turn in versus electronic turn in (Received in Place) should give DRMS' customers a financial incentive to decrease their reliance on the DRMS' physical infrastructure.

#### 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. The DRMS unit cost goals are based on the major work processes:

- a. **Reutilization/Transfer/Donation** 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 surplus personal property divided by net (after customer reimbursements) sales.
- c. **Ultimate Disposal (UD)** 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.
- d. **Abandonment and Destruction (A&D)** 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.

Costs are allocated using an ABC Model. DRMS updates and refines the ABC Model during each budget submission to capture costs more accurately and bill our customers based on the actual services we provide them. DRMS earns its obligation authority through unit cost goals. The FY 2001 through FY 2003 goals and workload estimates are reflected in Table 3:

	Unit Cost					
	FY 2001 <u>Actual</u>	FY 2001 <u>Workload</u>	FY 2002 <u>Goal</u>	FY 2002 <u>Workload</u>	FY 2003 <u>Goal</u>	FY 2003 <u>Workload</u>
R/T/D <u>1/</u>	\$0.03423	\$2,100.0	\$0.02427	\$2,980.0	\$0.02429	\$2,840.0
Sales <u>1/</u>	\$2.1188	\$53.9	\$2.1574	\$53.1	\$2.3274	\$47.8
UD <u>2/</u>	\$0.159	264.3	\$0.177	220.5	\$0.177	214.2
A & D <u>2/</u>	\$0.079	84.0	\$0.091	50.5	\$0.094	47.2

1/ Workload in millions of dollars

2/ Workload in millions of pounds (Performance Indicator)

(Table 1)

#### Workload:

DRMS projects an across-the-board decrease in workload over the budget period, with the exception of RTD. During FY 2001, DRMS experienced an unprecedented reduction to our reutilization workload. The main driver for this decline was the General Services Administration moratorium on transfers of excess computers to U.S. Department of Justice Federal Prison Industries, Inc. (UNICOR), which accounted for \$1 billion in R/T/D workload in FY 2000. Secondly the DoD policy requiring destruction of unclassified computer hard drives prior to release outside of DoD precluded disposal by R/T/D. Subsequently, this policy was revised but still had a negative impact on workload. As a result, R/T/D workload for FY 2001 was \$2.2 billion below President Budget estimates of \$4.3 billion.

Sales continue to decline as a result of lower turn-ins and decreased value of property that is turned in. Over the past several years workload (measured in latest acquisition value of useable property turned in for disposal) was estimated to decrease 12 percent but actually has decreased 35 percent. Useable property may be downgraded to scrap upon receipt based on the condition and value of the property. The DRMS downgrade rate was projected at 48 percent of useable receipts. Based on current experience, the downgrade rate is now projected at 53 percent. The increased downgrade rate reflects the declining value of the property which results in lower sales.

Ultimate disposal workload shows a significant decrease from FY 2001 to FY 2002 based on a one-time disposal of 80 million pounds of tannin generated by the Defense National Stockpile Center in FY 2001. Workload is expected to return to normal levels in FY 2002. Abandonment & Destruction workload is expected to decline at a rate commensurate with the overall reduction in disposal workload.

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

In FY 2001, DRMS experienced an NOR gain of \$57.1 million. This gain partially offsets the AOR loss brought forward from the FY 2000 revenue loss incurred. This loss was the result of an unsuccessful legislative proposal to allow the transfer of revenue from the Defense National Stockpile Center to DRMS, in lieu of a Military Service/DLA-financed Service Level Billing to finance DRMS operating costs. During FY 2002, DRMS will bill its customers at the SLB amount set in the last budget cycle. These SLB amounts were based on TAB workload estimates and recoverable costs. For FY 2003, DRMS costs not covered by other revenue (sales, reimbursable projects) will be recovered again based on the SLB as determined by TAB costs and workload estimates.

NOR/AOR  
(Dollars in Millions)

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Revenue	\$372.1	\$357.1	\$342.6
Expenses	\$315.0	\$298.9	\$298.7
Operating Result	0.0	0.0	0.0
Other Changes Affecting NOR	0.0	0.0	7.6
NOR	57.1	58.2	51.5
Prior year AOR	(166.8)	(109.7)	(51.5)
Non-Recoverable Adjustment			
Impacting AOR	0.0	0.0	0.0
AOR	(109.7)	(51.5)	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 (moving information not property) reduces the need for manual intervention. As DRMS transitions into moving more information and less property,

we will be able to centralize our organizational presence at fewer strategic locations with substantially reduced infrastructure, labor and cost. 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. Full Time Equivalents are decreasing 18% over the budget period.

Military and Civilian Personnel

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
End Strength			
Military	9	9	9
Civilian	<u>1,932</u>	<u>1,776</u>	<u>1,630</u>
Total	1,941	1,785	1,639
Full-time Equivalents			
Military	9	9	9
Civilian	<u>2,088</u>	<u>1,855</u>	<u>1,704</u>
Total	2,097	1,864	1,713

(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 2003, DRMS will replace tool carriers and scrap handlers that have reached or exceeded their useful life at various DRMOs. The DRMS Automated Information System (DAISY) system changes (DRMS' operating system) will facilitate customer relationship management and interfaces with Business Systems Modernization (BSM). Minor construction projects are requested to construct new or renovate administrative facilities and mission operational facilities (such as scrap bins, truck scales, and open storage) and to improve fencing, drainage and roads. Table 4 depicts the capital program budget authority for FY 2001 through FY 2003:

Capital Program Budget Authority  
(\$ in Millions)

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Non-ADP Equipment	\$0.4	\$3.2	\$0.8
ADP Equipment	0.0	0.0	0.0
Software Development	0.0	3.6	1.3
Minor Construction	5.9	6.0	6.0
Total	\$6.3	\$12.8	\$8.1

**Defense Logistics Agency  
Defense-Wide Working Capital Fund  
Defense Reutilization and Marketing Services  
Fiscal Year (FY) 2003 Budget Estimates  
Changes in the Costs of Operation  
February 2002  
(Dollar in Millions)**

	<b>EXPENSES</b>
FY 2001 Actual	299.6
FY 2002 Estimate in President's Budget	314.4
Estimated Impact in FY 2002 of Actual FY 2001 Experience	-15.5
FY 2001 Experience:	
<u>Pricing Adjustments</u>	0.5
Labor	0.7
Nonlabor	-0.2
<u>Program Changes</u>	-16.0
Civilian Personnel Cost	6.6
Military Personnel Cost	0.0
Travel of Persons	-2.5
Supplies	-0.8
Equipment	0.0
Intrafund Purchases	-4.9
Transportation of Things	5.6
Other Purchased Services	-20.0
FY 2002 Current Estimate	298.9
FY 2002 Current Estimate	298.9
Pricing Adjustments:	4.9
Labor	5.0
Nonlabor	-0.1
Program Changes	-5.1
Civilian Personnel Cost	0.2
Military Personnel Cost	-0.3
Travel of Persons	-0.1
Supplies	0.1
Equipment	-0.8
Intrafund Purchases	-0.2
Transportation of Things	0.4
Depreciation	0.2
Hazardous Contracts	-0.5
Other Purchased Services	-4.2
FY 2003 Current Estimate	298.7

**DEFENSE LOGISTICS AGENCY**  
**Defense Wide-Working Capital Fund**  
**Defense Reutilization and Marketing Service**  
**Fiscal Year (FY) 2003 Budget Estimates**  
**Source of New Orders and Revenue**  
**February 2002**  
**(Dollars in Millions)**

	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
<b>1. New Orders</b>			
<b>a. Orders from DoD Components</b>	308.8	289.5	280.2
<b>Army</b>	23.3	103.9	115.1
<b>Navy</b>	22.5	85.7	78.2
<b>Air Force</b>	9.1	54.5	47.2
<b>Other</b>	254.0	45.3	39.6
<b>b. Orders from Other Fund Activity Groups</b>	5.9	10.8	18.5
<b>c. Total DoD</b>	314.7	300.3	298.7
<b>d. Other Orders:</b>	3.5	3.7	3.7
<b>Other Federal Agencies</b>	0.5	0.7	0.7
<b>Foreign Military Sales</b>	3.0	3.0	3.0
<b>Total New Orders</b>	318.2	304.0	302.4
<b>2. Carry-In Orders</b>	0.0	0.0	0.0
<b>3. Total Gross Orders</b>	318.2	304.0	302.4
<b>4. Sales Proceeds</b>	53.9	53.1	47.8
<b>5. Total Gross Sales</b>	372.1	357.1	350.2



**DEFENSE LOGISTICS AGENCY**  
**Defense-Wide Working Capital Fund**  
**Defense Reutilization and Marketing Service**  
**Fiscal Year (FY) 2003 Budget Estimates**  
**Revenue and Expenses**  
**February 2002**  
(Dollars in Millions)

	FY 2001	FY 2002	FY 2003
Revenue			
Sales			
Operations	372.1	357.1	342.6
Total Income:	372.1	357.1	342.6
Expenses			
Salaries and Wages:			
Military Personnel Compensation & Benefits	1.3	1.1	0.8
Civilian Personnel Compensation & Benefits	111.0	109.6	114.7
Travel & Transportation of Personnel	4.8	4.8	4.7
Materials & Supplies (For Internal Operations)	2.2	2.4	2.3
Equipment	7.0	10.4	10.3
Other Purchases from Revolving Funds	15.1	19.4	19.2
Transportation of Things	17.1	9.7	10.1
Depreciation - Capital	6.8	10.4	10.7
Printing and Reproduction	0.3	1.0	1.0
Advisory & Assistance Services	0.1	4.6	4.8
Rent, Communication, Utilities & Misc. Charges	3.1	6.9	6.8
Other Purchased Services	146.2	118.6	113.3
Total Expenses	315.0	298.9	298.7
Operating Result	57.1	58.2	43.9
Adjustments Affecting NOR	0.0	0.0	7.6
Net Operating Result	57.1	58.2	51.5
Prior Year AOR	-166.8	-109.7	-51.5
Other Changes Affecting AOR	0.0	0.0	0.0
Accumulated Operating Result	-109.7	-51.5	0.0
Non-Recoverable Adjustment Impacting AOR	0.0	0.0	0.0
Accumulated Operating Result for Budget Purposes	-109.7	-51.5	0.0