DEPARTMENT OF THE ARMY

FISCAL YEAR (FY) 2008/2009
BUDGET ESTIMATES

SUBMITTED TO CONGRESS
FEBRUARY 2007

ARMY WORKING CAPITAL FUND

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ARMY OVERVIEW

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Background

The FY 2008/2009 Army Working Capital Fund (AWCF) budget request enables the Army to sustain and maintain its forces, recapitalize its combat equipment, and Reset assets to future force configurations while maintaining the fiscal foundation from which the Army fights a protracted Global War on Terror (GWOT). The Army uses the revolving fund concept to operate its stock fund and industrial facilities. The revolving fund concept encourages cost-effectiveness and provides flexibility to meet changing workload requirements in the year of execution. It also supports full cost visibility and full cost recovery while protecting appropriated fund customer accounts from year of execution price changes.

The Army manages two AWCF activity groups: Supply Management (SM) and Industrial Operations (IO). These activity groups satisfy peacetime and wartime needs of the Department of Defense by providing supplies, equipment, and ordnance necessary to sustain and reconstitute forces. The support services provided by AWCF activity groups are essential to the readiness and sustainability of our operating forces and are an integral part of winning the long war.

The FY 2008/2009 Budget Estimates supports the Army's plans to maintain and strengthen its warfighting readiness. It reflects increased revenue and expenses associated with providing customer support for the Nation's continued efforts in Iraq, Afghanistan, and in waging the GWOT. This is a wartime budget; it assumes substantially higher sales with expenditures to purchase, replenish, and repair inventory more than double peacetime levels. The budget submission does not anticipate a return to peacetime operations until after FY 2009.

Army Working Capital Fund Activity Groups

Both AWCF activity groups, SM and IO, are ready and capable of meeting the customer requirements represented in this budget. Summaries of the mission highlights of each area are outlined below.

Supply Management (SM)

The Supply Management activity group buys and maintains assigned stocks of spares and repair parts for sale to its customers, primarily Army operating units. This activity group is committed to supporting and building readiness for today and tomorrow's challenges. The Army's equipment and operational readiness and the strength to win the long war are directly linked to the availability of this materiel. The activity group is managed by the Life Cycle Management Commands of the

Army Materiel Command. The Supply Management activity group administers inventory procedures for Army managed materiel, non-Army managed materiel, and pre-positioned war reserve materiel.

The FY 2008/2009 Budget Estimates incorporates assumptions for supplemental appropriations in support of the Global War on Terror and Operation Iraqi Freedom. The FY 2007 estimates assume an increase from FY 2006 for the additional supplemental and Reset requirements. Activity in FY 2008 and FY 2009 will possibly increase above the amounts displayed if additional Reset funding is provided in those years. FY 2006 Supply Management sales were approximately $617 million lower than projected in the FY 2007 President's Budget because the forecasted Reset activity did not materialize in FY 2006. This budget submission does not anticipate a return to a reduced level of operations until after FY 2009.

Industrial Operations (IO)

The Industrial Operations activity group of the Army Working Capital Fund provides the Army an organic industrial capability to: conduct depot level maintenance, repair and upgrade; produce quality munitions and large caliber weapons; and store, maintain, and demilitarize materiel for all branches of DoD. IO is comprised of thirteen government-owned and operated installation activities, each with unique core competencies. These include five maintenance depots, three arsenals, two munitions production facilities, and three storage sites. Although comprised of various organic industrial capabilities, the preponderance of IO workload and associated estimates in this budget submission relate to depot level maintenance repair and upgrade.

Major combat and stability operations are placing tremendous demands on equipment resulting in much higher usage rates than in routine peacetime operations. In Iraq and Afghanistan, for example, usage rates have run two to eight times higher than comparable peacetime rates. Equipment is also employed in harsher environments and in more demanding ways in combat missions. All of these factors act to increase the maintenance requirement beyond what is typically budgeted. The Army's Reset program includes a series of actions taken to restore unit equipment to a desired level of combat capability after returning from contingency operations. It is designed to reverse the effects of combat stress on equipment and prepare for future missions. A key component of the Reset program is the recapitalization (Recap) of equipment. Under Recap, depots rebuild or repair equipment to a level that increases the performance specifications of the equipment or returns the equipment to a "zero mile/zero hour" level with original performance specifications. Recap efforts support the Army's future force

modernization strategy. The Army estimates it will take at least two years after the return of forces from Iraq and Afghanistan to completely reconstitute equipment used in support of Operation Iraqi Freedom and Operation Enduring Freedom and equipment held in Army's five prepositioned sets.

This budget submission incorporates depot workload assumptions associated with the Reset Program (funded with supplemental appropriations), normal peacetime training, and other manufacturing and storage requirements. To meet total operational requirements, production across this activity group increases from the FY 2007 President's Budget for FY 2007, peaks in FY 2008, with a slight decrease in FY 2009. This budget request reflects those production estimates.

Budget Highlights

Performance Measurements

The President's Management Agenda and the Government Performance and Results Act commit us to a results-oriented Government, one that focuses on performance rather than process. This Army Working Capital Fund (AWCF) budget supports specifically-identified equipment and supply requirements funded by both base and anticipated supplemental appropriations. Unlike profit-oriented commercial businesses, the revolving funds goal is to break even over the long term. The revolving fund rates established in this budget are stabilized or fixed during execution to protect customers from unforeseen fluctuations that would impact on their ability to execute the programs approved by Congress.

Key financial measures are net operating results (NOR), accumulated operating results (AOR), and unit cost. The NOR combines actual revenue and expense information in a business statistic that measures how well the activity performed as compared to budgeted amounts. The AOR measures actual financial gains and losses, allowing rates to be set at a level that brings the accumulated gains and losses to zero over the budget cycle. The unit cost is a metric used in the Supply Management activity group to relate resources consumed to outputs produced. The aim of unit cost is to associate total cost to the work or output. It is measured by dividing gross operating cost (the sum of total obligations, depreciation, and credit) by gross sales.

Operational measures assess how well the financial inputs reflected in the AWCF budget are providing support to Army strategic goals and operational readiness. Operational measures include productive yield (an indicator of whether direct labor

employees can support projected workload) and stock availability (a measure of the ability of AWCF inventory to fill a customer's requisition).

Personnel

The Army Working Capital Fund civilian personnel posture reflects an overall increase from FY 2007 through FY 2009. This end strength is based on the Predictive Requirements Model, validated by the U.S. Army Manpower Analysis Agency and the Army Workload and Performance System. The additional manpower will provide support to more effectively manage inventory requirements and industrial operations.

	FY 2006	FY 2007	FY 2008	FY 2009
Supply Management				
Civilian End Strength	3,074	3,167	3,167	3,167
Civilian FTEs	3,095	3,167	3,167	3,167
Military End Strength	11	11	11	11
Military Average Strength	11	11	11	11
Industrial Operations				
Civilian End Strength	22,146	25,489	26,589	27,399
Civilian FTEs	21,591	24,989	27,147	26,576
Civilian OT Usage (% DLH)	17.6%	14.5%	12.1%	10.3%
Productive Yield	1,610	1,674	1,724	1,732
Military End Strength	27	25	25	24
Military Average Strength	25	24	24	24
Total				
Civilian End Strength	25,220	28,656	29,756	30,566
Civilian FTEs	24,686	28,156	30,314	29,743
Military End Strength	38	36	36	35
Military Average Strength	36	35	35	35

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Revenue

Revenue is an indicator of the volume of work completed by the Army Working Capital Fund (AWCF) activity groups. In the FY 2007 President's Budget the total AWCF revenue was projected to peak in FY 2006; however, due to continuing operations in Iraq and Afghanistan total revenue is estimated to peak in FY 2007 and decrease in FY 2008 and FY 2009. Included in revenue for FY 2008 and FY 2009 is a direct appropriation for War Reserve.

($ Millions)		FY 2006	FY 2007	FY 2008	FY 2009
Supply Management					
	Gross Revenue	11,712.8	12,048.9	11,149.7	10,861.5
	Less Credit	2,187.0	2,736.2	2,475.8	2,480.7
	Net Revenue	9,525.8	9,312.7	8,673.9	8,380.8
Industrial Operations		4,661.5	6,108.6	6,672.9	6,442.4
Total		14,187.3	15,421.3	15,346.8	14,823.2

Expenses (Cost of Goods and Services Produced)

There is a direct relationship between workload, sales volume, and expenses. Total expenses are expected to grow through FY 2008 and drop in FY 2009. Major expense drivers include cost of goods sold for Supply Management and the cost of labor and materiel for Industrial Operations.

($ Millions)	FY 2006	FY 2007	FY 2008	FY 2009
Supply Management	8,795.0	8,804.6	8,488.0	8,024.6
Industrial Operations	4,828.4	6,363.0	6,746.1	6,552.7
Total	13,623.4	15,167.6	15,234.1	14,577.3

Net and Accumulated Operating Results

Net Operating Result (NOR) represents the difference between expenses and revenues in an accounting period. Accumulated Operating Result (AOR) represents the aggregate of all recoverable net earnings, including prior year adjustments, since inception of the activity. The goal of the AWCF is to break even over time and set revenue rates to achieve positive or negative results in order to bring the AOR to zero over the budget cycle. At times, as in the case of the Industrial Operations activity group, it is necessary to spread the return of positive AOR over two years in order to avoid excessive rate instability. An activity group's financial performance is measured by comparing actual results to goals for

Net Operating Result (NOR) and Accumulated Operating Result (AOR). The change in NOR projections, for both the Supply Management (SM) and Industrial Operations (IO) activity group, for FY 2007 from the last President's Budget submission to this submission is driven by the change in workload and cost projections. Any revised gains or losses are returned in the FY 2008 and FY 2009 rates. The following table shows the NOR and AOR for both SM and IO.

NOR/AOR ($ Millions)	FY 2006	FY 2007	FY 2008	FY 2009
Supply Management				
Net Operating Result	5.5	56.0	-19.3	0.0
Accumulated Operating Result	-36.7	19.3	0.0	0.0
Industrial Operations				
Net Operating Result	-166.9	-254.4	-73.2	-110.2
Accumulated Operating Result	437.8	183.4	110.2	0.0

Cash Collections, Disbursements, and Net Outlays

The Army Working Capital Fund (AWCF) ended FY 2006 with a cash balance of $875.3 million. The balance was impacted by the $348 million received in June from the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror and Hurricane Recovery. The projected end of year cash balances for FY 2007 and FY 2008 are below the minimum requirement of $495 million for FY 2007 and $481 million for FY 2008. Although not included in the cash balance, the requested supplemental funding discussed in the direct appropriation section will increase the cash balance above the minimum level.

The AWCF does not plan any advance billings in this budget submission. In addition, there is no request for repayment of the $2 billion that was transferred during FY 2004 and FY 2005 to the Operation and Maintenance, Army appropriation to support urgent, unfunded Global War on Terror requirements. We still project that at some point, part or all of the $2 billion transferred from the fund must be repaid so that the fund has sufficient cash to pay for materiel on order in the Supply Management activity group. Materiel on order from suppliers and from repair facilities grew from $2.4 billion at the end of FY 2002 to $7.2 billion at the end of FY 2006.

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Cash ($ millions)	FY 2006	FY 2007	FY 2008	FY 2009
Collections	13,923.8	15,377.7	15,285.0	14,703.2
Disbursements	14,260.9	15,822.4	15,341.6	14,916.2
Net Outlays from Operations	337.1	444.7	56.6	213.0
Direct Appropriation	589.0	16.4	5.0	102.2
Total Net Outlays	-251.9	428.3	51.6	110.8
Cash Balance	875.3	447.0	395.4	284.6

Customer Rates

The Supply Management activity group adds a cost recovery rate (CRR), as a percentage of sales, to the price of items to recoup total cost. The Industrial Operations activity group sets customer rates on a direct labor hour basis. The hourly composite rate recovers all costs, both direct and overhead. All activity group rates are stabilized so that the customer's buying power is protected from price swings during the year of execution. The following table shows the Supply Management CRR and Industrial Operations direct labor hour rates.

Customer Rate	FY 2006	FY 2007	FY 2008	FY 2009
Supply Management	12.7%	12.7%	13.0%	13.9%
Industrial Operations	$130.42	$148.91	$167.73	$183.01

Customer Rate Change

The Supply Management customer rate change is expressed as a percentage change from the rate in the previous year, weighted by total sales. The FY 2008 and FY 2009 price change to customers reflects lower sales based on fewer deployed forces in support of Global War on Terror and Operation Iraqi Freedom. The Industrial Operations price change to customers results from increased materiel, increased personnel, and increased post 9/11 force protection costs. Both personnel costs and materiel costs increase as additional man hours are required to repair deteriorated equipment.

Customer Rate Change	FY 2006	FY 2007	FY 2008	FY 2009
Supply Management	2.5%	0.1%	0.8%	1.4%
Industrial Operations	0.7%	14.2%	12.6%	9.1%

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Direct Appropriations

The Army Working Capital Fund (AWCF) has received or requested the following as direct Defense Working Capital Fund appropriations. The table below depicts the amount for each year.

War Reserve Secondary Items - procures and stores war reserve inventory of secondary items to support deployments of combat units.

Inventory Augmentation - supports initial inventory stocks of the new Army Combat Uniform at Military Clothing Sales Stores operated by the Army & Air Force Exchange Service. Also, includes supplemental funding for increased spares to support higher demands driven by equipment operating tempo in Operating Iraqi Freedom.

Industrial Mobilization Capacity (IMC) - compensates the Industrial Operations activity group for fixed costs of maintaining plant and equipment not currently in use, but required for mobilization and wartime contingencies. Since this cost is not directly related to production and the cost of doing business, direct funding is used to ensure a viable industrial base without adversely affecting customer rates. IMC funding is not requested in this budget.

Fuel – provides supplemental funding to offset the increased cost of fuel in the year of execution.

Global War on Terror (GWOT) Supplemental Request - funds replenishment of stocks issued to combat units deploying to Operation Iraqi Freedom. Included are medical supplies for combat support hospitals and surgical teams, spares to support operational readiness of M1 Tanks, Bradley Fighting Vehicles, and other combat equipment. Supplemental funding is also requested to replace aviation, missile, and group combat system secondary items that have been lost to enemy action or lost/damaged during shipment to the theater. Additionally, supplemental funding is requested to augment the national inventory for increases in the demand for spares by deployed combat units.

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Direct Appropriations ($ Millions)	FY 2006	FY 2007	FY 2008	FY 2009
War Reserve Secondary Items	115.3	16.4	5.0	102.2
Inventory Augmentation	274.3	0.0	0.0	0.0
Industrial Mobilization Capacity	64.0	0.0	0.0	0.0
Fuel	5.9	0.0	0.0	0.0
GWOT Supplemental Request	0.0	724.4	1,362.9	0.0
Total	495.5	740.8	1,367.9	102.2

Capital Budget Program

AWCF activities develop and maintain operational capabilities through acquisition of production equipment, execution of minor construction projects, and acquisition of software. Equipment is acquired to replace obsolete and unserviceable equipment, modernize production and maintenance processes, and eliminate environmental hazards. Increased emphasis has been placed on maintenance depots to ensure production equipment is updated to allow the most effective and efficient means of Resetting the force. The Supply Management capital budget consists mostly of software development costs for Logistics Modernization program and Exchange Pricing. A more in-depth discussion is provided in each activity group's section as well as narrative detail in the Capital Budget section. The below table summarizes the Army Working Capital Fund (AWCF) capital investment program request.

Capital Budget Program ($ Millions)	FY 2006	FY 2007	FY 2008	FY 2009
Supply Management	26.4	71.3	90.2	68.8
Industrial Operations	117.1	134.8	104.9	82.0
Total	143.5	206.1	195.1	150.8
Outlays	118.8	145.6	147.1	123.9

Minimum Capital Investment for Certain Depots

The National Defense Authorization Act for FY 2007 requires the five Army maintenance depots, Anniston, Red River, Letterkenny, Tobyhanna, and Corpus Christi to invest in their infrastructure, a minimum of 4% in FY 2007, 5% in FY 2008, and 6% in FY 2009. The following table displays the budgeted investment projection in this submission. The Army will increase the FY 2009 investment to meet the required 6% in the next budget submission.

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Minimum Capital Investment ($ Millions)	FY 2007 4%	FY 2008 5%	FY 2009 6%
Average Revenue	3,278.6	4,059.7	4,818.8
Investment Target	131.1	203.0	289.1
Budgeted Investment	241.5	240.9	175.0
Percent Invested	7%	6%	4%

Summary

The Army Working Capital Fund (AWCF) FY 2008/2009 Budget Estimates request is a war-time budget, incorporating the Army's requirements to train, equip, and Reset the force. This submission anticipates that total AWCF revenue from base and supplemental funding will reach $15.4 billion in FY 2007 and $15.3 billion in FY 2008. These estimates were prepared prior to the President's decision to deploy additional forces to Iraq and may not include all additional workload. Also requested in this budget is $195.1 million to fund FY 2008 capital improvements. Further details about the AWCF request follow in the detailed narratives and exhibits for each activity group.

OPERATING BUDGET
Supply Management

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Functional Description

The Supply Management activity group buys and maintains assigned stocks of spares and repair parts for sale to its customers, primarily Army operating units. This activity group is committed to supporting and building readiness for today and tomorrow's challenges. The Army's equipment and operational readiness and the strength to win the long war are directly linked to the availability of this materiel. The activity group is managed by the Life Cycle Management Commands (LCMC) of the Army Materiel Command (AMC).

Supply Management administers inventory procedures for Army managed items (AMI), non-Army managed items (NAMI), and pre-positioned war reserve materiel. The below table displays the four major commodity groups: aviation and missile; communications and electronics; tank-automotive and armament; and NAMI. Each commodity group consists of consumable supplies and spare parts for weapon systems. Pre-positioned war reserve materiel is retained in protected inventory and released to support deploying combat units. The war reserve stocks contain materiel from all commodity groups.

Activity Group Composition

	Army Managed Items (AMI)	**Materiel Managed**
AM-LCMC	Aviation and Missile Life Cycle Management Command Redstone Arsenal, Huntsville, AL	Aircraft and ground support items, missile systems items
CE-LCMC	Communications-Electronics Life Cycle Management Command Fort Monmouth, NJ	Communications and electronics items
TA-LCMC	Tank-automotive and Armaments Life Cycle Management Command Detroit Arsenal, Warren, MI; Rock Island, IL; Natick, MA	Combat, automotive, and construction items. Weapons
	NAMI-PSID	**Materiel Managed**
	Non-Army managed Items – Product Support Integration Directorate Tank-automotive and Armaments Command, Rock Island, IL	DLA, GSA, and Other Service managed items. Includes repair parts, industrial supplies, general supplies, and ground support supplies
	Prepositioned War Reserves	**Materiel Managed**
	AMC-MOB HQ, Army Materiel Command, Fort Belvoir, VA	DLA and GSA items: repair parts, clothing, subsistence, medical supplies, industrial supplies; ground forces supplies

Budget Highlights

Overview

The FY 2008/2009 Budget Estimate incorporates assumptions for supplemental appropriations in support of the Global War on Terror and Operation Iraqi Freedom. The FY 2007 estimates assume an increase from FY 2006 for the

additional supplemental funding and Reset requirements. Activity in FY 2008 and FY 2009 will increase above the amounts displayed if additional Reset funding is provided in those years. FY 2006 Supply Management (SM) sales were approximately $617 million lower than projected in the FY 2007 President's Budget because the forecasted Reset activity did not materialize in FY 2006. This budget submission does not anticipate a return to a reduced level of operations until after FY 2009.

Personnel

The SM civilian personnel end strength remains at 3,167 as identified in the FY 2007 President's Budget. This end strength is based on the results of a predictive requirements model validated by the U.S. Army Manpower Analysis Agency. Beginning in FY 2007, the additional manpower provides support to more effectively manage inventory requirements, by allowing improved management of customer demand records and more accurately forecasting requirements.

	FY 2006	FY 2007	FY 2008	FY 2009
Civilian End Strength	3,074	3,167	3,167	3,167
Civilian FTEs	3,095	3,167	3,167	3,167
Military End Strength	11	11	11	11
Military Average Strength	11	11	11	11

Sales, Costs, Operating Results, Rates, and Unit Cost

Sales

FY 2007 net sales forecasted in the FY 2007 President's Budget increase over $819.8 million, from $8,476.5 million to $9,296.3 million because of additional funding provided for Reset requirements. Sales reflect income from operations and do not include direct appropriations for war reserve materiel and inventory augmentation.

Costs

FY 2007 cost of materiel sold stated in the FY 2007 President's Budget increased by $818 million, from $6,754.2 million to $7,572.2 million in conjunction with the increased sales. Credit in FY 2007 assumes a greater return of unserviceable materiel to be repaired in support of Reset requirements.

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Costs ($ Millions)	FY 2006	FY 2007	FY 2008	FY 2009
Gross Sales	11,323.2	12,032.5	11,144.7	10,759.3
Credit for Returns	2,187.0	2,736.2	2,475.8	2,480.7
Net Sales	9,136.2	9,296.3	8,668.9	8,278.6
Cost of Materiel Sold	7,624.8	7,572.2	7,250.7	6,744.4
Obligations for Materiel	7,670.9	7,653.3	7,332.7	6,858.4

Operating Results

The Army Working Capital Fund activity groups operate on a break-even basis over the budget cycle. The Army sets each activity's annual rates to bring accumulated operating results (AOR) to zero in the budget cycle. The actual FY 2006 Net Operating Result (NOR) was $20.9 million higher than the FY 2007 President's Budget estimate. The revised estimates for revenue and costs have affected the NOR and AOR estimates in FY 2007 and FY 2008. The table below displays net and accumulated operating results for Supply Management.

($ Millions)	FY 2006	FY 2007	FY 2008	FY 2009
Net Operating Results	5.5	56.0	(19.3)	0.0
Accumulated Operating Results	(36.7)	19.3	0.0	0.0

Rates

Activity cost recovery rates are set to recover full costs and adjust for accumulated operating results. The customer price change is expressed as a percentage change from the rate in the previous year, weighted by total materiel costs and sales volume. Both the cost recovery rate and the customer price change increases in FY 2008 and FY 2009 are because of projected lower sales volume, assuming a decrease in the deployed force in Operation Iraqi Freedom.

($ Millions)	FY 2006	FY 2007	FY 2008	FY 2009
Total Materiel Costs	8,970.9	9,585.7	8,941.4	8,753.0
Cost Recovery Rate (composite)	12.7%	12.7%	13.0%	13.9%
Customer Price Change	2.5%	0.1%	0.8%	1.4%
Purchase Inflation	1.8%	1.3%	1.3%	1.4%

Unit Cost

Unit cost is a ratio that relates resources consumed to outputs produced. The aim of unit cost is to associate total cost to the work or output. It is calculated by dividing gross operating cost (the sum of total obligations and credit) by gross sales. The FY 2007 unit cost shown in the FY 2008/2009 Budget Estimates increased to 0.960 from 0.949, driven by costs increasing at a rate slightly greater than gross sales. The lower unit cost in FY 2006 and FY 2007 establish operating costs at a level lower than revenue. The additional revenue is collected for pricing discrepancies incurred in prior years that do not materialize until the year of execution.

	FY 2006	FY 2007	FY 2008	FY 2009
Supply Management	0.960	0.960	0.986	0.981

Cash Collections, Disbursements, and Net Outlays

The table below displays projected cash outlays. Collections and disbursements in the current submission correspond with increased activity assumptions associated with wartime requirements. FY 2007 collections submitted in the FY 2007 President's Budget increased from $8,492.9 million to $9,498.4 million because of the additional Reset funding provided to the Army. FY 2007 disbursements submitted in the FY 2007 President's Budget increased from $8,794.2 million to $9,498.4 million because of projected spares deliveries from vendors and repair facilities. The increase is associated with FY 2005 and FY 2006 hardware obligations made in anticipation of Operation Iraqi Freedom and Reset customer demands in FY 2007.

($ Millions)	FY 2006	FY 2007	FY 2008	FY 2009
Collections	9,817.2	9,498.4	8,673.9	8,380.8
Disbursements	9,473.4	9,499.3	8,578.2	8,340.4
Net Outlays	(343.8)	0.9	(95.7)	(40.4)

Performance Measurement

Supplying and maintaining the Army's equipment remain key components of readiness. Stock availability, the measure of requisitions satisfied by the supply system, has a goal of 85% demand satisfaction. Stock availability improved from the 1st Quarter FY 2005 level of 76% to 84.4% in 4th Quarter FY 2006. During FY 2007 stock availability is expected to remain stable as materiel is received from

vendors to satisfy customers' supply requisitions. The table below shows stock availability achieved at the end of each quarter in FY 2005 and FY 2006.

Stock Availability	1st Qtr	2d Qtr	3d Qtr	4th Qtr
FY 2005	76.0%	78.0%	82.0%	79.0%
FY 2006	85.3%	85.6%	83.6%	84.4%

Supply Management Workload

The data below represents key categories of interest in Supply Management. The stock issues in FY 2006 continue to reflect the increased requirements from Operation Iraqi Freedom and our efforts to reduce the level of backorders. An increase in FY 2007 is expected due to the additional funding provided for Reset requirements.

	FY 2006	FY 2007	FY 2008	FY 2009
Items Managed	120,000	120,000	119,000	119,000
Requisitions Received	1,482,000	1,526,000	1,324,000	1,121,000
Issues Completed	1,919,000	1,957,000	1,705,000	1,432,000
Procurement Receipts	83,000	81,000	74,000	64,000
Contracts Awarded	9,000	9,000	8,000	7,000

Undelivered Orders

As shown in the below table, undelivered orders have grown significantly from FY 2002 (peacetime level) through FY 2005 as a result of increased customer demands. The rapid deployment of large forces and high OPTEMPO, supported by Operation and Maintenance, Army supplemental funding, required Supply Management to increase and replenish inventory levels to support customer demands. Undelivered orders from commercial suppliers and repair facilities exceeded $7.2 billion at the end of FY 2006. Undelivered orders are expected to remain high throughout FY 2007 consistent with customer demands. Sufficient cash balance is required to pay vendors upon receipt of these orders.

($ Millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Undelivered Orders	2,459	5,481	7,174	8,490	7,233	7,458

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Direct Appropriations

War Reserve Secondary Items and Inventory Augmentation

The Army invests funding for war reserve secondary items each fiscal year. War reserve materiel improves the Army's ability to meet global missions by sustaining the force until CONUS based re-supply commences. War reserve equipment stocked without secondary items significantly jeopardizes the Army's ability to successfully complete its missions. The secondary items purchased for war reserves supports important combat weapon systems such as M1 Tanks, Bradley Fighting Vehicles, artillery howitzers and rocket launchers, and HMMWVs. These appropriated funds also buy spares used to support both the deployed forces of today and the Brigade Combat Teams of the future.

($ Millions)	FY 2006	FY 2007	FY 2008	FY 2009
War Reserve Secondary Items [1/]	115.3	16.4	5.0	102.2
Inventory Augmentation [1/]	274.3	0.0	0.0	0.0

[1/] FY 2006 includes Supplemental appropriation funding

Capital Budget

Supply Management (SM) seeks to maintain and develop capabilities through equipment and software acquisition. The SM Capital Investment Program (CIP) primarily funds the development of software to improve managerial decision-making quality and timeliness. The development of software for the Logistics Modernization Program and Exchange Pricing continue to be the main efforts of the CIP. The Logistics Modernization Program re-engineers logistics processes and utilizes modern information technology to provide real time visibility of the entire logistics supply chain. Exchange Pricing combines two financial transactions to customers − the obligation of funds when materiel is demanded and a credit upon return of an unserviceable carcass. These two programs will enable the Army to produce business process and inventory management improvements that will significantly enhance customer service and the ability to meet demands. Additionally, the SM CIP provides for local area networks, servers, desktop computers, high-speed printers, and a variety of software products that enhance program integration at the operational sites. The planned capital obligations are shown below.

($ Millions)	FY 2006	FY 2007	FY 2008	FY 2009
ADP	0.6	0.6	0.6	0.6
Software	25.8	70.7	89.6	68.2
Total	26.4	71.3	90.2	68.8

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Supply Management

Revenue and Expenses
($ Millions)

	FY 2006	FY 2007	FY 2008	FY 2009
Revenue				
Total Gross Sales	11,323.2	12,032.5	11,144.7	10,759.3
Credit and Allowances	2,187.0	2,736.2	2,475.8	2,480.7
Net Sales	9,136.2	9,296.3	8,668.9	8,278.6
Other Income	389.6	16.4	5.0	102.2
War Reserve-Secondary Items	23.2	16.4	5.0	102.2
Inventory Augmentation (ACU)	19.3	0.0	0.0	0.0
Supplemental for War Reserve	92.1	0.0	0.0	0.0
Supplemental for Inventory Augmentation	255.0	0.0	0.0	0.0
Total Income:	9,525.8	9,312.7	8,673.9	8,380.8
Expenses				
Total Cost of Materiel Sold from Inventory	7,624.8	7,572.2	7,250.7	6,744.4
Inventory Losses/Obsolescence	121.7	135.5	122.3	138.3
Salaries and Wages:	282.0	304.9	313.5	320.8
Military Personnel Compensation & Benefits	1.0	1.0	1.0	1.1
Civilian Personnel Compensation & Benefits	281.0	303.9	312.5	319.7
Travel & Transportation of Personnel	3.1	3.4	3.4	3.4
Materiel & Supplies (For Internal Operations)	1.1	1.1	1.1	1.1
Equipment	2.3	1.1	1.1	1.1
Other Purchases from Revolving Funds	311.3	302.1	287.2	291.4
Transportation of Things	139.4	160.1	155.7	158.3
Depreciation - Capital	46.7	41.2	44.3	49.7
Printing and Reproduction	0.1	0.1	0.1	0.1
Advisory and Assistance Services	19.6	20.7	21.2	21.6
Rent, Communication, Utilities & Misc. Charges	0.2	0.2	0.2	0.2
Other Purchased Services	242.7	262.0	287.2	294.2
Total Expenses:	8,795.0	8,804.6	8,488.0	8,024.6
Operating Result	730.8	508.1	185.9	356.2
Less Recovery of Prior Year Pricing Discrepancies	(248.1)	(435.7)	(200.2)	(254.0)
Less Recovery of Current Year Pricing Discrepancies	(87.6)			
Other Changes Affecting NOR:				
Less Direct Funding	(389.6)	(16.4)	(5.0)	(102.2)
Net Operating Result	5.5	56.0	(19.3)	0.0
Prior Year AOR	(42.2)	(36.7)	19.3	0.0
Accumulated Operating Result	(36.7)	19.3	0.0	0.0

Army Working Capital Fund
Fiscal Year (FY) 2008/2009 Budget Estimates
Supply Management

Source of Revenue
($ Millions)

	FY 2006	FY 2007	FY 2008	FY 2009
1. New Orders				
a. Orders from DOD Components:				
Department of Army				
Operation & Maintenance, Army	7,945.7	8,307.8	7,985.8	7,735.1
Operation & Maintenance, ARNG	855.4	860.0	802.5	744.3
Operation & Maintenance, AR	86.5	92.8	82.2	71.5
Subtotal, O&M:	8,887.6	9,260.6	8,870.5	8,550.9
Procurement Appropriations	405.3	427.1	430.4	443.9
RDT&E	11.2	12.3	11.2	10.8
All Other Army	88.3	90.1	87.4	86.8
Subtotal, Department of the Army:	9,392.4	9,790.1	9,399.5	9,092.4
Department of Navy	130.4	133.2	135.1	136.9
Department of Air Force	190.2	185.6	194.1	196.9
US Marine Corps	252.7	285.9	251.6	213.3
Department of Defense	35.0	36.5	36.8	38.7
Other DOD	26.1	28.1	25.7	23.4
Subtotal, Other DoD Services:	634.4	669.3	643.3	609.2
b. Orders from other Fund Business Areas:				
Depot Maintenance, Army	823.2	975.6	869.1	783.6
c. Total DOD	10,850.0	11,435.0	10,911.9	10,485.2
d. Other Orders:				
Other Federal Agencies	4.1	4.1	4.0	4.0
FMS	280.5	290.2	295.4	303.8
Non Federal Agencies	0.0	0.0	0.0	0.0
All Other	0.8	1.0	0.9	0.9
Subtotal, Other Federal Agencies:	285.4	295.3	300.3	308.7
Total New Orders	11,135.4	11,730.3	11,212.2	10,793.9
2. Carry-In Orders (Back Orders From Prior Years)	1,860.9	1,673.1	1,370.9	1,438.4
3. Total Gross Orders	12,996.3	13,403.4	12,583.1	12,232.3
Less Carry out	1,673.1	1,370.9	1,438.4	1,473.0
4. Gross Sales	11,323.2	12,032.5	11,144.7	10,759.3
	11,323.2	12,032.5	11,144.7	10,759.3
5. Less Credit and Allowances	2,187.0	2,736.2	2,475.8	2,480.7
6. Net Sales	9,136.2	9,296.3	8,668.9	8,278.6

Army Working Capital Fund
Fiscal Year (FY) 2008/2009 Budget Estimates
Supply Management

Summary By Division
($ Millions)

Division	Net Customer Orders	Net Sales	Obligation Targets Operating	MOB	Total
Non-Army Managed Items					
FY 2006	1,380.3	1,216.3	1,144.2	0.0	1,144.2
FY 2007	1,273.2	1,225.0	1,139.6	0.0	1,139.6
FY 2008	1,082.7	1,035.2	963.7	0.0	963.7
FY 2009	826.6	788.1	734.0	0.0	734.0
Army Managed Items (AMI)					
AMCOM-Air					
FY 2006	3,157.9	3,194.3	2,600.5	0.0	2,600.5
FY 2007	2,664.0	2,798.3	2,445.9	0.0	2,445.9
FY 2008	2,804.1	2,755.4	2,491.6	0.0	2,491.6
FY 2009	2,964.5	2,894.5	2,568.0	12.5	2,580.5
AMCOM-Missiles					
FY 2006	260.6	229.4	157.3	8.4	165.7
FY 2007	299.0	308.1	180.0	0.0	180.0
FY 2008	308.4	297.6	193.5	0.0	193.5
FY 2009	352.8	341.7	222.9	6.7	229.6
CECOM					
FY 2006	1,129.9	1,358.0	1,321.4	4.5	1,325.9
FY 2007	1,312.5	1,361.0	1,004.7	0.0	1,004.7
FY 2008	1,396.9	1,496.5	1,277.4	0.0	1,277.4
FY 2009	1,307.1	1,406.4	1,149.6	5.0	1,154.6
TACOM					
FY 2006	3,019.6	3,137.7	2,446.9	74.8	2,521.7
FY 2007	3,443.5	3,601.4	2,880.6	3.0	2,883.6
FY 2008	3,142.1	3,082.0	2,404.0	0.0	2,404.0
FY 2009	2,862.2	2,847.9	2,183.9	34.3	2,218.2
Total AMI					
FY 2006	**7,568.0**	**7,919.4**	**6,526.1**	**87.7**	**6,613.8**
FY 2007	**7,719.0**	**8,068.8**	**6,511.2**	**3.0**	**6,514.2**
FY 2008	**7,651.5**	**7,631.5**	**6,366.5**	**0.0**	**6,366.5**
FY 2009	**7,486.6**	**7,490.5**	**6,124.4**	**58.5**	**6,182.9**

Army Working Capital Fund
Fiscal Year (FY) 2008/2009 Budget Estimates
Supply Management

Summary By Division
($ Millions)

Division	Net Customer Orders	Net Sales	Obligation Targets Operating	MOB	Total
AMC Mobilization					
FY 2006	0.1	0.5	0.6	20.8	21.4
FY 2007	1.9	2.5	2.5	2.0	4.5
FY 2008	2.2	2.2	2.2	0.0	2.2
FY 2009	0.0	0.0	0.0	43.7	43.7
Cost of Operations					
FY 2006	0.0	0.0	1,001.8	0.0	1,001.8
FY 2007	0.0	0.0	1,055.7	0.0	1,055.7
FY 2008	0.0	0.0	1,070.7	0.0	1,070.7
FY 2009	0.0	0.0	1,092.4	0.0	1,092.4
Commitments					
FY 2006	0.0	0.0	0.0	0.0	0.0
FY 2007	0.0	0.0	2,104.7	0.0	2,104.7
FY 2008	0.0	0.0	1,726.6	0.0	1,726.6
FY 2009	0.0	0.0	1,658.2	0.0	1,658.2
Fatigue Testing					
FY 2006	0.0	0.0	6.1	0.0	6.1
FY 2007	0.0	0.0	6.2	0.0	6.2
FY 2008	0.0	0.0	6.3	0.0	6.3
FY 2009	0.0	0.0	6.4	0.0	6.4
ESI					
FY 2006	0.0	0.0	61.3	0.0	61.3
FY 2007	0.0	0.0	62.4	0.0	62.4
FY 2008	0.0	0.0	64.0	0.0	64.0
FY 2009	0.0	0.0	65.4	0.0	65.4
Army Combat Uniforms					
FY 2006	0.0	0.0	19.3	0.0	19.3
FY 2007	0.0	0.0	0.0	0.0	0.0
FY 2008	0.0	0.0	0.0	0.0	0.0
FY 2009	0.0	0.0	0.0	0.0	0.0
Total Operating OA					
FY 2006	**8,948.4**	**9,136.2**	**8,759.4**	**108.5**	**8,867.9**
FY 2007	**8,994.1**	**9,296.3**	**10,882.3**	**5.0**	**10,887.3**
FY 2008	**8,736.4**	**8,668.9**	**10,200.0**	**0.0**	**10,200.0**
FY 2009	**8,313.2**	**8,278.6**	**9,680.8**	**102.2**	**9,783.0**

Army Working Capital Fund
Fiscal Year (FY) 2008/2009 Budget Estimates
Supply Management

Summary By Division
($ Millions)

Division	Net Customer Orders	Net Sales	Obligation Targets Operating	MOB	Total
Capital					
FY 2006	0.0	0.0	26.4	0.0	26.4
FY 2007	0.0	0.0	71.3	0.0	71.3
FY 2008	0.0	0.0	90.2	0.0	90.2
FY 2009	0.0	0.0	68.8	0.0	68.8
War Reserve Supplemental					
FY 2006	0.0	0.0	0.0	92.1	92.1
FY 2007	0.0	0.0	0.0	0.0	0.0
FY 2008	0.0	0.0	0.0	0.0	0.0
FY 2009	0.0	0.0	0.0	0.0	0.0
Total OA					
FY 2006	**8,948.4**	**9,136.2**	**8,785.8**	**200.6**	**8,986.4**
FY 2007	**8,994.1**	**9,296.3**	**10,953.6**	**5.0**	**10,958.6**
FY 2008	**8,736.4**	**8,668.9**	**10,290.2**	**0.0**	**10,290.2**
FY 2009	**8,313.2**	**8,278.6**	**9,749.6**	**102.2**	**9,851.8**
Budget Authority					
War Reserve Authority					
FY 2006	0.0	0.0	0.0	115.3	115.3
FY 2007	0.0	0.0	0.0	16.4	16.4
FY 2008	0.0	0.0	0.0	5.0	5.0
FY 2009	0.0	0.0	0.0	102.2	102.2
War Reserve Supplemental					
FY 2006	0.0	0.0	0.0	92.1	92.1
FY 2007	0.0	0.0	0.0	0.0	0.0
FY 2008	0.0	0.0	0.0	0.0	0.0
FY 2009	0.0	0.0	0.0	0.0	0.0
Army Combat Uniforms					
FY 2006	0.0	0.0	19.3	0.0	19.3
FY 2007	0.0	0.0	0.0	0.0	0.0
FY 2008	0.0	0.0	0.0	0.0	0.0
FY 2009	0.0	0.0	0.0	0.0	0.0
Inventory Augmentation					
FY 2006	0.0	0.0	255.0	0.0	255.0
FY 2007	0.0	0.0	0.0	0.0	0.0
FY 2008	0.0	0.0	0.0	0.0	0.0
FY 2009	0.0	0.0	0.0	0.0	0.0
Total Budget Authority					
FY 2006	**0.0**	**0.0**	**274.3**	**207.4**	**481.7**
FY 2007	**0.0**	**0.0**	**0.0**	**16.4**	**16.4**
FY 2008	**0.0**	**0.0**	**0.0**	**5.0**	**5.0**
FY 2009	**0.0**	**0.0**	**0.0**	**102.2**	**102.2**

Army Working Capital Fund
Fiscal Year (FY) 2008/2009 Budget Estimates
Supply Management

Operating Budget Requirements By Weapons System
($ Millions)

Weapon System	FY 2006	NMCSR	FY 2007	NMCSR
AH-64, Apache	443.6	4%	603.5	25%
CH-47D, Chinook	871.8	4%	546.2	25%
UH-60, Black Hawk	680.7	2%	1,233.9	25%
OH-58D, Kiowa Warrior	77.1	2%	114.5	25%
Other Aviation	778.8	25%	222.6	25%
MLRS	16.0	1%	13.8	10%
Patriot Air Defense System	60.9	1%	59.5	10%
Other Missile	60.8	10%	80.1	10%
Firefinder Radar System	238.6	2%	136.6	10%
Night Vision Goggles	87.6	10%	110.7	10%
SINCGARS	191.6	10%	229.5	10%
Other Communications-Electronics	599.8	10%	284.7	10%
Family of Medium Tactical Vehicles	3.0	3%	39.1	10%
HEMTT	55.2	4%	58.6	10%
HMMWV	284.7	2%	376.2	10%
M109A6, SP Howitzer	50.0	6%	46.1	10%
M198, Towed Howitzer	8.1	1%	8.0	10%
M1A1, Abrams Tank	611.4	2%	755.4	10%
M1A2, Abrams Tank (SEP)	8.6	3%	17.3	10%
M2/M3, Bradley Fighting Vehicle	272.4	3%	357.0	10%
STRYKER	0.0	1%	0.5	10%
Other Tank-automotive & Armament	1,125.4	10%	1,217.4	10%
SUBTOTAL:	**6,526.0**		**6,511.2**	
NAMI	1,144.2		1,139.6	
AMC-MOB	0.6		2.5	
TOTAL:	**7,670.8**		**7,653.3**	

Army Working Capital Fund
Fiscal Year (FY) 2008/2009 Budget Estimates
Supply Management

Operating Budget Requirements By Weapons System
($ Millions)

Weapon System	FY 2008	NMCSR	FY 2009	NMCSR
AH-64, Apache	510.4	25%	512.4	25%
CH-47D, Chinook	532.5	25%	546.4	25%
UH-60, Black Hawk	1,420.5	25%	1,499.1	25%
OH-58D, Kiowa Warrior	103.3	25%	99.7	25%
Other Aviation	252.9	25%	202.2	25%
MLRS	14.4	10%	16.5	10%
Patriot Air Defense System	59.6	10%	68.4	10%
Other Missile	86.6	10%	107.9	10%
Firefinder Radar System	185.7	10%	138.9	10%
Night Vision Goggles	135.0	10%	129.9	10%
SINCGARS	335.4	10%	342.0	10%
Other Communications-Electronics	314.1	10%	266.7	10%
Family of Medium Tactical Vehicles	35.6	10%	30.2	10%
HEMTT	55.4	10%	51.7	10%
HMMWV	312.0	10%	284.0	10%
M109A6, SP Howitzer	38.2	10%	36.4	10%
M198, Towed Howitzer	6.8	10%	6.1	10%
M1A1, Abrams Tank	625.8	10%	553.2	10%
M1A2, Abrams Tank (SEP)	40.2	10%	18.7	10%
M2/M3, Bradley Fighting Vehicle	267.1	10%	277.9	10%
STRYKER	4.4	10%	6.5	10%
Other Tank-automotive & Armament	1,030.5	10%	929.6	10%
SUBTOTAL:	**6,366.5**		**6,124.4**	
NAMI	963.7		734.0	
AMC-MOB	2.2		0.0	
TOTAL:	**7,332.4**		**6,858.4**	

Army Working Capital Fund
Fiscal Year (FY) 2008/2009 Budget Estimates
Supply Management

Inventory Status
($ Millions)

FY 2006

	Total	WRM	Operating	Other
1. Inventory BOP	**24,474.1**	2,655.1	11,061.9	10,757.1
2. BOP Inventory Adjustments				
a. Reclassification (Memo)	**0.9**	(239.4)	2,546.1	(2,305.8)
b. Price Change Amount (Memo)	**635.2**	78.8	303.7	252.7
c. Adj. Inventory BOP (1+2a+2b)	**25,110.2**	2,494.5	13,911.7	8,704.0
3. Receipts at Standard	**7,202.6**	120.4	7,082.2	0.0
4. Sales at Standard	**10,974.5**	0.0	10,974.5	0.0
5. Inventory Adjustments				
a. Capitalization (±)	**62.8**	50.5	253.2	(240.9)
b. Returns from Customers (+)	**3,906.8**	0.0	3,762.4	144.4
c. Returns from Customers w/o Credit (+)	**11,516.6**	16.6	1,475.9	10,024.1
d. Returns to Suppliers (-)	**(254.4)**	(37.5)	0.0	(216.9)
e. Transfers to DRMO (-)	**(2,214.7)**	(7.5)	0.0	(2,207.2)
f. Issues/Receipt w/o Adj. (±)	**(212.4)**	0.0	(0.5)	(211.9)
g. Other	**(5,570.4)**	(66.5)	(2,275.3)	(3,228.6)
h. Total Adjustments (5a Thru 5g)	**7,234.3**	(44.4)	3,215.7	4,063.0
6. Inventory EOP	**28,572.6**	2,570.5	8,676.2	16,579.6
7. Inventory EOP, Revalued (LAC Discounted)	**24,210.9**	2,181.1	7,527.3	14,502.5
a. Economic Retention (Memo)				8,154.2
b. Contingency Retention (Memo)				3,810.0
c. Potential DOD Reutiliization (Memo)				2,538.4
8. On Order EOP @ Cost	**7,494.4**	148.6	6,938.3	0.0

Army Working Capital Fund
Fiscal Year (FY) 2008/2009 Budget Estimates
Supply Management

Inventory Status
($ Millions)

FY 2007

	Total	WRM	Operating	Other
1. Inventory BOP	**28,572.6**	2,570.5	8,676.2	17,326.0
2. BOP Inventory Adjustments				
a. Reclassification (Memo)	**0.0**	(34.1)	2,144.1	(2,110.0)
b. Price Change Amount (Memo)	**1,240.0**	89.0	660.0	491.0
c. Adj. Inventory BOP (1+2a+2b)	**29,812.6**	2,625.4	11,480.3	15,707.0
3. Receipts at Standard	**6,090.6**	7.5	5,974.3	108.8
4. Sales at Standard	**12,032.5**	0.0	12,032.5	0.0
5. Inventory Adjustments				
a. Capitalization (±)	**(71.3)**	0.0	(60.0)	(11.3)
b. Returns from Customers (+)	**2,958.9**	0.0	3,237.5	(278.6)
c. Returns from Customers w/o Credit (+)	**6,114.6**	0.0	135.0	5,979.6
d. Returns to Suppliers (-)	**(100.6)**	0.0	0.0	(100.6)
e. Transfers to DRMO (-)	**(2,202.6)**	0.0	0.0	(2,202.6)
f. Issues/Receipt w/o Adj. (±)	**(20.0)**	0.0	0.0	(20.0)
g. Other	**(1,932.6)**	0.0	(173.1)	(1,759.5)
h. Total Adjustments (5a Thru 5g)	**4,746.4**	0.0	3,139.4	1,607.0
6. Inventory EOP	**28,617.1**	2,632.9	9,788.1	16,196.2
7. Inventory EOP, Revalued (LAC Discounted)	**23,622.0**	2,302.4	8,057.1	13,262.5
a. Economic Retention (Memo)				6,972.6
b. Contingency Retention (Memo)				4,157.5
c. Potential DOD Reutiliization (Memo)				2,132.4
8. On Order EOP @ Cost	**5,304.1**	101.8	5,202.3	0.0

Army Working Capital Fund
Fiscal Year (FY) 2008/2009 Budget Estimates
Supply Management

Inventory Status
($ Millions)

FY 2008

	Total	WRM	Operating	Other
1. Inventory BOP	**28,617.1**	2,632.9	9,788.1	16,196.2
2. BOP Inventory Adjustments				
a. Reclassification (Memo)	**0.0**	55.2	1,234.9	(1,290.1)
b. Price Change Amount (Memo)	**725.3**	43.2	321.8	360.3
c. Adj. Inventory BOP (1+2a+2b)	**29,342.4**	2,731.3	11,344.8	15,266.4
3. Receipts at Standard	**3,695.4**	51.1	3,405.0	239.3
4. Sales at Standard	**11,144.7**	0.0	11,144.7	0.0
5. Inventory Adjustments				
a. Capitalization (±)	**0.0**	0.0	0.0	0.0
b. Returns from Customers (+)	**3,613.1**	0.0	2,978.6	634.5
c. Returns from Customers w/o Credit (+)	**5,477.2**	0.0	99.0	5,378.2
d. Returns to Suppliers (-)	**(102.8)**	0.0	0.0	(102.8)
e. Transfers to DRMO (-)	**(2,313.9)**	0.0	0.0	(2,313.9)
f. Issues/Receipt w/o Adj. (±)	**(17.1)**	0.0	0.0	(17.1)
g. Other	**(2,110.4)**	0.0	(128.9)	(1,981.5)
h. Total Adjustments (5a Thru 5g)	**4,546.1**	0.0	2,948.7	1,597.4
6. Inventory EOP	**26,439.2**	2,782.4	7,803.0	15,853.9
7. Inventory EOP, Revalued (LAC Discounted)	**24,409.3**	2,692.9	7,912.0	13,804.4
a. Economic Retention (Memo)		0.0	0.0	6,560.1
b. Contingency Retention (Memo)		0.0	0.0	5,042.6
c. Potential DOD Reutiliization (Memo)		0.0	0.0	2,201.7
8. On Order EOP @ Cost	**5,341.3**	104.7	5,236.6	0.0

Army Working Capital Fund
Fiscal Year (FY) 2008/2009 Budget Estimates
Supply Management

Inventory Status
($ Millions)

FY 2009

	Total	WRM	Operating	Other
1. Inventory BOP	**26,439.2**	2,782.4	7,803.0	15,853.9
2. BOP Inventory Adjustments				
a. Reclassification (Memo)	**0.0**	(46.1)	1,020.1	(974.0)
b. Price Change Amount (Memo)	**1,195.1**	130.5	670.4	394.2
c. Adj. Inventory BOP (1+2a+2b)	**27,634.3**	2,866.8	9,493.5	15,274.1
3. Receipts at Standard	**5,278.1**	127.5	5,027.8	122.8
4. Sales at Standard	**10,759.3**	0.0	9,518.2	1,241.1
5. Inventory Adjustments				
a. Capitalization (±)	**0.0**	0.0	0.0	0.0
b. Returns from Customers (+)	**3,564.8**	0.0	3,002.1	562.7
c. Returns from Customers w/o Credit (+)	**5,327.7**	0.0	99.8	5,227.9
d. Returns to Suppliers (-)	**(105.0)**	0.0	0.0	(105.0)
e. Transfers to DRMO (-)	**(2,335.9)**	0.0	0.0	(2,335.9)
f. Issues/Receipt w/o Adj. (±)	**(14.8)**	0.0	0.0	(14.8)
g. Other	**(1,155.7)**	0.0	(105.7)	(1,050.0)
h. Total Adjustments (5a Thru 5g)	**5,281.1**	0.0	2,996.2	2,284.9
6. Inventory EOP	**27,434.2**	2,994.3	7,999.3	16,440.7
7. Inventory EOP, Revalued (LAC Discounted)	**23,827.7**	2,941.8	7,956.1	12,929.8
a. Economic Retention (Memo)		0.0	0.0	5,284.6
b. Contingency Retention (Memo)		0.0	0.0	5,673.2
c. Potential DOD Reutiliization (Memo)		0.0	0.0	1,971.9
8. On Order EOP @ Cost	**5,258.5**	108.8	5,149.7	0.0

Army Working Capital Fund
Fiscal Year (FY) 2008/2009 Budget Estimates
Supply Management

War Reserve Materiel
($ Millions)

	FY 2006		
	Total	**WRM Inventory**	**WRM Other**
1. Inventory BOP	**2,655.1**	2,237.7	417.4
2. Price Change	**78.8**	78.1	0.7
3. Reclassification	**(239.4)**	(131.8)	(107.6)
4. Inventory Changes			
a. Receipts @ Standard	**137.0**	136.9	0.1
(1). Purchases	**120.4**	120.3	0.1
(2). Returns from customers	**16.6**	16.6	0.0
b. Issues @ Standard	**(45.5)**	(116.5)	71.0
(1). Sales	**0.0**	0.0	0.0
(2). Returns to Suppliers:	**(37.5)**	(37.5)	0.0
(3). Disposals	**(7.5)**	(79.0)	71.5
c. Adjustments @ Standard	**(15.5)**	(27.1)	11.6
(1). Capitalizations	**50.5**	50.5	0.0
(2). Gains and Losses	**(0.1)**	(22.3)	22.2
(3). Other	**(66.5)**	(55.4)	(11.1)
5. Inventory EOP	**2,570.5**	2,177.3	393.2
Stockpile Costs			
1. Storage		1.9	
2. Manage		2.1	
3. Maintenance/Other		0.0	
Total Costs		**4.0**	
WRM Budget Request			
Obligations @ Cost		108.5	
a. Additional WRM		108.5	
b. Replenishment WRM		0.0	
c. Repair WRM		0.0	
d. Assemble/Disassemble		0.0	
e. Other		0.0	
Total Request		**108.5**	

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War Reserve Materiel
($ Millions)

	FY 2007		
	Total	**WRM Inventory**	**WRM Other**
1. Inventory BOP	**2,570.5**	2,412.9	157.6
2. Price Change	**89.0**	88.3	0.7
3. Reclassification	**(34.1)**	(35.5)	1.4
4. Inventory Changes			
a. Receipts @ Standard	**7.5**	7.5	0.0
(1). Purchases	**7.5**	7.5	0.0
(2). Returns from customers	**0.0**	0.0	0.0
b. Issues @ Standard	**0.0**	0.0	0.0
(1). Sales	**0.0**	0.0	0.0
(2). Returns to Suppliers:	**0.0**	0.0	0.0
(3). Disposals	**0.0**	0.0	0.0
c. Adjustments @ Standard	**0.0**	0.0	0.0
(1). Capitalizations	**0.0**	0.0	0.0
(2). Gains and Losses	**0.0**	0.0	0.0
(3). Other	**0.0**	0.0	0.0
5. Inventory EOP	**2,632.9**	2,473.2	159.7
Stockpile Costs			
1. Storage		2.0	
2. Manage		5.3	
3. Maintenance/Other		0.0	
Total Costs		**7.3**	
WRM Budget Request			
Obligations @ Cost		7.5	
a. Additional WRM		5.0	
b. Replenishment WRM		2.5	
c. Repair WRM		0.0	
d. Assemble/Disassemble		0.0	
e. Other		0.0	
Total Request		**7.5**	

Army Working Capital Fund
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War Reserve Materiel
($ Millions)

	FY 2008		
	Total	**WRM Inventory**	**WRM Other**
1. Inventory BOP	**2,632.9**	2,582.0	50.9
2. Price Change	**43.2**	42.7	0.5
3. Reclassification	**55.2**	51.3	3.9
4. Inventory Changes			
a. Receipts @ Standard	**51.1**	51.1	0.0
(1). Purchases	**51.1**	51.1	0.0
(2). Returns from customers	**0.0**	0.0	0.0
b. Issues @ Standard	**0.0**	0.0	0.0
(1). Sales	**0.0**	0.0	0.0
(2). Returns to Suppliers:	**0.0**	0.0	0.0
(3). Disposals	**0.0**	0.0	0.0
c. Adjustments @ Standard	**0.0**	0.0	0.0
(1). Capitalizations	**0.0**	0.0	0.0
(2). Gains and Losses	**0.0**	0.0	0.0
(3). Other	**0.0**	0.0	0.0
5. Inventory EOP	**2,782.4**	2,727.1	55.3
Stockpile Costs			
1. Storage		2.0	
2. Manage		5.3	
3. Maintenance/Other		0.0	
Total Costs		**7.3**	
WRM Budget Request			
Obligations @ Cost		2.2	
a. Additional WRM		0.0	
b. Replenishment WRM		2.2	
c. Repair WRM		0.0	
d. Assemble/Disassemble		0.0	
e. Other		0.0	
Total Request		**2.2**	

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War Reserve Materiel
($ Millions)

	FY 2009		
	Total	**WRM Inventory**	**WRM Other**
1. Inventory BOP	**2,782.4**	2,755.5	26.9
2. Price Change	**130.5**	130.5	0.0
3. Reclassification	**(46.1)**	(44.9)	(1.2)
4. Inventory Changes			
a. Receipts @ Standard	**127.5**	127.5	0.0
(1). Purchases	**127.5**	127.5	0.0
(2). Returns from customers	**0.0**	0.0	0.0
b. Issues @ Standard	**0.0**	0.0	0.0
(1). Sales	**0.0**	0.0	0.0
(2). Returns to Suppliers:	**0.0**	0.0	0.0
(3). Disposals	**0.0**	0.0	0.0
c. Adjustments @ Standard	**0.0**	0.0	0.0
(1). Capitalizations	**0.0**	0.0	0.0
(2). Gains and Losses	**0.0**	0.0	0.0
(3). Other	**0.0**	0.0	0.0
5. Inventory EOP	**2,994.3**	2,968.6	25.7
Stockpile Costs			
1. Storage		2.0	
2. Manage		5.3	
3. Maintenance/Other		0.0	
Total Costs		**7.3**	
WRM Budget Request			
Obligations @ Cost		102.2	
a. Additional WRM		0.0	
b. Replenishment WRM		0.0	
c. Repair WRM		0.0	
d. Assemble/Disassemble		0.0	
e. Other		0.0	
Total Request		**102.2**	

Army Working Capital Fund
Fiscal Year (FY) 2008/2009 Budget Estimates
Supply Management

Price Change to Customer
($ Millions)

	FY 2006	FY 2007	FY 2008	FY 2009
1. Gross Sales at Cost 1/	8,970.9	9,585.7	8,941.4	8,753.0
2. Less LAC Materiel Inflation Adjustment	124.1	116.7	109.4	116.5
3. Revised Gross Sales at Cost	8,846.8	9,469.0	8,832.0	8,636.5
4. Cost Recovery in Dollars	1,135.9	1,096.9	1,095.7	1,142.1
5. Change to Customers				
a. Previous Year's Cost Recovery Rate	12.0%	12.7%	12.7%	13.0%
b. This years Cost Recoveryt Dollars plus inflation adjustment divided by revised Gross Sales at Cost	14.2%	12.8%	13.6%	14.6%
c. Percent Change to Customer	2.5%	0.1%	0.8%	1.4%

1/ AMI Sales Only

OPERATING BUDGET
Industrial Operations

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Army Working Capital Fund
Fiscal Year (FY) 2008/2009 Budget Estimates
Industrial Operations

Functional Description

The Industrial Operations (IO) activity group of the Army Working Capital Fund (AWCF) is comprised of thirteen government-owned and operated installation activities, each with unique core competencies. These include five maintenance depots, three arsenals, two munitions production facilities, and three storage sites. The five maintenance depots are part of an enterprise of maintenance providers comprised of government and contract sources. Depot level workload represents the highest level of repair in terms of technical complexity and scope. The three arsenals produce an array of defense-related materiel and components, and provide manufacturing capabilities not widely available in the private sector. The two munitions production facilities produce large caliber ammunition, rockets, bombs, missiles, and incendiary devices. The three storage sites primarily receive, store and issue ammunition or operational project stocks.

The IO activity group performs the following functions: provides depot level maintenance, repair, and modernization of weapon systems and component parts; manufactures, renovates, and demilitarizes materiel; produces quality munitions and large caliber weapons; performs a full range of ammunition maintenance services for the Department of Defense and U.S. allies; performs ammunition receipt, storage, and issue functions; and provides installation base support to mission elements and tenant activities.

IO activities both compete and collaborate with the private sector to deliver goods and services efficiently and effectively. The five heavy maintenance depots (Anniston, Corpus Christi, Letterkenny, Red River, and Tobyhanna) have been designated as Centers of Industrial and Technical Excellence (CITE) for the performance of core maintenance workload in support of the DoD and foreign allies. The CITE designation provides authority to partner with and/or lease facilities to industry on programs relating to core maintenance expertise.

In addition, four IO activities were awarded the Shingo Award for "Excellence in Manufacturing" in FY 2006. The recipients, evaluated by on-site examiners, were scored in the following areas: cost improvement; leadership; empowerment; vision and strategy; innovation and development; partnering practices with suppliers and customers; environmental practices; quality and results; and consistent improvement in each of those areas. The 2006 Army recipients include Letterkenny Army Depot, Red River Army Depot, Rock Island Arsenal - Joint Manufacturing and Technology Center, and Tobyhanna Army Depot.

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Industrial Operations

Activity Group Composition

The IO activity group is comprised of the following installation activities:

Anniston Army Depot (ANAD) is located in Anniston, AL. ANAD is the only Army depot capable of performing maintenance on both heavy and light-tracked combat vehicles and their components. The depot is recognized as the center of technical expertise in the M1 Abrams Tank and is the designated depot for repair of the M60, AVLB, M728 and M88 combat vehicles. ANAD has assumed responsibility for towed and self-propelled artillery as well as the M113 Family of Vehicles (FOV). Under partnership agreements, a wide range of vehicle conversions and upgrades are currently underway, to include the STRYKER. The depot performs maintenance on individual and crew-served weapons as well as land combat missiles and small arms, and is actively engaged in resetting equipment returning from operations in Iraq and Afghanistan in support of the Global War on Terror. The depot also stores 7% of the nation's chemical munitions stockpile until the stockpile is demilitarized. Key tenant organizations on the depot include the Defense Distribution Depot - Anniston, the Anniston Munitions Center, the Anniston Chemical Activity, the Program Manager for Chemical Demilitarization, the Center of Military History Clearing House, the 722nd Ordnance Company (Explosive Ordnance Disposal), and the Defense Reutilization and Marketing Office.

Blue Grass Army Depot (BGAD) is located in Richmond, KY. BGAD is one of four Tier I ammunition depots which receives, stores, issues, renovates, modifies, maintains, and destroys conventional munitions for all DoD Services. It is also a Tier 1 Power Projection Platform for chemical defense equipment, and special operations support for all of Department of Defense (DoD). On 1 October 1999, Anniston Munitions Center (ANMC) became a subordinate unit under the command and control of BGAD. ANMC is a multi-functional Class V facility. It is a Tier II facility for conventional ammunition and a Tier I facility for missiles.

Crane Army Ammunition Activity (CAAA) is located in Crane, IN and is a tenant of the Crane Division, Naval Surface Warfare Center. CAAA was activated in response to DoD implementation of the Single Manager for Conventional Ammunition concept, which gave the Army the task of providing conventional ammunition, production, and storage services to all branches of the military. The CAAA mission is to produce and renovate conventional ammunition and ammunition-related components. This includes manufacturing, engineering, storage, shipment, demilitarization, quality assurance, and disposal. CAAA has extensive renovation and maintenance capabilities for conventional munitions, and

is the recognized center of technical expertise in the production of pyrotechnic devices including signal smoke, illuminating and infrared flares, and distress signals. Crane Army Ammunition Activity (CAAA) is one of four Tier 1 Ammunition Storage Sites within the Department of Defense (DoD), which stores war reserve ammunition to meet initial ammunition needs in the first 30 days of a conflict. The Letterkenny Munitions Center (LEMC) is a cost center under CAAA and is a tenant on Letterkenny Army Deport in Chambersburg, PA. LEMC stores, maintains, distributes, and demilitarizes conventional ammunition.

Corpus Christi Army Depot (CCAD) is located in Corpus Christi, TX and is a tenant of the Naval Air Station Corpus Christi. CCAD's mission is to overhaul; repair; modify; retrofit; test and modernize helicopters, engines; and components for all Services and foreign military customers. CCAD serves as the depot training base for active duty Army, National Guard, Reserve and foreign military personnel. CCAD provides worldwide on-site maintenance services, aircraft crash analysis, lubricating oil analysis, and chemical, metallurgical and training support services to customers. Helicopters supported include AH-1, CH-47, MH/SH/UH-60, OH-58, UH-1, and AH-64. CCAD is also actively engaged in resetting equipment returning from operations in Iraq and Afghanistan in support of the Global War On Terror (GWOT).

Letterkenny Army Depot (LEAD) is located in Letterkenny, PA. LEAD has unique tactical missile repair capabilities supporting a variety of DoD missile systems including the Patriot and its ground support and radar equipment. LEAD performs the maintenance of tactical missiles. In response to GWOT requirements, LEAD is rebuilding HMMWVs that are returning from theater and is actively engaged in rebuilding them to a configuration that will support add-on armor. LEAD has strengthened its technological development by initiating partnerships with Penn State University's Applied Research Laboratory and the Applied Technology Center at Hagerstown Junior College. Key tenant activities on the depot include the U.S. Army Industrial Logistics System Center, U.S. Army District Test, Measurement, and Diagnostic Equipment (TMDE) Support Center, U.S. Army TMDE Management Office-Region 1, DECC - Chambersburg, Defense Information Systems Agency, U.S. Army Materiel Command Management Engineering Activity, U.S. Army Health Clinic, and the Letterkenny Munitions Center.

McAlester Army Ammunition Plant (MCAAP) is located in McAlester, OK. MCAAP produces and renovates quality conventional ammunition, bombs, warheads, rockets, and missiles as well as ammunition-related components; performs engineering and product assurance in support of production; and

receives, stores, ships, demilitarizes, and disposes of conventional and missile ammunition and related items. The McAlester Army Ammunition Plant (MCAAP) mission is two-fold: it continues to serve as a Tier 1 munitions storage and maintenance depot, as well as, a production facility. The Red River Munitions Center (RRMC) is a cost center under MCAAP and is a tenant on Red River Army Depot in Texarkana, TX. RRMC stores, maintains, and distributes conventional ammunition.

Pine Bluff Arsenal (PBA) is located in Pine Bluff, AR. PBA has the capability to produce, renovate, and store over 60 different conventional ammunition products ranging in caliber from 40 mm to 175 mm. Eighty-five percent of these products are produced only at PBA. Specialties include production of munitions containing payloads for smoke (signaling, spotting, and obscuration), non-lethal, riot control, incendiary, illumination and infrared uses. PBA is a leader in the field of protective mask fabrication, repair, and recertification, and represents the Army's sole facility for the repair and rebuild of a series of masks and breathing apparatus. PBA also recently began providing maintenance, upgrade, storage, and mission support for various mobile and powered soldier support systems. Key tenant activities on the arsenal include the Pine Bluff Chemical Activity, the Pine Bluff Chemical Agent Disposal Facility, 752nd Explosive Ordnance Disposal Company, Technical Escort Unit, and the Pine Bluff Contracting Division. In addition, PBA has formed partnerships with the Clara Barton Center for Domestic Preparedness (Specialized Weapons of Mass Destruction / Terrorism Training Program for the American Red Cross) and the Domestic Preparedness Equipment Technical Assistance Program (for the Department of Homeland Security).

Rock Island Arsenal (RIA) is located in Rock Island, IL. RIA is noted for its expertise in the manufacture of weapons and weapon components that are provided to both foreign and domestic markets. Every phase of development and production is available at RIA. Prototypes are fabricated in the fully equipped prototype shop by specially trained machinists and limited initial production, as well as spare and repair parts, are produced throughout the manufacturing complex. Items manufactured at RIA include artillery, gun mounts, recoil mechanisms, small arms, aircraft weapon sub-systems, grenade launchers, weapon simulators, and a variety of spare and repair parts. Several of the arsenal's most successful products include the M198 155mm Towed Howitzer, the M119 105mm Towed Howitzer, and the M1A1 Gun Mount. Recently, RIA has been heavily involved in 24/7 production of HMMWV armor door kits in support of the Global War On Terror (GWOT). Beginning in FY 2008, RIA base operations transfer to the Installation Management Command.

Red River Army Depot (RRAD) is located in Texarkana, TX. RRAD's mission is to conduct ground combat, air defense systems and tactical wheeled vehicles maintenance, certification, and related support services worldwide for the Army, DoD components, and allied nations. Systems supported include the Bradley Infantry Fighting Vehicle, Multiple Launch Rocket System, Small Emplacement Excavator, 5-ton dump truck, Heavy Expanded Mobility Tactical Truck, 25-ton crane, track and roadwheels, High Mobility Multi-Purpose Wheeled Vehicle, M800 and 900 series trucks, and the Patriot missile. RRAD has the only rubber product facility in the Army, which produces and re-rubberizes track shoes and roadwheels. RRAD is also actively engaged in restoring equipment returning from operations in Iraq and Afghanistan in support of the Global War On Terror (GWOT). Key tenants on the depot include the Defense Distribution Depot - Red River, Defense Automated Printing Service, Defense Reutilization and Marketing Office, General Services Administration, several Non-Appropriated Fund offices, U.S. Army Health Clinic, U.S. Army Test, Measurement, and Diagnostic Equipment Support Laboratory, and the Red River Munitions Center.

Sierra Army Depot (SIAD) is located in Herlong, CA. SIAD's mission is to serve as the expeditionary logistics center and joint strategic power projection support platform, providing support in the form of storage, maintenance, assembly, and containerization. SIAD is the center of technical expertise in critical Operational Project Systems including Deployable Medical Systems, Petroleum and Water Systems, Force Provider, Strategic configured loads, and other items as directed.

Tooele Army Depot (TEAD) is located in Tooele, UT. TEAD, the Western Region Tier I Ammunition Depot, is one of four Tier I ammunition depots that receives, stores, issues, renovates, modifies, maintains, and destroys conventional munitions for all DoD Services. TEAD's mission is to provide America's joint fighting forces with munitions and Ammunition Peculiar Equipment in support of military missions before, during, and after any contingency power projection. Storage capabilities at TEAD are one of the largest in the U.S. Key tenants on the depot include the Deseret Chemical Depot, the Tooele Chemical Demilitarization Facility, and the Chemical Agent Munitions Disposal System and its activities.

Tobyhanna Army Depot (TYAD) is located in Tobyhanna, PA. From handheld radios to satellite communications, TYAD uses advanced technologies to ensure the readiness of U.S. armed forces and is a full-service repair, overhaul, and fabrication facility for communications-electronics systems, equipment, and select missile guidance systems. TYAD is also actively engaged in resetting equipment returning from operations in Iraq and Afghanistan in support of the GWOT. Key tenant activities on the depot include the Defense Automated Printing Service,

U.S. Army TMDE Support Center, Joint Visual Information Activity, Defense Distribution Depot - Tobyhanna, AMC Logistics Support Activity, Defense Reutilization and Marketing Office, and Air Force Liaison (with Ogden Air Logistics Center, UT and Air Combat Command, Langley, VA).

Watervliet Arsenal (WVA) is located in Watervliet, NY and is recognized as the premier cannon maker for the Army. WVA provides manufacturing and machining capabilities for mortars, recoilless rifles, cannons for the Army's main battlefield tank, the M1 Abrams, towed and self-propelled artillery, and special tool sets.

The U.S. Army Materiel Command (AMC) is located at Ft. Belvoir, VA and serves as the management command for the IO activity group. Installations or activities in this group fall under the direct command and control of the AMC major subordinate commands, each aligned in accordance with the nature of its mission. Corpus Christi and Letterkenny Army Depots report to the Aviation and Missile Life Cycle Management Command located at Redstone Arsenal, AL. Anniston, Red River, and Sierra Army Depots, as well as Rock Island and Watervliet Arsenals report to the Tank-automotive and Armaments Life Cycle Management Command located in Warren, MI. Tobyhanna Army Depot reports to the Communication-Electronics Life Cycle Management Command located at Ft. Monmouth, NJ. Pine Bluff Arsenal reports to the Chemical Materials Agency located at Aberdeen Proving Ground, MD. Bluegrass and Tooele Army Depots, as well as Crane Army Ammunition Activity and McAlester Army Ammunition Plant, report to the Joint Munitions & Lethality Command located at Rock Island Arsenal, IL.

Budget Highlights

Overview

Although the Industrial Operations (IO) activity group is comprised of the 13 activities listed above, the 5 maintenance depots (Anniston, Corpus Christi, Letterkenny, Red River, and Tobyhanna) comprise the largest portion of the workload and funding, representing approximately 80% of the revenue, expense and workload for each budget cycle. Combat operations in Iraq and Afghanistan continue to place tremendous demands on the equipment, resulting in higher materiel costs and longer repair times. In addition, the retrograde of these assets to CONUS repair sites has made workload estimates challenging because of delays or re-routing. The harsh desert environment, increased usage, and limited repair facilities on site have caused operational fleets to age more rapidly, dramatically shortening their useful life. Theater equipment usage rates in Iraq

and Afghanistan have run two to eight times higher than comparable peacetime rates.

The Army's Reset program is designed to reverse the effects of combat stress on equipment and prepare equipment for future missions. Reset includes a series of actions to restore unit equipment to a desired level of combat capability after returning from contingency operations. Although the Army is making progress repairing damaged equipment, we continue to face obstacles as plans are adjusted or workload mix is changed. A key component of the Reset program is the recapitalization (Recap) of equipment. Under Recap, depots rebuild or repair equipment to a level that increases the performance specifications of the equipment or returns the equipment to a "zero mile/zero hour" level with original performance specifications. Recap efforts support the Army's future force structure.

The Army's depots and their efforts to collaborate with industry are critical to the entire Reset effort with nearly every installation engaged in one way or another with private industry. After the return of deployed forces, the Army estimates it will take at least two years to completely reconstitute equipment used in support of Operation Iraqi Freedom and Operation Enduring Freedom in addition to equipment held in our five prepositioned sets.

This budget submission incorporates depot workload assumptions associated with the Reset program as well as normal peacetime training requirements and all other manufacturing and storage requirements highlighted previously. This submission assumes that sufficient funding is made available at the right time and with a certain amount of predictability in order to support the forces that execute the wartime mission, day-to-day operations, and efforts to prepare for the future. The industrial activities, in an effort to support wartime requirements, have substantially increased production quantities to meet critical schedules while continuing to improve work flow processes. The table below shows the growth attributable to wartime activity.

	Annual Pre-War	FY 2006 Actual	FY 2007 Planned
Aircraft	4	42	95
Helicopter Engines	< 200	786	899
Bradley Fighting Vehicles	144	716	1068
HMMWVs	< 100	7,686	11,951
M88 Recovery Vehicle	54	123	220

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Personnel

The Industrial Operations (IO) activity group relies on two models to validate manpower staffing levels, which are predicated on specific workload assumptions. The models are the Army Workload and Performance System and the Predictive Staffing Model. Based on these models, the activity group continues to increase staffing, mostly through a combination of term, temporary, and contractor field team employees, recognizing that wartime workload is not permanent.

Beginning in FY 2008, Rock Island Arsenal base operations will transfer 300 personnel spaces to the Installation Management Command, however, even with this decrease the IO activities are expected to increase overall end strength to cover the forecasted workload growth. The installations are hiring interns, teaming with technical colleges, and using limited over hire actions to obtain the journeymen necessary to sustain production into the future.

Personnel	FY 2006	FY 2007	FY 2008	FY 2009
Civilian End Strength	22,146	25,489	26,589	27,399
Civilian FTEs	21,591	24,989	27,147	26,576
Military End Strength	27	25	25	24
Military Average Strength	25	24	24	24

Revenue

In FY 2006, the industrial activities revenue ended 23% below plan due to delays in funding and asset availability causing perturbations in workforce levels. The IO FY 2007 composite rate increases from $137.55 per hour to $148.91 per hour as a result of a budget error at Corpus Christi Army Depot (CCAD) during the FY 2007 budget build, and will be applied directly to the aviation workload at CCAD. Additional workload included in this submission increases the FY 2007 President's Budget revenue target by 28%, a 31% increase above the FY 2006 actual production level. This budget submission assumes a 9% increase to the revised FY 2007 estimate and timely receipt of supplemental funding has removed many obstacles encountered last fiscal year. The increase in workload is presenting challenges and production schedules are being aggressively managed through flexible workforce strategies (overtime, flexible shifts, term and temporary employees, and contractor field teams).

Industrial Mobilization Capacity (IMC) funding was provided in FY 2006 but is not requested for the remaining fiscal years in this submission.

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Costs

FY 2006 actual costs were 19% lower than planned, consistent with the trend in FY 2006 revenue. The FY 2007 costs were increased for additional workload and represent a 32% increase above the FY 2006 actual costs. The additional workload costs are primarily in materiel, personnel, and contractor field team categories. Costs are also increasing for rising steel prices, aging technology, and force modernization.

Operating Results and Rates

The net operating result (NOR) represents the difference between revenue and costs within a fiscal year. The accumulated operating result (AOR) represents the summation of all NOR since activity group inception along with any prior period adjustments. The goal of rate setting is to establish a rate that will bring the AOR to zero in the budget year.

Due to reduced workload, the Industrial Operation (IO) activities ended FY 2006 below the budgeted NOR by $162 million, leaving a $438 million balance of positive AOR. The FY 2007 President's Budget NOR forecast for FY 2007 changes from a loss of $517 million to a loss of $254 million. This reduction in NOR loss is attributable to additional supplemental workload programmed at the depots and a rate increase for aviation workload at Corpus Christi.

Actual FY 2006 execution and the revised FY 2007 forecast contribute to an estimated end of year FY 2007 AOR of $183 million to be returned through lower stabilized customer rates in FY 2008 and FY 2009. Despite the return of AOR in both FY 2008 and FY 2009 the composite rate is programmed to increase by 12.6% in FY 2008 and 9.1% in FY 2009. The higher IO composite rates results from increasing materiel costs, increasing personnel costs, including post 9/11 force protection costs, and losing IMC funding. The increasing materiel costs are attributable to higher standards required for recapitalization programs and maintenance requirements generated by deteriorated asset conditions caused by combat operations usage rates. Also, prior to this budget submission, post 9/11 force protection costs were considered incremental and funded outside the rates with reimbursement from supplemental funds. These costs are now included in the IO rates starting in FY 2008.

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Operating Results and Rates ($ Millions)	FY 2006	FY 2007	FY 2008	FY 2009
Revenue	4,661.5	6,108.6	6,672.9	6,442.4
Costs	4,828.4	6,363.0	6,746.1	6,552.7
Net Operating Results	-166.9	-254.4	-73.2	-110.2
Accumulated Operating Results	437.8	183.4	110.2	0.0
Customer Revenue Rate per Direct Labor Hour ($/DLH)	$130.42	$148.91	$167.73	$183.01
Percent Change from Prior Year	0.7%	14.2%	12.6%	9.1%
Unit Costs ($/DLH)	$176.00	$192.54	$181.91	$187.78
DLH (000)	27,434	33,047	37,084	34,895
Percentage of Overtime	17.6%	14.5%	12.1%	10.3%

Cash Collections, Disbursements, and Net Outlays

The following table displays projected cash outlays for Industrial Operations (IO). Collections and disbursements in the current submission reflect increased workload assumptions associated with wartime requirements and return of the accumulated operating result gains by FY 2009. The IO activity group outlays impact the Army Working Capital Fund (AWCF) corporate cash balance which must be maintained at not less than 7 to 10 days of operating cash and 6 months of capital disbursements.

($ Millions)	FY 2006	FY 2007	FY 2008	FY 2009
Collections	4,695.7	6,081.5	6,616.2	6,424.6
Disbursements	4,787.5	6,322.8	6,763.4	6,575.8
Net Outlays	91.8	241.3	147.2	151.2

New Orders and Carryover

New order forecasts are based on customer requirements, which include specific production outputs and schedules associated with both peacetime and wartime operations. The AWCF activities forecast wartime (supplemental funded) requirements in budget estimates in order to properly reflect resources required (funding, personnel, equipment, and time) to execute customer requirements. Forecasting wartime requirements is difficult due to evolving operational needs as well as uncertainty over timing of the receipt and actual funding levels; however, activities gain more clarity as the year of execution approaches.

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The Industrial Operations activity group receives customer orders from various sources. Primary Army sources include Operations and Maintenance and Procurement appropriations for end item (weapon system) work and the Supply Management Army activity group of the AWCF for secondary item (component part) work. In addition to Army sources, other Services, Defense Agencies, and Foreign Military Sales customers place orders with the Industrial Operations activity group. FY 2006 new orders received were approximately 4% less than forecasted. The FY 2007 estimate is 44% higher than that of the previous budget submission, based on additional workload. FY 2008 new orders are projected to decrease minimally (dropping 3% from the current FY 2007 estimate).

The following table displays the ceiling and amount of funding that is budgeted for workload carryover each year. The actual carryover for FY 2006 exceeded the ceiling by $26.2 million because customer orders funded with supplemental appropriations were received late in the fiscal year. Due to the complexities of synchronizing depot operations for repair and maintenance workload (i.e., assets arriving from Operation Iraqi Freedom and Operation Enduring Freedom, ensuring availability of long lead items, balancing workforce structure, contract negotiation, etc.), late receipt of funded orders are difficult to execute by year-end and will contribute to carryover increasing above the original forecast. The level of supplemental funded workload totaled $1,539 million in FY 2006 and is estimated at $3,166 million, $2,875 million, and $2,033 million in FY 2007, FY 2008, and FY 2009, respectively. Carryover is projected to remain below the ceiling across the budget forecast. This submission assumes that sufficient funding is made available at the right time and with a certain amount of predictability in order to support winning the long war.

($ Millions)	FY 2006	FY 2007	FY 2008	FY 2009
New Orders	5,425.2	6,569.6	6,300.3	6,298.7
Carryover Ceiling	2,115.1	2,507.9	2,175.8	2,351.5
Carryover	2,141.3	2,496.2	2,141.4	2,044.5

Performance Measurements

Performance measurements include the Net Operating Results (NOR), Accumulated Operating Results (AOR), and productive yield. FY 2006 actual results and goals for FY 2007, FY 2008 and FY 2009 are shown in the table below. NOR represents the difference between revenue and costs within a fiscal year and AOR represents the summation of all NOR since activity group inception along with any prior period adjustments. Productive yield represents the average number of regular direct labor hours for each full time equivalent position involved in

production and is an indicator of whether direct labor employees can support projected workload. Due to the increased workload at the depots, direct labor employees are taking less leave and are incurring less idle time, thereby increasing productive yield. Also adding to the increased productive yield projections are temporary and term employees who work more productive hours since they do not receive paid leave.

Measurements/Goal	FY 2006	FY 2007	FY 2008	FY 2009
NOR ($M) (Achieve President's Budget Goal)	-166.9	-254.4	-73.2	-110.2
AOR ($M) (Achieve President's Budget Goal)	437.8	183.4	110.2	0.0
Productive yield (Goal 1615)	1610	1674	1724	1732

Business Process Improvements

The IO activity group is continuing to implement LEAN initiatives and has incorporated these with Six Sigma processes. Business process improvement efforts use commercial best practices to reduce costs, optimize production capability, and improve quality in support of customer requirements. A portion of savings generated from specific LEAN studies and Rapid Improvement Events are re-invested in further studies to identify additional processes requiring improvement.

Specific examples of successful LEAN events include the following:

- Anniston Army Depot reduced direct labor hours by 113,000 for the M1 Abrams tank and MK19 Grenade Launcher
- Turn around time for the UH60 Blackhawk helicopter Recap decreased from 437 days to less than 300 days
- HMMWV recap program productivity improved by more than 50% and lead times were reduced by 67%
- UH60 Blackhawk helicopter main rotor blade program reduced turn around time for the paint process by 6 hours per blade

LEAN events such as these will continue across the activity group, and customers will benefit via productivity gains and improved readiness and reliability. A key factor in successfully implementing LEAN requires savings (time/DLHs) be applied to other repair lines. If additional work is not received, the productivity improvements may not fully materialize because overhead and/or personnel costs

cannot be reduced in such a short timeframe. However, with the increased workload associated with the Reset program, this has not been a problem.

Direct Appropriations

During FY 2006, the IO activity received Direct Appropriations in two categories: Industrial Mobilization Capacity (IMC) and Fuel. The purpose of IMC funds are to compensate industrial activities for fixed overhead costs associated with holding facilities and equipment in a reserve status to support mobilization and wartime contingency requirements. IMC funds are designed to keep these costs out of prices charged to customers. Title IX Supplemental funding provided $64.0 million for IMC. Also, the IO activity received a total of $5.9 million for baseline fuel increases: $4.7 million from Title IX Supplemental funding and $1.2 million in the Emergency Supplemental Appropriation.

This budget submission reflects no funding for IMC requirements from FY 2007 thru FY 2009. The Army is improving its IMC requirements determination process to produce more credible results, which will be reflected in future budget submissions, should the need arise.

($ Millions)	FY 2006	FY 2007	FY 2008	FY 2009
Fuel	5.9	0	0	0
Industrial Mobilization Capacity	64.0	0	0	0

Capital Budget Program

The AWCF must capitalize and depreciate any item with an acquisition cost equal to or greater than $100,000 and having a useful life of 2 years or greater. In this submission the categories found in the capital budget program include: Equipment; Automated Data Processing Equipment (ADPE); Minor Construction; and Software. The capital budget reflects a significant increase from the FY 2007 President's Budget submission, increasing 30% due primarily to the $20 million increase for the Logistics Modernization Program to correct Deployment 1 deficiencies and plan for Deployment 2. Also added to the capital investment program (CIP) is the AMC Commanding General championed Environmental Health and Safety Program (EHSP) for $5.6 million. EHSP is a software system which will standardize identification, response and investigation phases of an operational incident and will allow AMC to properly manage safety related hazards and risks across the command. In FY 2006, the installations obligated 99.1% of the planned projects.

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In order to make the CIP more flexible at the Command level, the Office of the Under Secretary of Defense (Comptroller) updated the Financial Management Regulation to expand the use of capabilities-based budgeting to Army Working Capital Fund CIP, requiring the Army to submit requirements by capability, not individual projects. The four equipment capabilities have been defined as: Replacement, Productivity, New Mission, and Environmental. Capabilities-based budgeting gives Commanders the flexibility to control and adjust their individual programs with limited day-to-day oversight. The requirement to maintain a Major Subordinate Command validated pre-investment analysis is considered a command priority and will be supported at all levels.

Several highlights, related to the capital budget for FY 2008 and FY 2009, include:

- Upgrading the existing wireless network at Rock Island Arsenal, allowing for Radio Frequency Identification technology, improved management capabilities and increased network security.
- Purchases to implement enterprise resource planning, via Automated Identification Technology, at various installations ($12.2 million and $14.2 million in FY 2008 and FY 2009, respectively).
- Integration of the Army Workload and Performance System with the new Logistics Modernization Program financial and workload control databases.

A detailed listing of all approved and requested capital projects are provided in the capital budget section of this submission along with supporting justification.

($ Millions)	FY 2006	FY 2007	FY 2008	FY 2009
Equipment	58.1	55.4	33.5	17.7
ADPE & Telecommunications	14.1	11.5	13.4	15.0
Minor Construction	21.6	24.6	12.0	11.0
Software	23.2	43.3	45.9	38.3
TOTAL CIP *	117.1	134.8	104.9	82.0

NOTE: * Some totals do not add due to rounding.

Minimum Capital Investment for Certain Depots

The National Defense Authorization Act for FY 2007 requires the Army's five maintenance depots, Anniston, Corpus Christi, Letterkenny, Red River, and Tobyhanna to invest in their infrastructure, a minimum of 4%, 5% and 6% in FY 2007, FY 2008, and FY 2009, respectively. The depots are investing 7% in FY 2007 and 6% in FY 2008. In the next budget submission, the Army will increase FY 2009 investments, currently at 4%, in order to meet the 6% threshold.

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Revenue and Expenses
($ Millions)

	FY 2006	FY 2007	FY 2008	FY 2009
Revenue				
Gross Sales:	4,591.6	6,108.6	6,672.8	6,442.4
Operations	4,549.8	6,060.2	6,623.6	6,387.5
Surcharges	-	-	-	-
Depreciation excluding Major Construction	41.8	48.4	49.3	55.0
Major Construction Depreciation	-	-	-	-
Other Income (DWCF IMC & Fuel)	69.9	-	-	-
Refunds/Discounts (-)	-	-	-	-
Total Income:	**4,661.5**	**6,108.6**	**6,672.8**	**6,442.4**
Expenses				
Salaries and Wages:	1,598.0	1,987.1	2,089.5	2,110.2
Military Personnel Compensation & Benefits	3.2	2.9	2.9	3.0
Civilian Personnel Compensation & Benefits	1,594.9	1,984.2	2,086.6	2,107.2
Travel & Transportation of Personnel	31.4	32.1	32.4	31.9
Materials & Supplies (For Internal Operations)	1,967.6	2,930.2	3,104.9	2,885.1
Equipment	70.1	70.1	67.1	70.9
Other Purchases from Revolving Funds	127.4	126.1	122.8	128.4
Transportation of Things	14.7	16.9	11.0	10.8
Depreciation - Capital	41.8	48.4	49.3	55.0
Printing and Reproduction	2.1	2.2	2.3	2.4
Advisory and Assistance Services	110.9	113.9	109.3	112.1
Rent, Communication, Utilities, & Misc. Charges	98.4	95.5	103.0	103.9
Other Purchased Services	765.9	940.3	1,054.5	1,042.0
Total Expenses:	**4,828.4**	**6,363.0**	**6,746.1**	**6,552.7**
Revenue less costs incurred before extraordinary items	(166.9)	(254.4)	(73.2)	(110.2)

Army Working Capital Fund
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Revenue and Expenses
($ Millions)

	FY 2006	FY 2007	FY 2008	FY 2009
Less Surcharge Reservations	-	-	-	-
Cash (Current Year)	-	-	-	-
Cash (Carried Over)	-	-	-	-
Capital	-	-	-	-
Plus Appropriations Affecting NOR/AOR	-	-	-	-
Other Changes Affecting NOR:	-	-	-	-
Other Inventory Adjustments	-	-	-	-
Net Change in Work in Process	-	-	-	-
Net Operating Result	**(166.9)**	**(254.4)**	**(73.2)**	**(110.2)**
Recoverable AOR				
a. AOR Beginning of Year (Unadjusted)	647.1	437.8	183.4	110.2
b. +/- Prior Year Adjustments	(42.3)			
c. Equals AOR BOY (Adjusted)	604.7	437.8	183.4	110.2
d. +/- Net Operating Results	(166.9)	(254.4)	(73.2)	(110.2)
e. - Non-recoverable Amount (current year only)	-	-		
f. Equals Recoverable AOR EOP	437.8	183.4	110.2	0.0
Memo:				
Beginning Work in Process	-	-	-	-
Ending Work in Process	-	-	-	-
Cost of Goods Sold:	4,828.4	6,363.0	6,746.1	6,552.7

Army Working Capital Fund
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Industrial Operations

Source of Revenue
($ Millions)

	FY 2006	FY 2007	FY 2008	FY 2009
1. New Orders				
a. Orders from DoD Components:				
Department of Army				
Operations & Maintenance, Army	2,141.3	3,452.5	3,443.1	2,875.5
Operations & Maintenance, ARNG	43.3	113.2	95.1	106.2
Operations & Maintenance, AR	39.0	54.0	60.7	62.6
Subtotal, O&M:	2,223.6	3,619.6	3,598.8	3,044.3
Aircraft Procurement	46.3	28.6	8.3	4.8
Missile Procurement	3.0	2.7	-	-
Weapons & Tracked Combat Vehicles	232.8	168.5	181.1	78.2
Procurement of Ammunition	166.3	196.0	76.9	97.7
Other Procurement	648.2	731.8	322.2	769.3
Subtotal, Procurement:	1,096.6	1,127.5	588.5	949.9
RDTE	29.6	11.9	15.9	19.0
BRAC	0.4	0.1	-	-
Family Housing	4.4	1.9	2.0	2.0
Military Construction	2.8	-	-	-
Chem Agents & Munitions Dest, Army	29.7	35.6	35.6	41.2
Other	4.5	5.1	2.1	1.1
Subtotal, Other Army:	71.3	54.6	55.5	63.3
Subtotal, Department of Army:	3,391.5	4,801.8	4,242.8	4,057.6
Department of Air Force O&M	91.3	25.3	95.8	107.3
Department of Air Force Investment	16.5	18.9	17.4	50.0
Department of Navy O&M	35.8	28.8	28.9	23.6
Department of Navy Investment	41.7	17.1	22.7	23.7
US Marines O&M	151.1	85.2	103.8	114.3
US Marines Investment	27.3	22.2	13.2	7.9
Department of Defense O&M	0.4	0.2	0.2	0.2
Department of Defense Investment	-	-	-	-
Subtotal, Other DoD Services:	364.2	197.7	281.9	327.0
Other DoD Agencies	33.5	11.4	21.5	22.8
CAWCF	2.2	-	-	-
Subtotal, DoD Agencies:	35.7	11.4	21.5	22.8

Army Working Capital Fund
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Industrial Operations

Source of Revenue
($ Millions)

	FY 2006	FY 2007	FY 2008	FY 2009
b. DWCF:				
Industrial Operations, Army	42.6	37.9	29.2	29.6
Supply Management, Army	1,230.7	1,208.8	1,409.7	1,555.5
Supply Management, Air Force	62.8	3.6	64.2	71.5
Supply Management, Navy	56.4	54.4	54.9	46.8
Supply Management, Marine Corps	-	-	-	-
DECA	0.2	0.1	0.1	0.2
DFAS	1.5	0.3	0.4	0.4
DISA	2.3	1.7	1.7	1.8
DLA	43.7	52.3	16.4	17.7
TRANSCOM	-	-	-	-
Other	11.7	3.7	9.3	11.1
Subtotal, DWCF:	1,451.8	1,362.8	1,586.0	1,734.5
c. Total DoD	5,243.2	6,373.7	6,132.2	6,141.9
d. Other Orders:				
Other Federal Agencies	7.3	12.3	12.0	12.1
Foreign Military Sales	35.0	37.6	22.0	22.8
Trust Fund	-	-	-	-
Nonappropriated	30.6	14.7	21.3	15.9
Non-Federal Agencies	109.1	131.3	112.9	106.0
Subtotal, Other Orders:	182.0	195.9	168.1	156.8
Total New Orders:	**5,425.2**	**6,569.6**	**6,300.3**	**6,298.7**
2. Carry-in Orders	1,447.7	2,281.3	2,742.2	2,369.7
3. Total Gross Orders	6,872.9	8,850.9	9,042.5	8,668.4
4. Revenue (-)	4,591.6	6,108.6	6,672.8	6,442.4
5. End of Year Work-in-Process (-)	-	-	-	-
6. BRAC and Other Orders (-)	84.9	81.7	80.6	69.0
Crash Damage	55.1	164.3	147.7	112.4
7. Funded Carry-over	2,141.3	2,496.2	2,141.4	2,044.5

Army Working Capital Fund
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Carryover Reconciliation
($ Millions)

	FY 2006	FY 2007	FY 2008	FY 2009
1. Net Carry-In	1,447.7	2,281.3	2,742.2	2,369.7
2. Revenue	4,591.6	6,108.6	6,672.8	6,442.4
3. New Orders	5,425.2	6,569.6	6,300.3	6,298.7
4. Exclusions:				
FMS	35.0	37.6	22.0	22.8
BRAC	0.4	0.1	-	-
Other Federal Depts & Agencies	7.3	12.3	12.0	12.1
Non-Federal and Others	139.7	146.0	134.2	121.9
Crash Damage	165.9	191.9	175.7	167.8
5. Orders for Carryover Calculation	5,077.0	6,181.7	5,956.5	5,974.1
6. Weighted Composite Outlay Rate	58.34%	59.43%	63.47%	60.64%
7. Carryover Rate	41.66%	40.57%	36.53%	39.36%
8. Allowable Carryover	2,115.1	2,507.9	2,175.8	2,351.5
9. Balance of Customer Orders at Year End	2,281.3	2,742.2	2,369.7	2,225.9
10. Work-in-progress	-	-	-	-
11. Exclusions:				
FMS	37.0	36.0	31.9	20.0
BRAC	0.2	0.1	-	-
Other Federal Depts & Agencies	2.7	6.2	6.1	6.0
Non-Federal and Others	45.0	39.5	42.6	42.9
Crash Damage	55.1	164.3	147.7	112.4
12. Calculated Actual Carryover	2,141.3	2,496.2	2,141.4	2,044.5

Army Working Capital Fund
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Changes in the Cost of Operations
($ Millions)

		Expenses
FY 2006 Actuals		4,828.4
FY 2007 Estimate in President's Budget		5,301.4
Estimated Impact in FY 2007 of Actual FY 2006 Actions		-37.8
Lean Manufacturing Savings	-1.0	
Reinvestment of productivity gains in facility and equipment	100.0	
Lean Six Sigma Cost Avoidance Savings	-109.9	
Outsourced Contract reduction decisions made in FY06	-26.9	
Pricing Adjustments:		55.1
FY 2007 Pay Raise	28.2	
-Civilian Personnel	28.2	
-Military Personnel	0.0	
Inflation	26.9	
Program Changes		1,044.3
Civilian Personnel Compensation	286.7	
Material and Supplies	634.2	
Contractual Services	69.9	
Other Purchased Services	103.7	
Printing and Repro/Advisory and Assist Svcs/Rents, Comm, Utilities	-10.7	
Depreciation	-37.3	
Equipment	-3.7	
Transportation of Things	1.6	
FY 2007 Current Estimate		6,363.0

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Changes in the Cost of Operations
($ Millions)

		Expenses
Pricing Adjustments		114.2
Annualization of Prior Year Pay Raises	10.8	
FY 2008 Pay Raise	44.2	
-Civilian Personnel	44.1	
-Military Personnel	0.1	
Fund Price Changes	3.9	
General Purchase Inflation	55.3	
Productivity Initiatives and Other Efficiencies		-2.9
Reinvestment of productivity gains in facility and equipment	61.1	
Lean Six Sigma Cost Avoidance Savings	-64.0	
Program Changes		271.7
Civilian Personnel Compensation	47.5	
Material and Supplies	152.5	
Other Purchased Services	91.6	
Contracts	-16.1	
Equipment	-4.7	
Depreciation	0.9	
FY 2008 Budget Estimate		6,746.1

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Changes in the Cost of Operations
($ Millions)

		Expenses
Pricing Adjustments		172.8
Annualization of Prior Year Pay Raises	15.5	
FY 2009 Pay Raise	35.6	
-Civilian Personnel	35.5	
-Military Personnel	0.1	
Fund Price Changes	66.0	
General Purchase Inflation	55.8	
Productivity Initiatives and Other Efficiencies		-1.6
Lean Six SigmaSavings	-1.6	
Value Engineering Program Savings & Suggestion Program	9.7	
Lean Six Sigma Cost Avoidance Savings	50.0	
Reinvestment of productivity gains in facility and equipment	-59.7	
		-364.7
Program Changes		
Personnel	-30.4	
Travel	-1.2	
Material & Supplies	-303.9	
Equipment	2.3	
Other Purchased Services	-36.6	
Transportation	-0.5	
Depreciation	5.7	
FY 2009 Budget Estimate		6,552.7

Army Working Capital Fund
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Industrial Mobilization Capacity (IMC)
($ Millions)
(Hours in Thousands)

	FY 2006	FY 2007	FY 2008	FY 2009
Anniston Army Depot - Maintenance & Manufacturing				
1. Number of Workstations	2,615	2,647	2,647	2,822
2. Number of IMC qualifying workstations	23	23	23	23
3. Non-Utilization Rate for IMC Purposes (%)	1%	1%	1%	1%
4. Overhead Costs Pool (as specified)	26.2	28.6	33.4	22.0
5. IMC Requirement	0.2	0.2	0.3	0.2
6. Funded IMC ($s)	-	-	-	-
Blue Grass Army Depot & Anniston Munitions Center - Ammunition Storage				
1. Required Containers per ASMP	460	460	460	460
2. Number of Funded Containers	50	50	50	50
3. Non-Utilization Rate for IMC Purposes (%)	89%	89%	89%	89%
4. Overhead Costs Pool (as specified)	7.7	6.5	6.3	5.0
5. IMC Requirement	6.8	5.8	5.6	4.5
6. Funded IMC ($s)	4.7	-	-	-
Corpus Christi Army Depot - Maintenance & Manufacturing				
1. Number of Workstations	2,342	2,342	2,342	2,342
2. Number of IMC qualifying workstations	0	0	0	0
3. Non-Utilization Rate for IMC Purposes (%)	0%	0%	0%	0%
4. Overhead Costs Pool (as specified)	45.2	45.8	43.9	43.8
5. IMC Requirement	-	-	-	-
6. Funded IMC ($s)	-	-	-	-
Crane Army Ammunition Activity & Letterkenny Munitions Storage Center - Maintenance & Manufacturing				
1. Number of Workstations	504	504	504	504
2. Number of IMC qualifying workstations	392	392	392	392
3. Non-Utilization Rate for IMC Purposes (%)	78%	78%	78%	78%
4. Overhead Costs Pool (as specified)	15.9	16.2	16.5	16.8
5. IMC Requirement	12.3	12.6	12.8	13.1
6. Funded IMC ($s)	10.2	-	-	-
Crane Army Ammunition Activity & Letterkenny Munitions Storage Center - Ammunition Storage				
1. Required Containers per ASMP	424	424	424	424
2. Number of Funded Containers	122	122	122	122
3. Non-Utilization Rate for IMC Purposes (%)	71%	71%	71%	71%
4. Overhead Costs Pool (as specified)	8.0	8.0	8.2	8.4
5. IMC Requirement	5.7	5.7	5.8	6.0
6. Funded IMC ($s)	4.7	-	-	-

Army Working Capital Fund
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Industrial Operations

Industrial Mobilization Capacity (IMC)
($ Millions)
(Hours in Thousands)

	FY 2006	FY 2007	FY 2008	FY 2009
Letterkenny Army Depot - Maintenance & Manufacturing				
1. Number of Workstations	1,301	1,301	1,081	1,081
2. Number of IMC qualifying workstations	24	24	299	299
3. Non-Utilization Rate for IMC Purposes (%)	2%	2%	28%	28%
4. Overhead Costs Pool (as specified)	14.3	14.3	13.2	13.6
5. IMC Requirement	0.3	0.3	3.7	3.7
6. Funded IMC ($s)	-	-	-	-
McAlester Army Ammunition Plant & Red River Munitions Center - Maintenance & Manufacturing				
1. Number of Workstations	427	427	427	427
2. Number of IMC qualifying workstations	205	205	205	205
3. Non-Utilization Rate for IMC Purposes (%)	48%	48%	48%	48%
4. Overhead Costs Pool (as specified)	20.3	29.0	29.1	29.2
5. IMC Requirement	9.8	13.9	14.0	14.0
6. Funded IMC ($s)	8.7	-	-	-
McAlester Army Ammunition Plant & Red River Munitions Center - Ammunition Storage				
1. Required Containers per ASMP	533	533	533	533
2. Number of Funded Containers	282	282	282	282
3. Non-Utilization Rate for IMC Purposes (%)	47%	47%	47%	47%
4. Overhead Costs Pool (as specified)	20.3	6.3	6.3	6.4
5. IMC Requirement	9.6	3.0	3.0	3.0
6. Funded IMC ($s)	8.5	-	-	-
Pine Bluff Arsenal - Maintenance & Manufacturing				
1. Number of Workstations	1,836	1,836	1,836	1,836
2. Number of IMC qualifying workstations	1,326	1,288	1,278	1,295
3. Non-Utilization Rate for IMC Purposes (%)	72%	70%	70%	71%
4. Overhead Costs Pool (as specified)	28.3	23.2	23.7	24.2
5. IMC Requirement	20.5	16.3	16.5	17.1
6. Funded IMC ($s)	16.2	-	-	-
Pine Bluff Arsenal - Ammunition Storage				
1. Required Containers per ASMP	10	10	10	10
2. Number of Funded Containers	1	1	1	1
3. Non-Utilization Rate for IMC Purposes (%)	90%	90%	90%	90%
4. Overhead Costs Pool (as specified)	1.1	0.7	0.7	0.7
5. IMC Requirement	1.0	0.6	0.6	0.6
6. Funded IMC ($s)	-	-	-	-

Army Working Capital Fund
Fiscal Year (FY) 2008/2009 Budget Estimates
Industrial Operations

Industrial Mobilization Capacity (IMC)
($ Millions)
(Hours in Thousands)

	FY 2006	FY 2007	FY 2008	FY 2009
Red River Army Depot - Maintenance & Manufacturing				
1. Number of Workstations	2,805	2,805	2,805	2,805
2. Number of IMC qualifying workstations	2	2	2	2
3. Non-Utilization Rate for IMC Purposes (%)	0%	0%	0%	0%
4. Overhead Costs Pool (as specified)	50.3	50.8	47.1	45.6
5. IMC Requirement	0.0	0.0	0.0	0.0
6. Funded IMC ($s)	-	-	-	-
Rock Island Arsenal - Maintenance & Manufacturing				
1. Number of Workstations	1,249	1,194	1,194	1,194
2. Number of IMC qualifying workstations	617	115	115	115
3. Non-Utilization Rate for IMC Purposes (%)	49%	10%	10%	10%
4. Overhead Costs Pool (as specified)	20.8	7.9	7.9	7.9
5. IMC Requirement	10.3	0.8	0.8	0.8
6. Funded IMC ($s)	9.0	-	-	-
Sierra Army Depot - Maintenance & Manufacturing				
1. Number of Workstations	0	0	0	0
2. Number of IMC qualifying workstations	0	0	0	0
3. Non-Utilization Rate for IMC Purposes (%)				
4. Overhead Costs Pool (as specified)	-	-	-	-
5. IMC Requirement	-	-	-	-
6. Funded IMC ($s)	-	-	-	-
Sierra Army Depot - Ammunition Storage				
1. Required Containers per ASMP	0	0	0	0
2. Number of Funded Containers	0	0	0	0
3. Non-Utilization Rate for IMC Purposes (%)				
4. Overhead Costs Pool (as specified)	-	-	-	-
5. IMC Requirement	-	-	-	-
6. Funded IMC ($s)	-	-	-	-
Tobyhanna Army Depot - Maintenance & Manufacturing				
1. Number of Workstations	3,462	3,462	3,462	3,462
2. Number of IMC qualifying workstations	207	207	395	332
3. Non-Utilization Rate for IMC Purposes (%)	6%	6%	11%	10%
4. Overhead Costs Pool (as specified)	-	-	-	-
5. IMC Requirement	-	-	-	-
6. Funded IMC ($s)	-	-	-	-

Army Working Capital Fund
Fiscal Year (FY) 2008/2009 Budget Estimates
Industrial Operations

Industrial Mobilization Capacity (IMC)
($ Millions)
(Hours in Thousands)

	FY 2006	FY 2007	FY 2008	FY 2009
Tooele Army Depot - Ammunition Storage				
1. Required Containers per ASMP	310	310	310	310
2. Number of Funded Containers	78	78	78	78
3. Non-Utilization Rate for IMC Purposes (%)	75%	75%	75%	75%
4. Overhead Costs Pool (as specified)	2.1	2.8	3.5	3.6
5. IMC Requirement	1.6	2.1	2.7	2.7
6. Funded IMC ($s)	0.4	-	-	-
Watervliet Arsenal - Maintenance & Manufacturing				
1. Number of Workstations	408	408	408	408
2. Number of IMC qualifying workstations	101	101	101	101
3. Non-Utilization Rate for IMC Purposes (%)	25%	25%	25%	25%
4. Overhead Costs Pool (as specified)	-	18.1	19.5	20.4
5. IMC Requirement		4.5	4.8	5.0
6. Funded IMC ($s)	1.8	-	-	-
Summary - Maintenance & Manufacturing				
1. Number of Workstations	16,949	16,926	16,706	16,881
2. Number of IMC qualifying workstations	2,897	2,357	2,810	2,764
3. Non-Utilization Rate for IMC Purposes (%)	17%	14%	17%	16%
4. Overhead Costs Pool (as specified)	221.3	233.9	234.2	223.4
5. IMC Requirement	37.8	32.6	39.4	36.6
6. Funded IMC ($s)	45.7	-	-	-
Summary - Ammunition Storage				
1. Required Containers per ASMP	1,737	1,737	1,737	1,737
2. Number of Funded Containers	533	533	533	533
3. Non-Utilization Rate for IMC Purposes (%)	69%	69%	69%	69%
4. Overhead Costs Pool (as specified)	39.3	24.3	25.0	24.1
5. IMC Requirement	27.2	16.8	17.3	16.7
6. Funded IMC ($s)	18.3	-	-	-
Summary - Maintenance, Manufacturing and Ammunition Storage				
1. IMC Requirement	65.0	49.4	56.7	53.3
2. Funded IMC ($s)	64.0	-	-	-

Army Working Capital Fund
Fiscal Year (FY) 2008/2009 Budget Estimates
Industrial Operations

Material Inventory Data
($ Millions)

FY 2006

	Total	Mobilization	------Peacetime------ Operating	Other
Material Inventory BOP	435.0	-	435.0	-
Purchases				
A. Purchases to Support Customer Orders (+)	1,785.9	-	1,785.9	-
B. Purchase of long lead items in advance of customer orders (+)	86.1	-	86.1	-
C. Other Purchases (list) (+)	35.5	-	35.5	-
D. Total Purchases	1,907.5	-	1,907.5	-
Material Inventory Adjustments				
A. Material Used in Maintenance (and billed/charged to customer orders) (-)	1,967.6	-	1,967.6	-
B. Disposals, theft, losses due to damages (-)	34.2	-	34.2	-
C. Other reductions (list) (-)	2.3	-	2.3	-
D. Total inventory adjustments	2,004.2	-	2,004.2	-
Material Inventory EOP	338.3	-	338.3	-

FY 2007

	Total	Mobilization	------Peacetime------ Operating	Other
Material Inventory BOP	338.3	-	338.3	-
Purchases				
A. Purchases to Support Customer Orders (+)	2,742.4	-	2,742.4	-
B. Purchase of long lead items in advance of customer orders (+)	114.6	-	114.6	-
C. Other Purchases (list) (+)	27.0	-	27.0	-
D. Total Purchases	2,884.0	-	2,884.0	-
Material Inventory Adjustments				
A. Material Used in Maintenance (and billed/charged to customer orders) (-)	2,930.2	-	2,930.2	-
B. Disposals, theft, losses due to damages (-)	19.0	-	19.0	-
C. Other reductions (list) (-)	1.3	-	1.3	-
D. Total inventory adjustments	2,950.6	-	2,950.6	-
Material Inventory EOP	271.7	-	271.7	-

Army Working Capital Fund
Fiscal Year (FY) 2008/2009 Budget Estimates
Industrial Operations

Material Inventory Data
($ Millions)

FY 2008

	Total	Mobilization	------Peacetime------ Operating	Other
Material Inventory BOP	271.7	-	271.7	-
Purchases				
A. Purchases to Support Customer Orders (+)	2,937.1	-	2,937.1	-
B. Purchase of long lead items in advance of customer orders (+)	109.1	-	109.1	-
C. Other Purchases (list) (+)	28.4	-	28.4	-
D. Total Purchases	3,074.6	-	3,074.6	-
Material Inventory Adjustments				
A. Material Used in Maintenance (and billed/charged to customer orders) (-)	3,104.9	-	3,104.9	-
B. Disposals, theft, losses due to damages (-)	10.4	-	10.4	-
C. Other reductions (list) (-)	1.3	-	1.3	-
D. Total inventory adjustments	3,116.7	-	3,116.7	-
Material Inventory EOP	229.6	-	229.6	-

FY 2009

	Total	Mobilization	------Peacetime------ Operating	Other
Material Inventory BOP	229.6	-	229.6	-
Purchases				
A. Purchases to Support Customer Orders (+)	2,726.4	-	2,726.4	-
B. Purchase of long lead items in advance of customer orders (+)	95.2	-	95.2	-
C. Other Purchases (list) (+)	28.8	-	28.8	-
D. Total Purchases	2,850.4	-	2,850.4	-
Material Inventory Adjustments				
A. Material Used in Maintenance (and billed/charged to customer orders) (-)	2,885.1	-	2,885.1	-
B. Disposals, theft, losses due to damages (-)	10.8	-	10.8	-
C. Other reductions (list) (-)	1.4	-	1.4	-
D. Total inventory adjustments	2,897.3	-	2,897.3	-
Material Inventory EOP	182.7	-	182.7	-

CAPITAL BUDGET

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Supply Management Capital Investment Summary

Department of Army
Supply Management, Army

February 2007

($ in Millions)

Line No.	Description	FY06 Quantity	FY06 Total Cost	FY07 Quantity	FY07 Total Cost	FY08 Quantity	FY08 Total Cost	FY09 Quantity	FY09 Total Cost
	AUTOMATED DATA PROCESSING								
04-3	Terminal Servers	1	0.611	1	0.611	1	0.611	1	0.611
	ADP TOTAL	1	0.611	1	0.611	1	0.611	1	0.611
	SOFTWARE								
04-7	Exchange Pricing (EP)	1	6.781	1	4.789	1	8.959	1	10.762
00-2	Logistics Modernization Program (LMP)	1	18.700	1	59.780	1	80.640	1	57.400
06-02	System Change Request for LMP Systems for National Maintenance Management	1	0.350	1	6.100				
	SOFTWARE TOTAL	3	25.831	3	70.669	2	89.599	2	68.162
	Activity TOTAL	4	26.442	4	71.280	3	90.210	3	68.773
Total Capital Outlays			28.300		27.700		16.600		15.000
Total Depreciation Expense			46.722		41.150		44.306		49.716

SUPPLY MANAGEMENT CAPITAL INVESTMENT JUSTIFICATION
AUTOMATED DATA PROCESSING
($ in Thousands)

A. Budget Submission
FY2008/2009
OSD/OMB Submission

B. Component, Activity Group, Date	C. Line No	Item Description	D. Activity Identification
Army, Supply Management Feb-07	04-3	Terminal Servers	Army Materiel Command

Element of Cost	0 Quantity	FY06 Unit Cost	Total Cost	Quantity	FY07 Unit Cost	Total Cost	Quantity	FY08 Unit Cost	Total Cost	Quantity	FY09 Unit Cost	Total Cost
Terminal Servers	1	611.000	611.000	1	611.000	611.000	1	611.000	611.000	1	611.000	611.000
TOTAL	1		611.000	1		611.000	1		611.000	1		611.000

Narrative Justification:

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: The current ADP environment relies on stand-alone desktops and local servers on which individuals store, manipulate, and retrieve the data they work with on a daily basis. The use of this type of equipment requires a tremendous amount of administrative support to perform maintenance, load software, conduct security, and upgrade hardware.

b. ANTICIPATED BENEFITS: The establishment of a Terminal Environment is the most cost-effective method for satisfying the Communications-Electronics Lifecycle Management Command (C-E LCMC) Acquisition Center's, as well as the AMC Acquisition community's, automation requirements, while bringing them inline with Federal mandates, such as 359 of Public Law 106-346 that encourages telework. Greater oversight of system users will be supported due to the ability of administrators to monitor the flow of information. Increased oversight will improve security, reduce the spread of computer viruses, deter the misuse of bandwidth, and provide data on which trend analysis can be conducted, e.g. to ensure adequate licensing agreements are in place to support the user community. Support of contingency operations will be more easily attained due to the ease of accessibility a terminal server environment creates. Lastly, the Terminal Servers Initiative will promote a more collaborate environment between acquisition communities because electronic tools developed by one command can easily be shared among the various MSCs.

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: The status quo, using PCs and local servers, will continue. Each desktop computer is a stand-alone machine, which requires maintenance to be performed on the desktop itself at the user's location. The status quo does not allow for a communal (or terminal) environment. In addition, there will be no deployment across AMC acquisition community.

d. ECONOMIC ANALYSIS PERFORMED? Yes

ECONOMIC INDICATORS:

Total Cost of the Project:	$2,444.000	Net Present Value of Benefits:	$5,249,000	Benefit to Investment Ratio:	2.80	Payback Period:	1.91

SUPPLY MANAGEMENT CAPITAL INVESTMENT JUSTIFICATION
SOFTWARE
($ in Thousands)

A. Budget Submission
FY2008/2009
OSD/OMB Submission

B. Component, Activity Group, Date	C. Line No	Item Description	D. Activity Identification
Army, Supply Management Feb-07	04-07	Exchange Pricing (EP)	Army Materiel Command

	FY06			FY07			FY08			FY09		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Travel	1	30.000	30.000	1	75.000	75.000	1	30.000	30.000	1	30.570	30.570
Contract Support	1	6,628.14	6,628.137	1	4,649.508	4,649.508	1	8,802.035	8,802.035	1	10,602.694	10,602.694
Other Gvt.	1	123.127	123.127	1	64.026	64.026	1	126.821	126.821	1	129.231	129.231
TOTAL	3		6,781.264	3		4,788.534	3		8,958.856	3		10,762.495

Narrative Justification:

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: OSD decision in 2001 directed the Army to implement Exchange Pricing (EP) for reparables to mitigate financial problems associated with excess credit provided through the Supply Management business area. To rectify this shortcoming, EP will tie customer issues and carcass turn-ins together, and link unmatched returns to the financial billing process. Process functionality required to implement EP in current logistical and financial systems does not exist.

b. ANTICIPATED BENEFITS:

(1) EP will eliminate unserviceable credit for Army customers, allow a multiple pricing structure for Army reparable secondary items, reduce logistical and financial transactions, and reduce risk to AWCF cash by allowing credit in far fewer transactions.

(2) EP implementation is currently scheduled for Army wide fielding in 1st QTR FY 09 with the following requirements: FY06 - $6,781,264 for program management, test plan development, system blueprinting, detailed functional descriptions, engineering change packages, revised process flows, and conducting program reviews and design meetings; FY07 – $4,788,534 for change management plan revision, conversion and implementation plan revision, system integration test development, numerous System Integration Test Working Groups, metrics plan development, tactical repairable analysis, system design changes to LMP and Standard Army Retail Supply System (SARSS), and conducting program reviews and design meetings; FY08 - $8,958,856 for a 3-month System Integration Test, 3-month Lead Verification Site Test, problem report correction, metrics collection and evaluation, and conducting program reviews and design meetings; FY09 - $10,762,495 for program management, Army wide implementation, and conducting program reviews. Total program cost is $43,564,764 and includes FY03 obligations of $4,208,000, FY04 obligations of $6,138,615 and FY05 obligations of $1,927,000.

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: Army will not comply with OSD directive.

d. ECOMOMIC ANALYSIS PERFORMED? No - Implementation of EP directed by OSD. Per DoD Financial Management Regulation Vol. 11B, Chapter 58, Dec 94, para 4(b), Pg 58-18 DoD instruction or directive waivers this requirement.

e. FULLY OPERATIONAL CAPABLE DATE: 1QFY09

ECONOMIC INDICATORS:

Total Cost of the Project: $43,564,764 | Net Present Value of Benefits: See d above | Benefit to Investment Ratio: N/A | Payback Period: N/A

SUPPLY MANAGEMENT CAPITAL INVESTMENT JUSTIFICATION
SOFTWARE
($ in Thousands)

A. Budget Submission
FY2008/2009
OSD/OMB Submission

B. Component, Activity Group	Date	C. Line No	Item Description	D. Activity Identification
Army, Supply Management	Feb-07	00-2	Logistics Modernization Program - SMA	Army Materiel Command

	FY06			FY07			FY08			FY09		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Contract	1	18,700.000	18,700.000	1	59,780.000	59,780.000	1	80,640.000	80,640.000	1	57,400.000	57,400.000
TOTAL	1		18,700.000	1		59,780.000	1		80,640.000	1		57,400.000

Narrative Justification:

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: The current Army standard logistics systems are based on 25 year old technology and depend on layered inventory levels to support forwar deployed forces against a cold war enemy. This process is characterized by a lack of flexibility and suffers from complexities in terms of bridges and uniques, high profile supportability profile and limited visibility of the supply pipe-line. The Army must reengineer its logistics processes to support today's CONUS-based power projection. This funding applies to inventory management requirements development work in LMP.

b. ANTICIPATED BENEFITS: LMP will correct the above-noted deficiencies and enable the Army to take advantage of commercial expertise, experience and investments in process improvement and Information Technology (IT). The Army will not purchase any IT resources (H/W/ or S/W) directly, therefore, it will not own the modernized system. The Contractor will be responsible for providing the IT and DP services. LMP employs a broad-based commercial Enterprise Resource Planning package, SAP America's S/W suite and integral business processes that will ultimately meet modernized services performance requirements. AMC will be able to perform business process reengineering (BPR), adopt market-driven business practices, and provide significantly improved services. The new process will help achieve synchronization with Global Combat Support System (GCSS)-Army. The Army will retain Intellectual Property Rights to all documentation with regard to BPR reports, system description and implementation plans exclusive of COTS modifications, i.e., creation of unique code. LMP goal is to modernize Army logistics business practices and supporting IT to meet current/ future military readiness requirements consistent with DoD's Business Systems Transition Plan. Specifically, the LMP is the Army's core initiative to completely replace its two largest, most important National-level legacy logistics systems providing support to warfighters, the inventory management Commodity Command Standard System (CCSS) and the depot and arsenal operations Standard Depot System (SDS). During FY06 funding was essentially used to correct LMP Deployment 1 deficiencies and achieve FFMIA compliance. An incremental delivery approach was taken for delivery of LMP functionality. Requested funding will provide the functionality needed by the deployment sites. Examples of functionality to be provided are: enhanced demand planning to account for aviation/ground systems, interfaces to aviation/ground/ammunition supporting systems, data migration efforts, deployment training, and change management. In FY08/09 funding is also associated with planning upgrade to SAP with estimated cost of $49.6M. Total cost for project to achieve full operational capability in FY10 is estimated at $379.5M.

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: AMC will continue inefficient and expensive wholesale logistics processes due to the limitations of the current systems. The COBOL 74 compiler is no longer supported by the manufacturer and the loss of AMC subject matter experts. These deficiencies preclude the Army from providing an agile logistics support capability as required by the Revolution in Military Logistics. This funding applies to depot and arsenal operations modernization. Any delays in the LMP deployment will negatively impact the overall costs and timeline to implement subsequent increments of the SALE initiative. Both GCSS-Army (Field/Tactical) and GCSS-Army PLM+ are impacted by the functionality and deployment schedule of the LMP.

d. ECONOMIC ANALYSIS PERFORMED: Initially, a comparative analysis was performed in lieu of an economic analysis as status quo was not an option. More recently (FY05), a Business Case Analysis was completed.

e. FULLY OPERATIONAL CAPABILITY DATE: FY10

ECONOMIC INDICATORS:

Total Cost of the Project:$379,531,000 Net Present Value of Benefits: $306,600,000 Benefit to Investment Ratio: 2.400 Payback Period: N/A

SUPPLY MANAGEMENT CAPITAL INVESTMENT JUSTIFICATION
SOFTWARE
($ in Thousands)

A. Budget Submission
FY2008/2009
OSD/OMB Submission

B. Component, Activity Group	Date	C. Line No	Item Description	D. Activity Identification
Army, Supply Management	Feb-07	06-02	Sys Change Request for LMP Systems for National Maintenance Mgt.	Army Materiel Command

Element of Cost	FY06 Quantity	FY06 Unit Cost	FY06 Total Cost	FY07 Quantity	FY07 Unit Cost	FY07 Total Cost	FY08 Quantity	FY08 Unit Cost	FY08 Total Cost	FY09 Quantity	FY09 Unit Cost	FY09 Total Cost
Amended Contract for National Maintenance Task order 52	1	350.000	350.000	1	6,100.000	6,100.000						
TOTAL	1	350.000	350.000	1	6,100.000	6,100.000						

Narrative Justification:

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: The following applications are currently in Army Electronic Product Support (AEPS) and will be subsumed in Logistics Modernization Program (LMP) by National Maintenance Program (NMM) functionality previously developed and tested under LMP task order 52. Automated Military Interdepartmental Purchase Request (MIPR) Processing, Production Charts for Depot & non-depot sources of repair, the Maintenance Workload File (MWF) to Standard Army Retail Supply System (SARSS), Maintenance Expenditure Limit (MEL) waiver request processing, repository of National Maintenance Repair Standards and the Cross Reference File needed to support above products and create and transmit the production plan to the Logistics Information Warehouse (LIW). Communications Electronics Command (CECOM) personnel must manually create all documents and changes related to National Maintenance repair programs. The following additives for the core LMP solution does not include the functionality to do parts explosion for the non-depot requirements, complete cost information requests (CIR), process Special Repair Authority (SRA) requests, maintain SRA historical files currently supported by LIW, or archive the prior year MIPR and repair cost data for NMP repair programs.

b. ANTICIPATED BENEFITS: The LMP NMM phase 3 solution provided by task order 52 will be utilized by 35 Installations and 6 AMC sources of supply to manage the logistics and financial requirements relate to AWCF National Maintenance repair programs. The NMM solution will provide Web capability : (1) to communicate MIPR information and provide for the ability to certify/obligate and disperse funds for the current year programs (execution year and carryover); (2) to communicate real time NMM workload funding and billing information to and from the Resource Managers (RMs) at the installation level; (3) to provide direct interface for automated billing of work orders related to NMM MIPRs to Standard Army Financial System (STANFINS) via the Defense Finance and Accounting Service (DFAS) Operational Data Store (ODS),; (4) to allow the national and field managers to determine if the cost for repairing an item is more than the MEL and if a request for a MEL waiver is required; (5) to calculate and broadcast a revised MEL permitted for repair of an item; (6) to allow the users to utilize hyperlinks within the National Maintenance Repair Standard (NMRS) repository and allow for AMC Life Cycle Management Command (LCMC) personnel to update NMRS and provide notification to AMC LCMC POCs for periodic review; (7) to extract planned and actual depot/below depot level production data based on user specified criteria, allow interactive modification of the data, and provide automated real time reports to financial and maintenance managers; (8) to automate Workload Change Requests (WLCR) to add/update/delete the appropriate files using the workload change process for NMM repair National Item Identification Number (NIIN)s; (9) to synchronize the adjustment of authorized repair via the MWF/MIPR processes and immediately transmit the Maintenance Workload File to Army activities worldwide to revise the flow of unserviceable assets to NMM repair facilities; (10) to integrate and workload the appropriate National Source of Repair (SOR) for each region of the world; (11) to maintain a cross-reference file to validate the entries and relationships of each repair request (SOR, Maintenance Activity Unit Identification Code (MAUIC), Maintenance Activity (MA) Department of Defense Activity Address Code (DODAAC), Supply Support Activity (SSA) Routing Identification Code (RIC), SSA DODAAC, Major Army Command (MACOM) associated with SOR, and Resource Manager (RM) code); (12) to provide continuous integration on a daily basis with SARSS, LIW, ODS and STANFINS to manage and control the National Maintenance Program.

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: Without this functionality, all installations supporting NMM will continue to use manual billing and workload change processes. Additional integrated processes would be required between AEPS and LMP to provide SARSS and LIW the required consolidated files for all MSCs. AMC would face additional costs for sustaining two portal capabilities (AEPS and LMP) and developing extensive interface capabilities with AEPS and LIW. The repair data associated with National Maintenance repair programs at below depot activities will continue to be inaccurate and cause inaccurate billings, improper reimbursements, and inaccurate repair cost data for budgeting. NMP is dependent on the accuracy of data transmitted to ensure costs and repair data are correctly displayed at the national level and forwarded to supporting financial sytems (Operational Data Store and Standard Financial System)) for billing and reimbursement.

d. ECONOMIC ANALYSIS PERFORMED? No. These funds are required to complete fielding of previously developed tehnology under existing Task Order in LMP. Deployment and funding suspended in FY05 per OSD directive.

e. FULLY OPERATIONAL CAPABLE DATE: 3rd Qtr FY07

ECONOMIC INDICATORS:

Total Cost of the Project: $15,000,000 | Net Present Value of Benefits: N/A | Benefit to Investment Ratio: N/A | Payback Period: N/A

Department of the Army
Supply Management
FY 2006
FY 2008-2009 OSD/OMB Submission
($ in Millions)

PROJECTS ON THE FY 2007 PRESIDENT'S BUDGET

FY	Approved Project Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/ Deficiency	Explanation
	AUTOMATED DATA PROCESSING						
FY06	Terminal Servers	0.611		0.611	0.611		
	SOFTWARE						
FY06	Exchange Pricing	6.781		6.781	6.781		
FY06	Logistics Modernization Program	18.700		18.700	18.700		
FY06	System Change Request for LMP Systems for National Maintenance Management	0.350		0.350	0.350		
FY06	Future Logistics Enterprise	3.000		3.000	0	(3.000)	Funding no longer required
FY06	Common Operating Environment	2.250	(2.250)	0	0	(2.250)	Reprogramming to Industrial Operations Projects
	TOTAL	**31.692**		**29.442**	**26.442**	**(5.250)**	

Department of the Army
Supply Management
FY 2007
FY 2008-2009 OSD/OMB Submission
($ in Millions)

PROJECTS ON THE FY 2007 PRESIDENT'S BUDGET

FY	Approved Project Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/ Deficiency	Explanation
	AUTOMATED DATA PROCESSING						
FY07	Terminal Servers	0.611		0.611	0.611		
	SOFTWARE						
FY07	Exchange Pricing	4.789		4.789	4.789		
FY07	Logistics Modernization Program	18.700		18.700	59.780	41.080	Requirements Increase
FY07	NMM Task Order 52				6.100	6.100	No prior submission/Approval of project
FY07	Future Logistics Enterprise	2.000		2.000	0	(2.000)	Funding no longer required
FY07	Common Operating Environment	2.525		2.525	0	(2.525)	Funding no longer required
	TOTAL	**28.625**		**28.625**	**71.280**	**42.655**	

Department of the Army
Supply Management
FY 2008
FY 2008-2009 OSD/OMB Submission
($ in Millions)

PROJECTS ON THE FY 2008/2009 PRESIDENT'S BUDGET

FY	Approved Project Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/ Deficiency	Explanation
	AUTOMATED DATA PROCESSING						
FY08	Terminal Servers				0.611	0.611	No prior submission/Approval of project
	SOFTWARE						
FY08	Exchange Pricing				8.959	8.959	No prior submission/Approval of project
FY08	Logistics Modernization Program				80.640	80.640	No prior submission/Approval of project
	TOTAL				**90.210**	**90.210**	

Department of the Army
Supply Management
FY 2009
FY 2008-2009 OSD/OMB Submission
($ in Millions)

PROJECTS ON THE FY 2008/2009 PRESIDENT'S BUDGET

FY	Approved Project Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/ Deficiency	Explanation
	AUTOMATED DATA PROCESSING						
FY09	Terminal Servers				0.611	0.611	No prior submission/Approval of project
	SOFTWARE						
FY09	Exchange Pricing				10.762	10.762	No prior submission/Approval of project
FY09	Logistics Modernization Program (LMP) SMA				57.400	57.400	No prior submission/Approval of project
	TOTAL				**68.773**	**68.773**	

Industrial Operations Capital Investment Summary

Department of Army
Industrial Operations

February 2007
($ in Millions)

Line No.	Description	FY06 Quantity	FY06 Total Cost	FY07 Quantity	FY07 Total Cost	FY08 Quantity	FY08 Total Cost	FY09 Quantity	FY09 Total Cost
05-13	**EQUIPMENT CAPABILITIES**								
	-Replacement	50	28.146	35	21.708	18	22.401	8	6.642
	- Productivity	46	21.314	26	27.465	12	8.798	16	10.240
	- New Mission	5	8.669	1	0.968	2	1.969		
	- Environmental			4	5.255	1	0.313	1	0.816
	EQUIPMENT TOTAL	101	58.129	66	55.396	33	33.481	25	17.698
	AUTOMATED DATA PROCESSING								
04-26	Miscellaneous ADPE < $500k	4	1.865	3	0.887	2	0.534	2	0.845
07-29	Redundant LAN Backup			1	0.646				
08-01	Wireless Network Upgrade			0	0.000	1	0.710		
06-46	Industrial Base Modernization AIT	1	9.943	4	10.000	14	12.200	10	14.200
06-44	IT Replacement	1	1.744						
06-45	Infrastructure Server Update	1	0.580						
	ADP TOTAL	7	14.132	8	11.533	17	13.444	12	15.045
	MINOR CONSTRUCTION								
05-26	Various Minor Construction $100K <$750K	46	21.645	44	19.995	22	12.018	13	10.956
07-31	Sprinkler System Addition Bldg 7			1	1.443				
07-32	Install Automatic Sprinkler System Bldg 143			1	1.325				
07-33	Sprinkler System Bldg 409			1	0.970				
07-34	Sprinkler System Addition Bldg 501			1	0.823				
	MINOR CONSTRUCTION TOTAL	46	21.645	48	24.556	22	12.018	13	10.956
	SOFTWARE								
99-08	Army Workload and Performance System (AWPS)	1	3.915	1	4.564	1	5.064	1	5.564
00-02	Logistics Modernization Program (LMP)	1	6.350	1	25.620	1	34.560	1	24.600
07-35	Environmental, Safety, and Occupational Health Program			1	5.600	1	2.500	1	2.500
04-16	Industrial Base Modernization Software	1	10.606	1	7.500	1	3.800	1	5.600
06-67	Industrial Base Modernization AIT Software	1	0.079						
98-14	Common Operating Environment	1	2.250						
	SOFTWARE TOTAL	5	23.200	4	43.284	4	45.924	4	38.264
	Activity TOTAL	159	117.106	126	134.769	76	104.867	54	81.963
	Total Capital Outlays		90.502		117.943		130.521		108.860
			0.000						
	Total Remaining Depreciation Expense		41.781		48.420		49.292		54.951

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION
EQUIPMENT
($ in Thousands)

A. Budget Submission
FY2008/2009
OSD/OMB Submission

B. Component, Activity Group, Date	C. Line No	Item Description	D. Activity Identification
Army, Industrial Operations Feb 07	05-13	Various Capital Equipment	Various Installations

	FY06			FY07			FY08			FY09		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Replacement	50		28,146.000	35		21,708.000	18		22,401.000	8		6,642.000
Productivity	46		21,314.000	26		27,465.000	12		8,798.000	16		10,240.000
New Mission	5		8,669.000	1		968.000	2		1,969.000			
Environmental				4		5,255.000	1		313.000	1		816.000
TOTAL	101		58,129.000	66		55,396.000	33		33,481.000	25		17,698.000

Narrative Justification:

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: This represents equipment purchases costing >$100K, which will improve the installation's efficiency through replacement, modification or addition of production and maintenance capability and compliance with mission requirements. Equipment supports organic maintenance, overhaul, rebuild, reclamation, conversion, renovation, modification and repair programs.

b. ANTICIPATED BENEFITS: Acquisition of this equipment improves productivity, increases capacity that cannot be met with current equipment, replaces unsafe, inoperable or unusable assets and includes requirements for environmental hazardous waste reduction or regulatory agency mandated requirements. This new equipment increases reliability and productivity, thus enabling the installation to be competitive.

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: If not acquired, equipment support capability would not provide for mission needs and would impact in the following ways: reduce mission capability, cause failure to meet present and future workload requirements, increase man-hour expenditures, cause inability to meet production schedules, lead to excessive downtime, increase maintenance costs, and decrease accuracy and dependability.

d. ECONOMIC ANALYSIS PERFORMED? Economic Analyses have been performed on induvidual projects when required and are available upon request.

ECONOMIC INDICATORS:

Total Cost of the Project	$164,104.000	Net Present Value of Benefits:	N/A	Benefit to Investment Ratio:	N/A	Payback Period:	N/A

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION
AUTOMATED DATA PROCESSING
($ in Thousands)

A. Budget Submission
FY2008/2009
OSD/OMB Submission

B. Component, Activity Group, Date	C. Line No	Item Description	D. Activity Identification
Army, Industrial Operations Feb 07	04-26	Miscellaneous ADPE <$500K	Various Installations

Element of Cost	FY06 Quantity	FY06 Unit Cost	FY06 Total Cost	FY07 Quantity	FY07 Unit Cost	FY07 Total Cost	FY08 Quantity	FY08 Unit Cost	FY08 Total Cost	FY09 Quantity	FY09 Unit Cost	FY09 Total Cost
Miscellaneous ADPE < $500K	4		1,865.000	3		887.000	2		534.000	2		845.000
TOTAL	4		1,865.000	3		887.000	2		534.000	2		845.000

Narrative Justification:

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: These miscellaneous information management projects replace old/obsolete and unreliable equipment with state of the art equipment.

b. ANTICIPATED BENEFITS: Replacement of obsolete equipment will improve processing speeds, increase productivity and reduce maintenance costs. Projects allow sites to conform to Army standards and improve communications with other Army sites. New technology will improve security and lessen the threat of access by unauthorized sources.

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: Systems and equipment will continue to be unreliable, dowtime will increase and administrative cost will rise. Users will be unable to communicate with higher headquarters, other installations, and customers via electronic means. Data will be at risk for release to unauthorized users.

d. ECONOMIC ANALYSIS PERFORMED? Economic Analyses have been performed on induvidual projects when required and are available upon request.

ECONOMIC INDICATORS:

Total Cost of the Project	$4,131.000	Net Present Value of Benefits:	N/A	Benefit to Investment Ratio:	N/A	Payback Period:	N/A

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION AUTOMATED DATA PROCESSING ($ in Thousands)										A. Budget Submission FY2008/2009 OSD/OMB Submission		
B. Component, Activity Group, Date Army, Industrial Operations Feb 07				C. Line No 07-29		Item Description Redundant Local Area Network (LAN) Backup				D. Activity Identification Crane Army Ammunition Activity		
	FY06			FY07			FY08			FY09		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Redundant LAN Backup				1	646.000	646.000						
TOTAL				1		646.000						

Narrative Justification:

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: The current Local Area Network (LAN) has little redundancy designed into the system and the network is prone to communication failures. The current network backbone was designed based upon fiber links to core buildings with fiber lines running from the core buildings to surrounding hub buildings in a star topology. There are six core buildings affecting a total of 60 hub buildings. If the fiber link to the core buildings is interrupted, the building and all of their hub buildings are subject to loss of network services. Over the last two years, Crane Army Ammunition Activity (CAAA) has recorded a loss of approximately 4,000 man hours due to various network failures and interruptions

b. ANTICIPATED BENEFITS: CAAA has funded a FY05 CIP Project, Server Farm Modernization & Network Upgrade for $615,000 to upgrade the servers and hubs. and to be in compliance with standards as mandated by the Army Active Directory. This project will install a redundant microwave link to the core buidlings, which would provide 99.99% up time and provide continuity of network services. All core buildings would have an automatic back-up system so that any failure would only affect the building in which the failure occurred and not the entire network.

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: CAAA would continue to operate the existing LAN/campus wide network which is currently causing lost man-hours and and llost production.

d. ECONOMIC ANALYSIS PERFORMED? Yes, validated Dec 05 BIR not applicable since Status Quo was not feasible.
Fully Operational Capability Date: 2009
Est. Monthly Depreciation: $10,450.00

ECONOMIC INDICATORS:						
Total Cost of the Project	$646.000	Net Present Value of Benefits:	$301.689	Benefit to Investment Ratio:	1.486	Payback Period: 4.015

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION
AUTOMATED DATA PROCESSING
($ in Thousands)

A. Budget Submission
FY2008/2009
OSD/OMB Submission

B. Component, Activity Group, Date	C. Line No	Item Description	D. Activity Identification
Army, Industrial Operations Feb 07	08-01	Wireless Network Upgrade, Building 299	Rock Island Arsenal

	FY06			FY07			FY08			FY09		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Wireless Network Upgrade, Building 299							1	710.000	710.000			
TOTAL							1		710.000			

Narrative Justification:

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: Automated Identification Technology (AIT) is in use now. It will be an increasingly key part of both Logistics and Manufacturing. Radio Frequency Identification (RFID) will be implemented.
With the introduction of RFID, the wireless infrastructure will need to be much faster, and handle much more data than it is currently set up to do. By 2008, existing access points will lack the required capabilities, speed, and 802.11i wireless security standard encryption.
Currently, the Joint Manufacturing and Technology Center (JMTC) access points are configured differently than the office area wireless located in the other (non-JMTC) areas of RIA. This limits devices to working in either the JMTC area or the office areas, but not both. For many devices and functions, this is not a problem, but for some functions, such as personnel who use their laptop regularly throughout the day, it is a detriment
b. ANTICIPATED BENEFITS: Upgrading the existing wireless network will gain the necessary capacity to adapt RFID technology, improve management capabilities, increase network security, and create an integrated wireless network that allows access to all information across the wireless infrastructure throughout Rock Island Arsenal (RIA). It is anticipated that the project will have a payback of 2.7 years.
c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: New equipment will provide a dependable robust wireless network for the RIA manufacturing and administrative areas. Without replacing the existing equipment it is anticipated that incidents of network down time will increase, the adoption of improved security will be limited, and the implementation of RFID processes will be crippled. In addition all data will not be available as it is currently segregated onto two separate wireless networks with one network not being accessible from the other.

d. ECONOMIC ANALYSIS PERFORMED? yes

ECONOMIC INDICATORS:

Total Cost of the Project	$710.000	Net Present Value of Benefits:	$1,114.065	Benefit to Investment Ratio:	2.707	Payback Period:	2.698

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION
AUTOMATED DATA PROCESSING
($ in Thousands)

A. Budget Submission
FY2008/2009
OSD/OMB Submission

B. Component, Activity Group, Date:
Army, Industrial Operations — Feb 07

C. Line No 06-46 Item Description
Industrial Base Modernization (IBM) Automatic Identification Technology (AIT)

D. Activity Identification
Various Installations

Element of Cost	FY 06 Qty	FY 06 Unit Cost	FY 06 Total Cost	FY 07 Qty	FY 07 Unit Cost	FY 07 Total Cost	FY 08 Qty	FY 08 Unit Cost	FY 08 Total Cost	FY 09 Qty	FY 09 Unit Cost	FY 09 Total Cost
AIT Program Integration Contract	1	9,943.000	9,943.000	1	956.000	956.000	1	985.000	985.000	1	1,014.000	1,014.000
AIT Systems Integration Contract				1	6,044.000	6,044.000	1	8,215.000	8,215.000	1.000	12,686.000	12,686.000
AIT RIFD Contract				1	2,000.000	2,000.000						
Direct Parts Marking Hardware Contract				1	1,000.000	1,000.000	1	3,000.000	3,000.000	1	500.000	500.000
TOTAL			9,943.000	4		10,000.000	3		12,200.000	3		14,200.000

Narrative Justification:

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: AIT is enabling technology that will be linked to an automated management network that includes communications and security in order to realize its full potential. The improvements to the supply chain come from a combination of AIT enablers being coupled with the automated information systems (AIS) to track materiel in motion. This submission is to satisfy AIT needs associated with the Industrial Base Modernization (IBM) task order (TO); AIT initiatives to meet the mandates for item unique identification (IUID), active and passive radio frequency identification (RFID), and Wide Area Workflow (WAWF). Presently, AMC depots/arsenals/plants do not have the required business process hardware to support the use of AIT in their respective shop floor operations. They are unable to capitalize on labor/production reporting and material movement essential to delivering a modernized and efficient business solution to the shop floor. Presently AMC depots/arsenals/plants/activities/centers do not have the capability to read passive RFID and interface with WAWF. They are unable to electronically accept vendor pallets and cases and report receipt to the WAWF.

b. ANTICIPATED BENEFITS: The FY07 funds will cover a contract for program integration across the AMC industrial base. This contract will provide management, programmatics, technical integration, coordination, and oversight of the systems integration. The systems integration contract will provide site surveys at the Anniston (ANAD) and Rock Island Arsenal (RIA) to assess their shop floor AIT hardware requirements. This contract will provide hardware acquisition, installation, test, configuring the edgeware to a middleware, and training to establish an initial/limited state-of-the-art initial operational capability (IOC) at Letterkenny (LEAD), ANAD, and RIA to automatically capture the source data required to fully use the potential of the Single Army Logistics Enterprise (SALE). This contract will also deploy an active RFID capability from Crane Army Ammunition Activity (CAAA) to the McAlester Army Ammunition Plant (MCAAP). These funds will provide 2 IUID direct parts marking machines (DPM) to Corpus Christi (CCAD). The FY08 funds will cover the program integration contract for a second year. The systems integration contract will provide site surveys and IOC at the Rock Island (RIA), Pine Bluff (PBA), and Watervliet (WVA) arsenals. It will provide IUID DPM equipment for CCAD (1), LEAD (1), TYAD (1), ANAD (1), RRAD (1), SIAD (1), RIA (1), and PBA (1) The FY09 funds will provide a program integration contract for a third year. The systems integration contract will provide site surveys and technology upgrades at TYAD, CCAD, LEAD, RRAD, and ANAD. It will provide item unique identification (IUID) direct parts marking machines (DPM) equipment for CCAD (4), LEAD (1), TYAD (1), ANAD (2), RRAD (1), SIAD (1), RIA (1), and WVA (1). It will require $101.398M between FY06 and FY09 to achieve FOC by FY09 in the AMC CONUS industrial base. A vital component of SALE is to extend modernized services to the industrial base shop floor, known as the IBM. Currently, transaction based software programs require timely manual inp of data. AIT capability will provide for automatic real or near real time accurate data collection which will significantly improve the information processed from the source data and available to all users of an enterprise resource planning (ERP). Funding this requirement will provide the capability to employ the following business process capabilities: conveyance-based tracking; item-based tracking; labor data collection; status visibility; source data automation; wireless collection of disassembly/assembly and test data, and viewing documentation on the production line. This capability will significantly increase the managers' ability to keep track of production schedules, inventory status, work in progress and a range of other operations to include management-related information flowing to and from the shop floor. This will enable managers to monitor, initiate, respond and report on each of the primary production activities on the shop floor; collect and process data; enable quality management; improve resource allocation and enhance maintenance management. These projects automate the production line and provide our personnel ready reference to business management data and current status documentation at each work station.

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: Failure to fund would prohibit the Army from realizing many benefits inherent in implementing an ERP solution and conforming to OSD mandated AIT, RFID, WAWF and IUID policies. The intense data requirements of the ERP will require diverting labor and productivity to manually inputting data to the ERP.

d. ECONOMIC ANALYSIS PERFORMED? AIT was directed by OSD; therefore, an EA is not required AIT shop floor infrastructure requirements. Reference Acting OUSD (AT&L) 2 Oct 03 policy memorandum.

ECONOMIC INDICATORS:

Total Cost of the Project	$46,343.000	Net Present Value of Benefits:	N/A	Benefit to Investment Ratio:	N/A	Payback Period:	N/A

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION
MINOR CONSTRUCTION
($ in Thousands)

A. Budget Submission
FY2008/2009
OSD/OMB Submission

B. Component, Activity Group, Date	C. Line No	Item Description	D. Activity Identification
Army, Industrial Operations Feb 07	05-26	Various Minor Construction <$750K	Various Installations

Element of Cost	FY06 Quantity	FY06 Unit Cost	FY06 Total Cost	FY07 Quantity	FY07 Unit Cost	FY07 Total Cost	FY08 Quantity	FY08 Unit Cost	FY08 Total Cost	FY09 Quantity	FY09 Unit Cost	FY09 Total Cost
Minor Construction $100K < $750K	46		21,645.000	44		19,995.000	22		12,018.000	23		10,956.000
TOTAL	46		21,645.000	44		19,995.000	22		12,018.000	23		10,956.000

Narrative Justification:

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: This represents various minor construction projects costing <$750K, which will improve the efficiency of the industrial operations through new, modernization, addition, or renovation of existing facilities. The construction projects are for addition or modification of existing structures to meet mission needs and quality of life improvements (safety/environmental concerns).

b. ANTICIPATED BENEFITS: The projects will increase productivity and allow for quality of life improvements. Specifically, with several projects the efficiency of the mission work will improve with improved plant layout, better electrical distribution, improved lighting and heating, ventilation, & air conditioning (HVAC). The projects specific to quality of life improvements, will improve worker morale, and eliminate potential health and safety concerns.

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: If not approved, needed improvements in mission areas and production efficiencies, will continue to degrade. Also without the improvements, worker morale will continue to decline, the work environment will erode, and worker safety and health will continue to be a major concern.

d. ECONOMIC ANALYSIS PERFORMED? Economic Analyses have been performed on induvidual projects when required and are available upon request.

ECONOMIC INDICATORS:

Total Cost of the Project	$64,614.000	Net Present Value of Benefits:	N/A	Benefit to Investment Ratio:	N/A	Payback Period:	N/A

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION
MINOR CONSTRUCTION
($ in Thousands)

A. Budget Submission
FY2008/2009
OSD/OMB Submission

B. Component, Activity Group, Date			Logistics Modernization Progra	C. Line No		Item Description				D. Activity Identification			
Army, Industrial Operations			Feb 07	07-31		Sprinkler System Addition Bldg 7				Anniston Army Depot			
	FY06			**FY07**			**FY08**			**FY09**			
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	
Sprinkler System Addition Bldg 7				1	1,443.000	1,443.000							
TOTAL				1		1,443.000							

Narrative Justification:

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: Continue to utilize only the depot's Fire Department and Emergency Services to fight any current and future fires within Building 7, Headquarters Building at Anniston Army Depot (ANAD). The addition of this sprinkler system will increase this buildings operational capability by providing significant additional fire loss protection.

b. ANTICIPATED BENEFITS: Install new dry type sprinkler system in Building 7, Headquarters Building, ANAD to reduce fire potential loss. No Economic Analysis was performed for this project due to fire and safety exceptions. Possible monetary benefits would include: protection of significant Army documents and civilian and military personnel records and data, and operational costs associated with fire protection inspections and drills. Non-monetary benefits: Improved fire and safety compliance – ANAD must comply with both Federal Safety and Fire regulations. Unified Federal Code regulation 3-600-01 requires that a sprinkler system must be installed for a Production Type working environment and associated buildings to provide necessary protection of primary Army assets. Improved morale – Overall employee morale will be improved with the installation of this new sprinkler system. The installation of a new sprinkler system in this building would ease employee fears concerning both fire and safety protection.

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: Anniston Army Depot's Headquarters Building will continue to rely on the response of the depot's Fire and Emergency Services Division to extinguish a fire. The protection of current assets in this building will continue to be at a higher risk without the installation of this new sprinkler system.

d. ECONOMIC ANALYSIS PERFORMED? No economic analysis was prepared for this project as it qualifies for exemption under paragraph 2.2c of the DA Economic Analysis Manual based on environmental, hazardous waste reduction, or federal, state, or local regulatory agency mandate, which precludes choice or trade-off among alternatives.

ECONOMIC INDICATORS:

Total Cost of the Project	$1,443.000	Net Present Value of Benefits:	N/A	Benefit to Investment Ratio:	N/A	Payback Period:	N/A

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION
MINOR CONSTRUCTION
($ in Thousands)

A. Budget Submission
FY2008/2009
OSD/OMB Submission

B. Component, Activity Group, Date	C. Line No	Item Description	D. Activity Identification
Army, Industrial Operations Feb 07	07-32	Install Automatic Sprinkler System Bldg 143	Anniston Army Depot

	FY06			FY07			FY08			FY09		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Install Automatic Sprinkler System Bldg 143				1	1,325.000	1,325.000						
TOTAL				1		1,325.000						

Narrative Justification:

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: The main objective of this project is the upgrade and installation of automatic sprinkler system in Building 143, Tank Turret Repair and Paint Shop as per recommendation set forth by the Risk Assessment of July, 2004. In July 2004, a Risk Assessment was performed (Thomas Harrell & Associates) per the above requirements, and Building 143 was identified as requiring three engine companies as well as requiring an upgrade in the sprinkler system.

b. ANTICIPATED BENEFITS: Immediate identification and control of a developing fire. Sprinkler systems respond at all times, including periods of low occupancy. Control is practically instantaneous. Local response teams and occupants will be immediately alerted. In conjunction with building fire alarm systems, automatic sprinkler systems will notify occupants and emergency response personnel of the developing fire. Less heat and smoke damage will occur as a result of the sprinkler system. Significantly less heat and smoke will be generated when the fire is extinguished at an early stage. Staff, visitors, and fire fighters will be subject to less danger when fire growth is checked. A sprinkler controlled fired decreases demand on security forces, minimizing intrusion opportunities

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: Anniston Army Depot will continue to fail Operational Readiness Inspections and life and property will continue to be at a greater-than-acceptable risk.

d. ECONOMIC ANALYSIS PERFORMED? No economic analysis was prepared for this project as it qualifies for exemption under paragraph 2.2c of the DA Economic Analysis Manual based on environmental, hazardous waste reduction, or federal, state, or local regulatory agency mandate, which precludes choice or trade-off among alternatives.

ECONOMIC INDICATORS:

Total Cost of the Project	$1,325.000	Net Present Value of Benefits:	N/A	Benefit to Investment Ratio:	N/A	Payback Period:	N/A

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION
MINOR CONSTRUCTION
($ in Thousands)

A. Budget Submission
FY2008/2009
OSD/OMB Submission

B. Component, Activity Group, Date	C. Line No	Item Description	D. Activity Identification
Army, Industrial Operations Feb 07	07-33	Sprinkler System Bldg 409	Anniston Army Depot

	FY06			FY07			FY08			FY09		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Sprinkler System Bldg 409				1	970.000	970.000						
TOTAL				1		970.000						

Narrative Justification:

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: Continue to utilize only the depot's Fire Department and Emergency Services to fight any current and future fires within Building 409 ,Vehicle Component Repair and Paint Facility at Anniston Army Depot (ANAD). The addition of this sprinkler system will increase this buildings operational capability by providing significant additional fire loss protection.

b. ANTICIPATED BENEFITS: Install new dry type sprinkler system in Building 409, Vehicle Component Repair and Paint Facility, ANAD , to reduce fire potential loss. No Economic Analysis was performed for this project due to fire and safety exceptions. Possible monetary benefits would include: protection of significant Army documents and civilian and military personnel records and data, and operational costs associated with fire protection inspections and drills. Non-monetary Benefits: Improved fire and safety compliance – ANAD must comply with both Federal Safety and Fire regulations. Unified Federal Code regulation 3-600-01 requires that a sprinkler system must be installed for a Production Type working environment and associated buildings to provide necessary protection of primary Army assets. Improved morale – Overall employee morale will be improved with the installation of this new sprinkler system. The installation of a new sprinkler system in this building would ease employee fears concerning both fire and safety protection.

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: Anniston Army Depot's Vehicle Component Repair and Paint Facility will continue to rely on the response of the depot's Fire and Emergency Services Division to extinguish a fire. The protection of current assets in this building will continue to be at a higher risk without the installation of this new sprinkler system.

d. ECONOMIC ANALYSIS PERFORMED? No economic analysis was prepared for this project as it qualifies for exemption under paragraph 2.2c of the DA Economic Analysis Manual based on environmental, hazardous waste reduction, or federal, state, or local regulatory agency mandate, which precludes choice or trade-off among alternatives.

ECONOMIC INDICATORS:

Total Cost of the Project	$970.000	Net Present Value of Benefits:	N/A	Benefit to Investment Ratio:	N/A	Payback Period:	N/A

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION
MINOR CONSTRUCTION
($ in Thousands)

A. Budget Submission
FY2008/2009
OSD/OMB Submission

B. Component, Activity Group, Date	C. Line No	Item Description	D. Activity Identification
Army, Industrial Operations Feb 07	07-34	Sprinkler System Addition Bldg 501	Anniston Army Depot

	FY06			FY07			FY08			FY09		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Sprinkler System Addition Bldg 501				1	823.000	823.000						
TOTAL				1		823.000						

Narrative Justification:

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: Continue to utilize only the depot's Fire Department and Emergency Services to fight any current and future fires within Building 501, Shipment Preparation Facility (near Test Track) at Anniston Army Depot (ANAD). The addition of this sprinkler system will increase this buildings operational capability by providing significant additional fire loss protection.

b. ANTICIPATED BENEFITS: Install new dry type sprinkler system in Building 501, Shipment Preparation Facility (near Test Track) at ANAD to reduce fire potential loss. No Economic Analysis was performed for this project due to fire and safety exceptions. Possible monetary benefits would include: protection of significant Army documents and civilian and military personnel records and data, and operational costs associated with fire protection inspections and drills. Non-monetary Benefits: Improved fire and safety compliance – ANAD must comply with both Federal Safety and Fire regulations. Unified Federal Code regulation 3-600-01 requires that a sprinkler system must be installed for a Production Type working environment and associated buildings to provide necessary protection of primary Army assets. Improved morale – Overall employee morale will be improved with the installation of this new sprinkler system. The installation of a new sprinkler system in this building would ease employee fears concerning both fire and safety protection.

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: Anniston Army Depot's Shipment Preparation Facility will continue to rely on the response of the depot's Fire and Emergency Services Division to extinguish a fire. The protection of current assets in this building will continue to be at a higher risk without the installation of this new sprinkler system.

d. ECONOMIC ANALYSIS PERFORMED? No economic analysis was prepared for this project as it qualifies for exemption under paragraph 2.2c of the DA Economic Analysis Manual based on environmental, hazardous waste reduction, or federal, state, or local regulatory agency mandate, which precludes choice or trade-off among alternatives.

ECONOMIC INDICATORS:

Total Cost of the Project	$823.000	Net Present Value of Benefits:	N/A	Benefit to Investment Ratio:	N/A	Payback Period:	N/A

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION
SOFTWARE
($ in Thousands)

A. Budget Submission
FY2008/2009
OSD/OMB Submission

B. Component, Activity Group, Date	C. Line No	Item Description	D. Activity Identification
Army, Industrial Operations Feb-07	99-08	Army Workload and Performance System (AWPS)	Various Installations

	FY06			FY07			FY08			FY09		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Army Workload and Performance System (AWPS)	1	3,915.000	3,915.000	1	4,564.000	4,564.000	1	5,064.000	5,064.000	1	5,564.000	5,564.000
TOTAL	1		3,915.000	1		4,564.000	1		5,064.000	1		5,564.000

Narrative Justification:

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: Government Accounting Office (GAO) concluded in February 1997 that the Army cannot identify and prioritize its institutional workload. The material weakness stated that "...managers at all levels do not have the information needed to improve work performance, improve organizational efficiency, and determine support staffing needs, manpower budgets, and personnel reductions."

b. ANTICIPATED BENEFITS: The AWPS will assist the Army Materiel Command (AMC) and its subordinate Major Subordinate Commands (MSC) in managing complex workload and employment strategies in the Industrial Operations business area. Production and resource controllers at MSC/AMC can isolate key scheduling and cost problems at the product level, and evaluate the dollar and manpower impact of various workload changes through the sophisticated “what if” capability. Funding supports Program management, Help Desk, IT support, Training and Field Support from contractor IE’s, WEB support and completion of the AWPS/Logistics Modernization Program (LMP) Interface.

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: Without additional expenditures, there will be no integration with the new LMP financial and workload control data base. As a result, AWPS will cease to function upon deployment of LMP. Funding shortfalls will also jeopardize enhancements to the sophisticated “what-if” capability (Workload /Work Force study improvements) for senior managers at MSCs and HQAMC cannot be incorporated into AWPS.

d. ECONOMIC ANALYSIS PERFORMED? No. Exemption provided. Congressional Mandate.

e. FULLY OPERATIONAL CAPABLE DATE: Ongoing

ECONOMIC INDICATORS:

Total Cost of the Project	$49,107.000	Net Present Value of Benefits:	N/A	Benefit to Investment Ratio:	N/A	Payback Period:	N/A

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION
SOFTWARE
($ in Thousands)

A. Budget Submission
FY2008/2009
OSD/OMB Submission

B. Component, Activity Group, Date	C. Line No	Item Description	D. Activity Identification
Army, Industrial Operations Feb-07	00-02	Logistics Modernization Program (LMP)	Various Installations

	FY06			FY07			FY08			FY09		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Contract	1	6,350.000	6,350.000	1	25,620.000	25,620.000	1	34,560.000	34,560.000	1	24,600.000	24,600.000
TOTAL	1		6,350.000	1		25,620.000	1		34,560.000	1		24,600.000

Narrative Justification:

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: The current Army standard logistics systems are based on 25 year old technology and depend on layered inventory levels to support forward deployed forces against a cold war enemy. This process is characterized by a lack of flexibility and suffers from complexities in terms of bridges and uniques, high profile supportability profile and limited visibility of the supply pipe-line. The Army must reengineer its logistics processes to support today's CONUS-based power projection. This funding applies to depot and arsenal requirements development work in LMP.

b. ANTICIPATED BENEFITS: LMP will correct the above-noted deficiencies and enable the Army to take advantage of commercial expertise, experience and investments in process improvement and Information Technology (IT). The Army will not purchase any IT resources (H/W or S/W) directly, therefore, it will not own the modernized system. The Contractor will be responsible for providing the IT and DP services. LMP employs a broad-based commercial Enterprise Resource Planning package, SAP America's S/W suite and integral business processes that will ultimately meet modernized services performance requirements. AMC will be able to perform business process reengineering (BPR), adopt market-driven business practices, and provide significantly improved services. The new process will help achieve synchronization with Ground Combat Support Systems (GCSS)-Army. The Army will retain Intellectual Property Rights to all documentation with regard to BPR reports, system description and implementation plans exclusive of Commercial Off The Shelf (COTS) modifications, i.e., creation of unique code. LMP goal is to modernize Army logistics business practices and supporting IT to meet current/ future military readiness requirements consistent with DoD's Business Systems Transition Plan. Specifically, the LMP is the Army's core initiative to completely replace its two largest, most important National-level legacy logistics systems providing support to warfighters, the inventory management Commodity Command Standard System (CCSS) and the depot and arsenal operations Standard Depot System (SDS). During FY06 funding was essentially used to correct LMP Deployment 1 deficiencies and achieve FFMIA compliance. An incremental delivery approach was taken for delivery of LMP functionality. Requested funding will provide the functionality needed by the deployment sites. Examples of functionality to be provided are: enhanced demand planning to account for aviation/ground systems, interfaces to aviation/ground/ammunition supporting systems, data migration efforts, deployment training, and change management. In FY08/09 funding is also associated with planning upgrade to SAP with estimated cost of $49.6M. Funding for the LMP core effort supports sustainment of existing legacy systems and the LMP installed base until full deployment is achieved. Total cost for project to achieve full operational capability in FY10 is estimated at $138M.

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: AMC will continue inefficient and expensive wholesale logistics processes due to the limitations of the current systems. The COBOL 74 compiler is no longer supported by the manufacturer and the loss of AMC subject matter experts. These deficiencies preclude the Army from providing an agile logistics support capability as required by the Revolution in Military Logistics. This funding applies to depot and arsenal operations modernization. Any delays in the LMP deployment will negatively impact the overall costs and timeline to implement subsequent increments of the Single Army Logistics Enterprise (SALE) initiative. Both GCSS-Army (Field/Tactical) and GCSS-Army PLM+ are impacted by the functionality and deployment schedule of the LMP.

d. ECONOMIC ANALYSIS PERFORMED: Initially, a comparative analysis was performed in lieu of an economic analysis as status quo was not an option. More recently FY05, a Business Case Analysis was completed. Total Cost of Project includes cost for prior years.

e. FULLY OPERATIONAL CAPABILITY DATE: FY10

ECONOMIC INDICATORS:

Total Cost of the Project:	$137,987.000	Net Present Value of Benefits:	N/A	Benefit to Investment Ratio:	N/A	Payback Period:	N/A

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION
SOFTWARE
($ in Thousands)

A. Budget Submission
FY2008/2009
OSD/OMB Submission

B. Component, Activity Group, Date	C. Line No	Item Description	D. Activity Identification
Army, Industrial Operations Feb-07	07-35	Environmental, Safety, and Occupational Health Program	Various Installations

	FY06			FY07			FY08			FY09		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Accident Incident Management (AIM)				1	2,500.00	2,500.00	1	2,500.00	2,500.00	1	2,500.00	2,500.00
Reference Library				1	3,100.00	3,100.00						
TOTAL				2		5,600.000	1		2,500.000	1		2,500.000

Narrative Justification:

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: Current operations identified as the Environmental, Safety, and Occupational Health Program (ESOHP) are disparate, non-standardized systems and interfaces that reside outside of the Single Army Logistics Enterprise (SALE). This stovepipe-architecture of non-standardized systems/interfaces does not allow AMC to properly manage safety related hazards and risks across the command. Continued support of ESOHP operations external to the SALE jeopardizes the SALE and ESOHP compliance to the DoD Business Enterprise Architecture (BEA).

b. ANTICIPATED BENEFITS: ESOHP-AIM is a cross functional area that provides a safety incident management system that may be driven by regulation, permit, or command policy. It includes identification, response and investigation phases of an operational incident or near-miss. The incident is identified by type (explosive, fire, chemical release, medical etc.), the specific resources & procedures for responding (including communication with higher headquarters and/or external agencies) are identified in an integrated response plan. An incident event triggers the appropriate response, communication with responding & affected parties (identifies contact list & criteria for contact, option for automatic contact), tools to analyze event (analyze contaminants, dispersion modeling, material & personnel resource allocation/depletion, etc), tracks resource expenditures. Post incident investigation provides tools to identify causes & analyze trends, identify corrective action, follow-up on corrective actions and make internal & external reports. The ESHOP Reference Library provides an integrated and standardized data set which allows for the connection of hazard data directly to the product material master (or National Stock Number NSN). This data set could preclude unsafe storing and handling of materials that may result in explosive or reactive fashion if not handled/mixed properly and save life and limb in the process. This initiative will help achieve SecDef goal to reduce lost workdays by 50% and support AMC CG's #1 priority - Safety. SALE-AIM provides a critical component to production and capacity planning for AMC Depot maintenance and munitions production.

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: AMC will continue to have non-standardized metrics for safety impairing Command's ability to manage safety risks. LMP will continue to be in non-comliance with the BEA as we are leading the OSD level effort and implementing ESOHP now provides for functionality required to comply with DOD 5000.1and DoDD 4515.1E "Environmental, Safety and Occupational Health."

d. ECONOMIC ANALYSIS PERFORMED: ESOHP requirement is directed per DOD 5000.1 Environmental, Safety and Occupational Health and as defined in BEA 3.1; therefore, an Economic Analysis is not required.

ECONOMIC INDICATORS:

Total Cost of Project	$10,600.000	Net Present Value of Benefits:	N/A	Benefit to Investment Ratio:	N/A	Payback Period:	N/A

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION
SOFTWARE
($ in Thousands)

A. Budget Submission
FY2008/2009
OSD/OMB Submission

B. Component, Activity Group, Date				C. Line No	Item Description					D. Activity Identification		
Army, Industrial Operations		Feb 07		04-16	Industrial Base Modernization (IBM) Software					Various Installations		
	FY 06			**FY 07**			**FY 08**			**FY 09**		
Element of Cost	Qty	Unit Cost	Total Cost	Qty	Unit Cost	Total Cost	Qty	Unit Cost	Total Cost	Qty	Unit Cost	Total Cost
MES Contract/Labor	1	10,606.000	10,606.000	1	4,100.000	4,100.000	1	3,800.000	3,800.000	1	5,600.000	5,600.000
Software				1	3,400.000	3,400.000						
TOTAL	1		10,606.000	2		7,500.000	1		3,800.000	1		5,600.000

Narrative Justification:

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: Lack of modernized technology at the industrial base shop floor has caused inefficiency and ineffectiveness in performing the depot mission because of loss the of visibility of work in process causing material cost escalation, labor costs increases caused by continuous causative research and processes which are not in conformance with the lean concept. Many stand alone systems are used to manage inventory, route components, change bills of materials, manage as built configurations and documentation control. The existing systems are labor intensive in managing shop floor activities. Millions of dollars are exhausted chasing inventory, maintaining multiple databases and systems to manage these maintenance execution problems. A manufacturing execution system (MES) provides the maintenance, manufacturing, maintenance, overhaul, and repair functions that are currently not available in the AMC industrial base. The thrust of this project is to develop an industrial base modernized system that fully integrates the requirements performed by numerous unique legacy systems and manual processes currently used by the depot maintenance community and reduction of manual processes, and reducing inventory costs. The FY07 funds will cover MES installation, test, and initial operational capability (IOC) at Corpus Christi and Anniston Army Depots. The FY08 funds will cover the MES IOC at Tobyhanna, Red River, and Letterkenny Army Depots. The FY09 and FY10 funds will cover the MES to LMP interface. It will require $24.3M to achieve full operational capability (FOC) for all five maintenance depots by FY10. IBM installation for the eight arsenals and storage depots will be scheduled in FY09 and out during the next budget cycle. IBM has $18.2M in sunk costs and $24.3M for MES ($20.9M plus $3.4M of sunk costs). The total program cost is $39.1M. The sunk costs include: IBM Task Order 077, Production Planning & Control (PP&C) ($4.97M); Corpus Christi Army Depot Automated Parts Ordering System ($.95M); Logistics Modernization Program (LMP) Automatic Identification Technology Data Integration ($4.67M); IBM Blueprint ($6.0M); and IBM Business Process Review and Analysis (BPR&A) ($1.6M). The training, MES software maintenance, legacy software maintenance, and software engineering change proposal (S-ECP) requirements are funded by operations and maintenance (O&M) funds.

b. ANTICIPATED BENEFITS: An MES is a system that can manage the end-to-end business processes in an industrial plant. Some of the capabilities may include but not limit to are shipping and receiving, work in progress, tool & equipment management, document management, production and capacity planning, labor and production reporting, inventory management, root cause analysis, etc. The MES with shop floor maintenance repair and overhaul (MRO) capability provides functions that include disassembly, disposition, repair, assembly and part & asset serialized and component tracking. It has the ability to capture data in real time enabling better shop floor decision making. It will collect production input from automatic and human interface data collection devices and make the data available to other planning software. A fully integrated MES will increase maintenance depot operational efficiencies and reduce overall depot costs. It will reduce automation sustainment costs, software fees, and system infrastructure requirements at each maintenance depot. It will also ensure a common operating environment exists throughout the depot maintenance community. It provides increased asset visibility and facilitates lean remanufacturing and the incorporation of DOD IUID requirements as well as helping to reduce total ownership cost which will adversely affect the depot rates and therefore the cost to the warfighter.

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: Failure to complete this project will result in the continuation of relying on numerous unique legacy systems. The status quo will result in an onerous financial burden on the depots to maintain the numerous unique legacy systems. Additionally, the efficiency of the depot will be much less than optimal without the implementation of this project. The depots will be less able to support the Army Transformation and the RECAP programs.

d. ECONOMIC ANALYSIS PERFORMED? Yes Completed May 06. Total Cost of Project includes cost for prior years.

ECONOMIC INDICATORS:

Total Cost of the Project:	$39,131.497	Net Present Value of Benefits:	$69,117.406	Benefit to Investment Ratio:	4.725	Payback Period:	2.806

Department of Army
Industrial Operations
FY 2006
FY 2008/2009 Budget Estimate Submission

($ in Millions)

PROJECTS ON THE FY 2007 PRESIDENT'S BUDGET

FY	Approved Project Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/ Deficiency	Explanation
EQUIPMENT							
	EQUIPMENT - <$500K						
FY06	Various Capital Equipment < $500K	14.028	2.413	16.441			Requirements increase during year of execution
FY 06	**EQUIPMENT - >$500k<$1M** Various Capital Equipment >$500K<$1M	11.628	2.730	14.358			Requirements increase during year of execution
	EQUIPMENT-Replacement						
FY06	Automated Starter Patch Fabrication System	1.563	(0.356)	1.207			Reprogrammed to VCE <$500K
FY06	4 Axis CNC Horizontal Mill	1.054		1.054			
FY06	Agilent 30 Test System Upgrade	0.525	0.462	0.987			Reprogrammed from IT/ADPE
FY06	Engine Load System	6.111		6.111			
FY06	Jig Borer	1.126	0.829	1.955			Reprogrammed from T-700 Grinding Machine
FY06	Thermal System Test Stand	2.107	(0.631)	1.476			Reprogrammed to Abrasive Blast System
	EQUIPMENT-Productivity						
FY06	Cincinnati Gilbert Horiz Boring Machine	1.316	0.306	1.622			Reprogrammed from CNC Crankshaft Grinder
FY06	CNC Crankshaft Grinders	4.419	(2.579)	1.840			Reprogrammed to Flow Form Machine and Abrasive Blast System
FY06	CNC Horizontal Lathes	1.395		1.395			
FY06	CNC ID/OD Vertical Grinder, Turret Ring Gr	1.067		1.067			
FY06	Integrated Manufacturing Test Facility	2.180	0.506	2.686			Reprogrammed from VCE <$500K and Minor Construction <$750K
FY06	T-700 Grinding Machine	1.853	(1.079)	0.774			Project obligated for less than budgeted amount
FY06	Flow Form Machine		1.400	1.400			Reprogrammed from CNC Crankshaft Grinders
FY06	Abrasive Blast System Upgrade	0.000	2.295	2.295			Reprogrammed from CNC Crankshaft Grinders & Thermal SysTest Std
	EQUIPMENT - New Mission						
FY06	Programmable Robotic Paint System	1.200	0.250	1.450			Reprogrammed during year of execution
FY06	Pacific Theater Missile Repair Facility	2.905	(2.894)	0.011			Reprogrammed to VCE <$500K
	EQUIPMENT-Environmental						
FY06	Conveyor System, Phase I	2.100	(2.100)	0.000			Project cancelled and reprogrammed

Department of Army
Industrial Operations
FY 2006
FY 2008/2009 Budget Estimate Submission

($ in Millions)

PROJECTS ON THE FY 2007 PRESIDENT'S BUDGET

FY	Approved Project Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/ Deficiency	Explanation
ADPE & TELECOMMUNICATIONS EQUIPMENT							
FY06	Miscellaneous ADPE < $500k	1.512	0.353	1.865			Reprogrammed from VCE <$500K
FY06	Industrial Base Modernization AIT	11.798	(1.855)	9.943			
FY06	IT Replacement	1.744		1.744			
FY06	INFRASTRUCTURE SERVER UPDATE	0.580		0.580			
FY06	IT/ADPE	2.752	(2.752)	0.000			Project Cancelled; reprogrammed to Agilent 30 Test Sys Upgrade
MINOR CONSTRUCTION							
FY06	Various Minor Construction < $750K	18.943	2.702	21.645			Reprogrammed from IT/ADPE and VCE <$500K
SOFTWARE							
FY06	LMP	6.350		6.350			
FY06	Army Workload and Performance System (AWPS)	3.915		3.915			
FY06	Industrial Base Modernization	10.606		10.606			
FY06	Industrial Base Modernization	0.079		0.079			
FY06	Common Operating Environment		2.250	2.250			Reprogrammed from SMA Common Operating Environment
	TOTAL	114.856		117.106			

Department of Army
Industrial Operations
FY 2007
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($ in Millions)

PROJECTS ON THE FY 2007 PRESIDENT'S BUDGET

FY	Approved Project Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/ Deficiency	Explanation
EQUIPMENT							
	EQUIPMENT - Replacemnt						
FY07	Various Capital Equipment - Replacement	23.428		23.428	21.708	(1.720)	Replacement Capability Total
	EQUIPMENT - Productivity						
FY07	Various Capital Equipment - Productivity	25.876		25.876	27.465	1.589	Productivity Capability Total
FY07	**EQUIPMENT-New Mission**						
	Various Capital Equipment-New Mission	1.400		1.400	0.968	(0.432)	New Mission Capability Total
FY07	**EQUIPMENT-Environmental**						
	Various Capital Equipment-Environmental	5.785		5.785	5.255	(0.530)	Environmental Capability Total
ADPE & TELECOMMUNICATIONS EQUIPMENT							
FY07	Miscellaneous ADPE < $500k	1.817		1.817	0.887	(0.930)	Requirements increase
FY07	Industrial Base Modernization AIT	17.498		17.498	10.000	(7.498)	Requirements decrease
FY07	Redundant LAN Backup				0.646	0.646	No prior submission/Approval of project
FY07	Information Technology Center	0.620		0.620	0.000	(0.620)	Project cancelled
FY07	Data Back-up System Modernization	0.538		0.538	0.000	(0.538)	Project cancelled
MINOR CONSTRUCTION							
FY07	Various Minor Construction <$750K	15.469		15.469	19.995	4.526	Requirements increase
FY07	Sprinkler System Addition Bldg 7				1.443	1.443	No prior submission/Approval of project
FY07	Install Automatic Sprinkler System Bldg 143				1.325	1.325	No prior submission/Approval of project
FY07	Sprinkler System Bldg 409				0.970	0.970	No prior submission/Approval of project
FY07	Sprinkler System Addition Bldg 501				0.823	0.823	No prior submission/Approval of project

Department of Army
Industrial Operations
FY 2007
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($ in Millions)

PROJECTS ON THE FY 2007 PRESIDENT'S BUDGET

FY	Approved Project Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/ Deficiency	Explanation
SOFTWARE							
FY07	LMP	6.350		6.350	25.620	19.270	Requirements Increase
FY07	Army Workload and Performance System (AWPS)	4.564		4.564	4.564	0.000	
FY07	Industrial Base Modernization ERP Software	0.079		0.079	0.000	(0.079)	Project rolled into Industrial Base Modernization
FY07	Industrial Base Modernization Software			0.000	7.500	7.500	No prior submission/Approval of project
FY07	Environmental Health/Safety				5.600	5.600	No prior submission/Approval of project
	TOTAL	103.425		103.425	134.769	31.344	

Department of Army
Industrial Operations
FY 2008
FY 2008/2009 Budget Estimate Submission

($ in Millions)

PROJECTS ON THE FY 2008/2009 PRESIDENT'S BUDGET

FY	Approved Project Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/ Deficiency	Explanation
EQUIPMENT							
FY08	**EQUIPMENT-Replacement** **Various Capital Equipment-Replacement**				22.401	22.401	No prior submission/Approval of project
FY08	**EQUIPMENT-Productivity** **Various Capital Equipment-Productivity**				8.798	8.798	No prior submission/Approval of project
FY08	**EQUIPMENT - New Mission** **Various Capital Equipment-New Mission**				1.969	1.969	No prior submission/Approval of project
FY08	**EQUIPMENT-Environmental** **Various Capital Equipment-Environmental**				0.313	0.313	No prior submission/Approval of project
ADPE & TELECOMMUNICATIONS EQUIPMENT							
FY08	Miscellaneous ADPE < $500k				0.534	0.534	No prior submission/Approval of project
FY08	Wireless Network Upgrade				0.710	0.710	No prior submission/Approval of project
FY08	Industrial Base Modernization AIT				12.200	12.200	No prior submission/Approval of project
MINOR CONSTRUCTION							
FY08	Various Minor Construction <$750K				12.018	12.018	No prior submission/Approval of project
SOFTWARE							
FY08	LMP				34.560	34.560	No prior submission/Approval of project
FY08	Army Workload and Performance System (AWPS)				5.064	5.064	No prior submission/Approval of project
FY08	Industrial Base Modernization Software				3.800	3.800	No prior submission/Approval of project
FY08	Environmental Health/Safety				2.500	2.500	No prior submission/Approval of project
	TOTAL				104.867	104.867	

Department of Army
Industrial Operations
FY 2009
FY 2008/2009 Budget Estimate Submission

($ in Millions)

PROJECTS ON THE FY 2008/2009 PRESIDENT'S BUDGET

FY	Approved Project Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/ Deficiency	Explanation
EQUIPMENT							
FY09	**EQUIPMENT-Replacement**				6.642	6.642	No prior submission/Approval of project
FY09	**EQUIPMENT-Productivity**				10.240	10.240	No prior submission/Approval of project
FY09	**EQUIPMENT-Environmental**				0.816	0.816	No prior submission/Approval of project
ADPE & TELECOMMUNICATIONS EQUIPMENT							
FY09	Miscellaneous ADPE < $500k				0.845	0.845	No prior submission/Approval of project
FY09	Industrial Base Modernization AIT				14.200	14.200	No prior submission/Approval of project
MINOR CONSTRUCTION							
FY09	Various Minor Construction <$750K				10.956	10.956	No prior submission/Approval of project
SOFTWARE							
FY09	LMP				24.600	24.600	No prior submission/Approval of project
FY09	Army Workload and Performance System (AWPS)				5.564	5.564	No prior submission/Approval of project
FY09	Industrial Base Modernization Software				5.600	5.600	No prior submission/Approval of project
FY09	Environmental Health/Safety				2.500	2.500	No prior submission/Approval of project
	TOTAL				81.963	81.963	