

DEFENSE WORKING CAPITAL FUND

**DEFENSE-WIDE
FISCAL YEAR (FY) 2004/FY 2005
BIENNIAL BUDGET ESTIMATES**

OPERATING AND CAPITAL BUDGETS



**FEBRUARY 2003
CONGRESSIONAL DATA**

DEPARTMENT OF DEFENSE

FISCAL YEAR (FY) 2004/FY 2005 BIENNIAL BUDGET ESTIMATES

DEFENSE-WIDE WORKING CAPITAL FUND

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**DEFENSE-WIDE WORKING CAPITAL FUND
FY 2004/2005 BIENNIAL BUDGET SUBMISSION
DEFENSE-WIDE SUMMARY**

Defense Agencies will operate nine activity groups within the Defense-Wide Working Capital Fund during FY 2003 and will operate seven activity groups by the end of FY 2004. The Defense Logistics Agency (DLA) will operate four activity groups in FY 2003 and three in FY 2004. The Defense Finance and Accounting Service (DFAS) and the Defense Information Systems Agency (DISA) will each operate two activity groups. The Defense Security Service (DSS) will operate as a DWCF entity in FY 2003 but will transfer workload and funding in FY 2004.

DFAS was formed in January 1991 from the Military Services finance and accounting functions to improve financial accounting support to DoD-wide activities and to reduce costs by adapting standard policies, procedures, forms, data, and systems; streamlining and consolidating operations; and eliminating redundancies.

DISA was reorganized in 1991 from the former Defense Communications Agency. Its responsibilities include obtaining common telecommunication and information services for command and control and providing assistance in other communication support to meet customer needs.

DLA, formed in the early 1960s, operates the Distribution Depot, Reutilization and Marketing, Supply Management, and Document Automation and Production Service activity groups. Distribution Depots receive, store, and ship inventory. Reutilization and Marketing functions include the reutilization of excess and surplus property and the donation, sale, or disposal of surplus DoD personal property. Supply Management conducts the procurement, inventory management, and technical operations functions for consumable defense inventory. The Document Automation and Production Service provides printing services to customers.

DSS, formerly known as the Defense Investigative Service, was formed in 1972. The mission of DSS is to administer the Personnel Security Investigations (PSI) program and the National Industrial Security Program (NISP) for the Department. Further, DSS is responsible for security education and training. The mission of the PSI program is to conduct background investigations on individuals assigned to or affiliated with the Defense Department. The purpose of the NISP program is to ensure that private industry, while performing government contracts, properly safeguards classified information in its possession.

Changes

The Department is reviewing alternatives to the current operation and structure of DAPS, based on the premise that the DAPS functions may not be inherently governmental and other sources may exist for these services. The review will address mission transfer and alternative sourcing in the public or private sectors and will be completed by July 2003. Pending any adjustments that may be appropriate as a result of this review, the budget reflects the discontinuation of DAPS as currently

structured (less inclusion of related financial results in the DWCF) beginning in FY 2004 with a completion date in FY 2005. To minimize the potential impact on personnel, this budget funds \$+13.4 million in both FY 2004 and FY 2005 for voluntary separation incentive pay (VSIP) and voluntary early retirement authority (VERA).

Beginning in FY 2004, the Department proposes to remove the Defense Security Service (DSS) from the Defense-Wide Working Capital Fund. The Office of Personnel Management (OPM) will perform all personnel security investigations for Department of Defense personnel. OPM would become the central provider of these services for the Government. This enables the OPM to better address the critical national need for these services through improved utilization of existing resources. Over 1,800 personnel will transfer from DSS to OPM.

The remaining DSS organization will be direct funded. The newly re-aligned DSS mission will focus on dynamic, collaborative adjudication; on industrial security mission enhanced with critical infrastructure protection and technology protection responsibilities; and on enhanced security education, training and awareness. It will employ 515 personnel.

Appropriation Request:

The Budget request includes appropriated funding for DLA's Supply Management and DFAS's Financial Management activity groups. The DLA funding includes \$118.8 million as the final installment of the Aviation Consumables Initiative, through which \$500 million is invested in increased range and depth of critical weapons system supporting spare parts. This program has been very successful in increasing supply support. The FY 2004 request also includes \$100.9 million for costs previously financed through surcharge to customers. These costs will now be separately identified and customer budgets have been reduced directly. These costs represent the cost to run the Defense Reutilization and Marketing Service more than sales income collected, and unused storage capacity costs. The FY 2004 request also includes \$22.7 million to finance a study of existing fuel facilities inventory and demolition of unneeded fuels facilities. The DFAS request represents a revised cost allocation. By activity group, the requested funding is as follows in millions of dollars:

	<u>FY 2004</u>	<u>FY 2005</u>
Dollars in Millions		
DLA Supply Management	242.353	119.717
Defense Finance and Accounting Service	<u>.364</u>	<u>-</u>
Total	242.717	119.717

DEFENSE-WIDE WORKING CAPITAL FUND - TOTAL
SOURCE OF NEW ORDERS AND REVENUE
FISCAL YEAR (FY) 2004/2005 BIENNIAL BUDGET ESTIMATES
(Dollars in Millions)

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
1. New Orders:				
a. Orders from DoD Components				
Army	5,094.6	4,850.0	4,642.8	4,679.0
Navy	6,022.9	5,929.8	5,640.7	5,777.7
Air Force	7,436.9	6,863.4	6,440.7	6,603.0
Marine Corps	593.1	617.9	599.3	612.5
Other	2,248.2	1,923.2	1,684.2	1,727.7
b. Orders from Other Fund Activities	2,352.0	2,732.3	2,722.1	2,663.0
c. Total DoD	23,747.7	22,916.6	21,729.8	22,062.9
d. Other Orders:				
Other Federal Agencies	1,089.1	958.7	908.3	922.9
Trust Fund	0.0	0.0	0.0	0.0
Exchange Activities	0.0	0.0	0.0	0.0
Non Federal Agencies	304.1	506.2	479.3	468.9
Foreign Military Sales	749.3	796.8	771.5	786.5
2. Carry-In Orders	1,715.7	1,422.5	1,334.6	1,192.2
3. Total Gross Orders	27,605.9	26,600.8	25,223.5	25,433.4
4. Funded Carry Over	1,507.5	1,327.9	1,168.3	1,104.7
5. DRMS Sales Proceeds	39.7	38.7	35.1	32.1
6. Total Gross Sales	26,138.1	25,311.6	24,090.3	24,360.8

EXHIBIT FUND-11

DEFENSE-WIDE WORKING CAPITAL FUND
SUMMARY
FISCAL YEAR (FY) 2004/2005 BIENNIAL BUDGET ESTIMATES
REVENUE AND EXPENSES
(Dollars in Millions)

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Revenue:				
Gross Sales	26,094.9	25,285.0	24,065.6	24,335.6
Operations	25,786.9	24,619.7	23,599.5	23,893.5
Capital Surcharge	0.0	255.8	91.3	18.7
Depreciation excluding Major Construction	308.0	409.5	374.8	423.4
Major Construction Depreciation	0.0	0.0	0.0	0.0
ADPE & Telecommunications Equipment	0.0	0.0	0.0	0.0
Other Income	627.8	590.7	602.9	603.6
Refunds/Discounts (-)	(481.1)	(443.7)	(397.7)	(393.2)
Total Income	26,241.6	25,432.0	24,270.8	24,546.0
Expenses:				
Cost of Materiel Sold from Inventory	14,549.3	14,762.9	13,768.9	14,130.7
Materiel-Related	0.0	0.0	0.0	0.0
Salaries and Wages:				
Military Personnel Compensation & Benefits	86.2	88.3	85.0	87.0
Civilian Personnel Compensation & Benefits	2,745.7	2,812.6	2,656.7	2,546.4
Travel & Transportation of Personnel	71.2	84.0	77.0	78.0
Materials & Supplies (For Internal Oper)	256.3	213.7	210.6	218.1
Equipment	70.2	57.8	40.7	38.0
Other Purchases from Revolving Funds	1,239.1	1,587.2	1,547.4	1,578.0
Transportation of Things	1,239.3	1,240.1	1,018.3	991.0
Major Maintenance & Repair	0.0	0.0	0.0	0.0
Depreciation - Capital	325.0	424.6	387.9	415.5
Printing & Reproduction	224.0	239.4	250.7	269.6
Advisory and Assistance Services	111.8	158.4	141.2	120.2
Rent, Communication, Utilities, & Misc.	1,653.7	1,526.1	1,476.4	1,483.5
Other Purchased Services	2,361.3	2,687.9	2,721.3	2,632.8
Total Expenses	24,933.1	25,883.0	24,382.1	24,588.8
Operating Result	1,308.5	(451.0)	(111.3)	(42.8)
Less Capital Surcharge Reservation	0.0	(255.8)	(91.3)	(18.7)
Plus Passthroughs or Other Approp Affecting NOR	0.0	0.0	0.0	0.0
Other Adjustments Affecting NOR	45.5	604.0	(377.8)	192.3
Net Operating Result (NOR)	1,354.0	(102.8)	(580.4)	130.8
Prior Year Adjustments	(7.7)	0.0	0.0	0.0
Other Changes Affecting AOR	(129.9)	(103.3)	(14.9)	0.0
Prior Year AOR	(819.1)	397.3	191.2	(404.1)
Accumulated Operating Result (AOR)	397.3	191.2	(404.1)	(273.3)
Non-Recoverable Adjustments Impacting AOR	0.0	0.0	0.0	0.0
Accumulated Operating Results for Budget Purposes	397.3	191.2	(404.1)	(273.3)