

DEPARTMENT OF THE ARMY

FISCAL YEAR (FY) 2009 BUDGET ESTIMATES

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FEBRUARY 2008



ARMY WORKING CAPITAL FUND

**Army Working Capital Fund
Fiscal Year (FY) 2009
Budget Estimates**

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ARMY OVERVIEW

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**Army Working Capital Fund
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Overview**

Background

The FY 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 Army (SMA) 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 weapon system readiness, sustainability of our operating forces, and Grow the Army.

The FY 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 pre-war levels. The sufficiency and predictability of resources remains a critical feature in forecasting and executing workload. This submission assumes that sufficient funding is available at the right time and with a certain amount of predictability. These assumptions are required in order to support the forces that execute the wartime mission, day-to-day operations, and efforts to prepare for the future.

Army Working Capital Fund Activity Groups

Both AWCF activity groups, SMA 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 Army (SMA)

The Supply Management activity group buys and maintains assigned stocks of spares and repair parts for sale to its customers, primarily Army operating units.

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This activity group is committed to supporting and building readiness for today and tomorrow's challenges, to include Grow the Army. The Army's equipment and operational readiness 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 for Army managed, non-Army managed, and pre-positioned war reserve materiel. The FY 2009 Budget Estimates incorporate assumptions for appropriations in support of the Global War on Terror (GWOT), Operation Iraqi Freedom, Operation Enduring Freedom, and Reset.

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 hard-iron 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 over five times higher than comparable peacetime rates. Equipment is also employed in harsh 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 goal of Reset is to undo the accumulative effects of repeated deployment in more than six years of combat operations. 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. These repair programs must continue throughout the current conflict and for an anticipated additional three years afterward. This budget submission incorporates depot workload assumptions associated with the Reset Program (GWOT funding) and day-to-day operations.

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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 Global War on Terror 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 AWCF civilian personnel posture reflects an overall decrease from FY 2008 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 reductions are BRAC related and are further discussed in the Supply Management section.

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Personnel	FY 2007	FY 2008	FY 2009
Supply Management			
Civilian End Strength	3,167	3,143	3,021
Civilian FTEs	3,167	3,143	3,021
Military End Strength	11	11	11
Military Average Strength	11	11	11
Industrial Operations			
Civilian End Strength	22,910	23,342	23,318
Civilian FTEs	22,142	23,545	23,693
Civilian OT Usage (% DLH)	24.7%	17.9%	17.0%
Productive Yield	1,599	1,615	1,611
Military End Strength	25	26	25
Military Average Strength	24	25	25
Total			
Civilian End Strength	26,077	26,485	26,339
Civilian FTEs	25,309	26,688	26,714
Military End Strength	36	37	36
Military Average Strength	35	36	36

Revenue

Revenue is an indicator of the volume of work completed by the Army Working Capital Fund (AWCF) activity groups.

(\$ Millions)	FY 2007	FY 2008	FY 2009
Supply Management			
Gross Sales	12,428.3	12,460.9	12,060.9
Less Credit	<u>2,314.6</u>	<u>2,451.6</u>	<u>2,483.8</u>
Net Revenue	10,113.7	10,009.3	9,577.1
Industrial Operations			
	<u>5,286.2</u>	<u>6,295.9</u>	<u>5,929.5</u>
Total	15,399.9	16,305.2	15,506.6

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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 2007	FY 2008	FY 2009
Supply Management	9,188.6	9,776.4	9,415.0
Industrial Operations	<u>5,403.9</u>	<u>6,369.4</u>	<u>6,094.4</u>
Total	14,592.5	16,145.8	15,509.4

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 Army Working Capital Fund (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. An activity group's financial performance is measured by comparing actual results to goals for NOR and AOR. The following table shows the NOR and AOR for both Supply Management and Industrial Operations.

(\$ Millions)	FY 2007	FY 2008	FY 2009
Supply Management			
Net Operating Result	489.3	41.5	(74.1)
Accumulated Operating Result	452.6	74.1	0.0
Industrial Operations			
Net Operating Result	(117.7)	(73.5)	(164.9)
Accumulated Operating Result	324.7	211.2	16.3

Cash Collections, Disbursements, and Net Outlays

The AWCF ended FY 2007 with a cash balance of \$2,279 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 2008 and FY 2009 are above the 10 day requirement of \$702.9 million for FY 2008 and

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\$743.6 million for FY 2009. Included in the cash balance is \$719.9M of supplemental funding received in January 2008. Not included in the cash balance is the additional Global War on Terror (GWOT) request that was submitted for FY 2008.

The Army Working Capital Fund does not plan any advance billings in this budget submission. In addition, there is no request in this budget 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 GWOT 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 \$7.8 billion at the end of FY 2007.

Cash (\$ millions)	FY 2007	FY 2008	FY 2009
Collections	15,256.7	16,079.3	15,409.8
Disbursements	<u>14,335.0</u>	<u>16,192.3</u>	<u>16,045.3</u>
Net Outlays from Operations	(921.7)	113.0	635.5
Direct Appropriation	627.8	724.9	102.2
Transfer Out	<u>145.7</u>	<u>420.0</u>	<u>0.0</u>
Total Net Outlays	(1403.8)	(191.9)	533.3
Cash Balance	2,279.1	2,471.0	1,937.7

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.

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Customer Rates	FY 2007	FY 2008	FY 2009
Supply Management	12.7%	13.0%	11.4%
Industrial Operations	\$148.91	\$167.73	\$161.66

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 2009 price change to customers reflects lower sales based on fewer deployed forces in support of Global War on Terror (GWOT) and Operation Iraqi Freedom (OIF). The negative FY 2009 Industrial Operations price change to customers results from the return of positive AOR.

	FY 2007	FY 2008	FY 2009
Supply Management	1.2%	2.4%	0.7%
Industrial Operations	14.2%	12.6%	(3.6)%

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.

(\$ Millions)	FY 2007	FY 2008	FY 2009
War Reserve Secondary Items	16.3	591.9	102.2
Inventory Augmentation	<u>611.5</u>	<u>133.0</u>	<u>0.0</u>
Total	627.8	724.9	102.2
GWOT Request for Fuel	0.0	1.3	0.0
GWOT Request for Spares	0.0	633.1	0.0

War Reserve Secondary Items – provide funding to procure and store war reserve inventory of secondary items supporting deployment of combat units.

Inventory Augmentation – provides funding for increased spares supporting higher demands driven by equipment operating tempo in OIF and for spares combat losses.

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GWOT Request for Fuel – provides funding offsetting the increased cost of fuel in the year of execution.

GWOT Request for Spares – provides funding for replenishment of stocks issued to combat units deploying to OIF. 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. Global War on Terror (GWOT) 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, GWOT funding is requested to augment the national inventory for increases in the demand for spares by deployed combat units.

Capital Budget Program

Army Working Capital Fund (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 activity group capital budget consists mostly of software development costs for Logistics Modernization Program (LMP) and Exchange Pricing. The Industrial Operations capital budget consists mostly of equipment purchases and software development for LMP. A more in-depth discussion is provided in each activity group's section and detail is provided in the Capital Budget section. The below table summarizes the AWCF capital investment program request.

(\$ Millions)	FY 2007	FY 2008	FY 2009
Supply Management	73.0	88.8	68.8
Industrial Operations	<u>133.1</u>	<u>213.8</u>	<u>216.9</u>
Total	206.1	302.6	285.7
Outlays	146.4	178.8	274.0

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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 investment budgeted in this submission. The amount invested is greater than the required minimums because of the excessive wear and tear on equipment and facilities that the five maintenance depots are experiencing with the current workload. Budgeted investment includes capital investments as well as purchases of equipment (below the capital budget threshold); maintenance and repair of facilities; equipment paid for by other appropriations; and military construction projects. For more detailed information see the Minimum Capital Investment schedule in the Capital Budget section of this submission.

(\$ Millions)	FY 2007 4%	FY 2008 5%	FY 2009 6%
Average Revenue	3,278.4	3,769.5	4,274.7
Investment Target	131.1	188.5	256.5
Budgeted Investment	196.8	345.7	385.2
Percent Invested	6%	9%	9%

Summary

The Army Working Capital Fund (AWCF) FY 2009 President's Budget 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 Global War on Terror (GWOT) funding will reach \$16.3 billion in FY 2008 and \$15.5 billion in FY 2009. Also requested in this budget is \$255.7 million to fund FY 2009 capital improvements. Further information about the AWCF request is in the following detailed narrative and exhibits for each activity group.

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OPERATING BUDGET
Supply Management

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**Army Working Capital Fund
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Supply Management**

Functional Description

The Supply Management activity group buys and manages 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's and tomorrow's challenges. The Army's equipment and operational readiness, and the strength to win the Nation's wars are directly linked to the availability of this materiel. This activity group is managed by the Life Cycle Management Commands (LCMC) of the Army Materiel Command (AMC).

Supply Management administers spares inventory for Army managed items, Non-Army managed items (NAMI), and war reserve secondary items. The following table displays the four major commodity groups within Supply Management: 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
AMCOM LCMC	Aviation and Missile Life Cycle Management Command Redstone Arsenal, Huntsville, AL	Aircraft and ground support items, missile systems items
C-E LCMC	Communications-Electronics Life Cycle Management Command Fort Monmouth, NJ	Communications and electronics items
TACOM LCMC	Tank-automotive and Armaments Life Cycle Management Command Detroit Arsenal, Warren, MI; Rock Island, IL; Natick, MA	Combat, automotive, and construction items and weapons
	Non-Army Managed Items (NAMI)	Materiel Managed
	Tank-automotive and Armaments Command, Rock Island, IL	DLA, GSA, and Other Service managed items: repair parts, industrial supplies, general supplies, and ground support supplies
	Prepositioned War Reserves	Materiel Managed
	AMC-MOB Army Sustainment Command (ASC) Rock Island, IL	DLA and GSA items: repair parts, clothing, subsistence, medical supplies, industrial supplies, and ground forces supplies

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Budget Highlights

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The FY 2009 Budget Estimates not only includes funding to train and maintain operational readiness, it also incorporates assumptions for appropriations in support of the Global War on Terror, Operation Iraqi Freedom (OIF), Operation Enduring Freedom (OEF), and restoring unit equipment returned from contingency operations (Reset). The FY 2008 estimate assumes OIF and OEF OPTEMPO activity approximately equal to FY 2007 levels. The FY 2009 estimate assumes OIF and OEF OPTEMPO activity below FY 2007 levels.

Personnel

FY 2008 and FY 2009 civilian end strength reductions are BRAC directed transfers to Defense Logistics Agency that relate to consumable items transfer, tires transfer, and spares acquisition functions.

	FY 2007	FY 2008	FY 2009
Civilian End Strength	3,167	3,143	3,021
Civilian Full Time Equivalents	3,167	3,143	3,021
Military End Strength	11	11	11
Military Average Strength	11	11	11

Sales

FY 2008 and FY 2009 sales are projected to increase above the FY 2008/2009 President's Budget because of higher OPTEMPO in OIF in FY 2008 and increased Reset activity in both FY 2008 and FY 2009. Sales reflect income from operations and do not include direct appropriations for war reserve materiel and inventory augmentation.

(\$ Millions)	FY 2007	FY 2008	FY 2009
Gross Sales	12,428.3	12,460.9	12,060.9
Less Credit for Returns	<u>2,314.6</u>	<u>2,451.6</u>	<u>2,483.8</u>
Net Sales	10,113.7	10,009.3	9,577.1

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Costs

FY 2008 and FY 2009 total costs are projected to increase \$1,288.4 million and \$1,390.4 million, respectively, above the FY 2008/2009 President's Budget in conjunction with the increased sales.

(\$ Millions)	FY 2007	FY 2008	FY 2009
Cost of Materiel Sold	8,071.4	8,593.0	8,167.2
Total Cost	9,188.6	9,776.4	9,415.0

Operating Results

The Army Working Capital Fund activity groups operate on a break-even basis during the budget cycle. The Army sets each activity's annual rate to bring Accumulated Operating Results (AOR) to zero in the budget cycle. Army is retaining \$420 million of positive AOR from FY 2007 operations to offset a Congressional directed cash transfer of \$420 million to Army Operation and Maintenance accounts in FY 2008. The revised estimates for revenue and costs impact the Net Operating Result (NOR) and AOR values shown in the FY 2008/2009 President's Budget. The following table displays NOR and AOR for Supply Management.

(\$ Millions)	FY 2007	FY 2008	FY 2009
Net Operating Result	489.3	41.5	(74.1)
Accumulated Operating Result	452.6	74.1	0.0

Rates

Activity cost recovery rates are set to recover full costs and adjust for AOR. 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.

The FY 2009 cost recovery rate and customer price change decreases are because of projected higher sales volume above the FY 2008/2009 President's Budget levels due to increased Reset activity in both FY 2008 and FY 2009.

(\$ Millions)	FY 2007	FY 2008	FY 2009
Total AMI Materiel Costs	9,766.1	9,807.9	9,751.5
Cost Recovery Rate (composite)	12.7%	13.0%	11.4%
Customer Price Change	1.2%	2.4%	0.7%
Purchase Inflation	2.4%	1.9%	2.0%

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Unit Cost

Unit cost is a ratio that relates resources consumed to outputs produced. The aim of unit cost is to directly associate total cost to the work or output. It is calculated by dividing gross operating cost (the sum of total obligations and credit) plus depreciation expense by gross sales. The FY 2008 unit cost increase to 1.008 from 0.986, as shown in the FY 2008/2009 President's Budget, is because of higher obligations in FY 2008 to support Reset activity in FY 2009. The lower unit cost in FY 2009 is because of higher projected sales due to anticipated Reset activity in FY 2009.

	FY 2007	FY 2008	FY 2009
Unit Cost	0.958	1.008	0.897

Cash Collections, Disbursements, and Net Outlays

FY 2007 collections include \$611.5 million of supplemental funding for replacement of spares lost in combat operations and for inventory augmentation to support higher demands in Operation Iraqi Freedom (OIF). FY 2008 and FY 2009 collections and disbursements correspond with activity assumptions associated with wartime requirements.

Collections in FY 2008 and FY 2009 increased by \$1,283.2 million and \$1,117.1 million, respectively, above the FY 2008/2009 President's Budget because of higher OPTEMPO in OIF in FY 2008 and increased Reset activity in both FY 2008 and FY 2009. Disbursements in FY 2008 and FY 2009 increased by \$1,319.6 million and \$1,578.9 million respectively, above the FY 2008/2009 President's Budget because of projected increased spares deliveries from vendors and repair facilities. This budget projects cash activities as follows:

(\$ Millions)	FY 2007	FY 2008	FY 2009
Collections from Operations	10,107.1	9,957.1	9,497.9
Disbursements from Operations	<u>8,929.1</u>	<u>9,897.8</u>	<u>9,919.3</u>
Net Outlays from Operations	(1,178.0)	(59.3)	421.4
Direct Appropriation	627.8	724.9	102.2
Supplemental	611.5	719.9	0.0
War Reserve Secondary Items	16.3	5.0	102.2
Transfer Out	145.7	420.0	0.0
Total Net Outlays	(1,660.1)	(364.2)	319.2

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Supply Management**

Performance Measurement

Supplying and maintaining the Army's equipment remain key components of readiness. The stock availability goal, a primary performance measure relating supply system ability to fill requisitions, is 85% demand satisfaction. As shown in the table below, stock availability improved from the 4th Quarter FY 2006 level of 84.4% to 87.4% in 4th Quarter FY 2007. During FY 2008 stock availability is expected to remain stable as materiel is received from vendors to satisfy operating forces and Reset supply requisitions. Maintaining stock availability above the 85% goal is necessary to support high demand levels from Operation Iraqi Freedom (OIF) and to ensure Army's Reset activities do not experience delays due to spares shortages.

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
FY 2006 Stock Availability	85.3%	85.6%	83.6%	84.4%
FY 2007 Stock Availability	84.1%	86.8%	87.4%	87.4%

The Army sets each activity's annual rate to bring Accumulated Operating Results (AOR) to zero in the budget cycle. The table below displays Net Operating Results and AOR for Supply Management.

(\$ Millions)	FY 2007	FY 2008	FY 2009
Net Operating Result	489.3	41.5	(74.1)
Accumulated Operating Result	452.6	74.1	0.0

Supply Management Workload

The data below represents key categories of interest in Supply Management. The stock requisitions filled in FY 2008 continue to reflect the increased requirements from OIF and our efforts to reduce the level of backorders. The decreases related to items managed, procurement receipts, and contracts awarded are because of BRAC directed transfer of consumable items to Defense Logistics Agency. The decreases in requisitions received and requisitions delivered are related to assumptions for lower OPTEMPO activity in OIF.

	FY 2007	FY 2008	FY 2009
Items Managed	119,604	119,604	114,986
Requisitions Received	1,408,000	1,406,000	1,170,000
Requisitions Delivered	1,721,000	1,715,000	1,464,000
Procurement Receipts	114,000	116,000	101,000
Contracts Awarded	11,000	11,000	9,000

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Supply Management**

Undelivered Orders

As shown in the following table, undelivered orders increase during FY 2008 as materiel is ordered from vendors in preparation for FY 2009 Reset activity. Undelivered orders from commercial suppliers and repair facilities exceeded \$7.6 billion at the end of FY 2007 and are expected to remain high through FY 2009. A sufficient cash balance is required to pay vendors upon receipt of these orders.

(\$ Millions)	FY 2006	FY 2007	FY 2008	FY 2009
Undelivered Orders	7,545	7,781	8,770	7,253

Direct Appropriations

War Reserve Secondary Items and Inventory Augmentation

The Army invests funding for war reserve secondary items (spares) to improve its ability to meet global missions by sustaining the deployed combat force until CONUS based re-supply commences. War Reserve equipment positioned without secondary items would significantly jeopardize the Army's ability to successfully complete its combat missions. The secondary items purchased for war reserves supports important combat weapon systems such as M1 Tanks, Bradley Fighting Vehicles, artillery howitzers, rocket launchers, and HMMWVs. These appropriated funds buy spares used to support both the deployed forces of today and the brigade combat teams of the future. FY 2008 supplemental funding of \$719.9 million has been appropriated (Division L of the Consolidated Appropriations Act) and an additional \$633.1 is in the balance of the FY 2008 Global War on Terror (GWOT) request.

(\$ Millions)	FY 2007	FY 2008	FY 2009
War Reserve Secondary Items	16.3	5.0	102.2
Supplemental Funding*			
Army Preposition Stocks	0.0	586.9	0.0
Spares, Combat Losses	331.0	63.0	0.0
Class IX Avionics Items	172.8	0.0	0.0
Black Hawk Spares	34.8	0.0	0.0
Spares, OIF Demands	<u>72.9</u>	<u>70.0</u>	<u>0.0</u>
Total Supplemental Funding*	<u>611.5</u>	<u>719.9</u>	<u>0.0</u>
Total Appropriated Funds	627.8	724.9	102.2
Remaining FY 2008 GWOT Request		633.1	

*FY 2007 is Supplemental Appropriation funding (Public Law 110-5, Revised Continuing Appropriations Resolution, 2007)
FY 2008 is Supplemental Appropriation funding (Public Law 110-161, Division L of the Consolidated Appropriations Act, 2008)

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Capital Budget

Supply Management seeks to maintain and develop new capabilities through automated data processing equipment and software acquisition. The Supply Management Capital Investment Program (CIP) primarily funds the development of software to improve managerial decision-making quality and timeliness. The Logistics Modernization Program (LMP) and exchange pricing continue as the main efforts of the CIP. The LMP 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. Additionally, the Supply Management CIP provides for local area networks, servers, desktop computers, high-speed printers, and a variety of software products that enhance program integration at operational sites. The planned capital obligations are shown below.

(\$ Millions)	FY 2007	FY 2008	FY 2009
Automated Data Processing Equipment	0.6	0.6	0.6
Software	<u>72.3</u>	<u>88.2</u>	<u>68.2</u>
Total	73.0	88.8	68.8

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

**Revenue and Expenses
(\$ in Millions)**

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Revenue			
AMI Sales	10,979.9	11,081.2	10,870.3
NAMI Sales	1,418.7	1,377.6	1,188.0
AMC MOB Sales	29.7	2.1	2.6
Total Gross Sales	12,428.3	12,460.9	12,060.9
Credit and Allowances	2,314.6	2,451.6	2,483.8
Net Sales	10,113.7	10,009.3	9,577.1
Other Income*	627.8	724.9	102.2
War Reserve-Secondary Items	16.3	591.9	102.2
Supplemental for Inventory Augmentation	611.5	133.0	
Total Income	10,741.4	10,734.2	9,679.3
Expenses			
Cost of Materiel Sold from Inventory			
AMI	6,623.0	7,213.3	6,976.7
NAMI	1,418.7	1,377.6	1,188.0
AMC MOB	29.7	2.1	2.6
Total Cost of Materiel Sold from Inventory	8,071.4	8,593.0	8,167.2
Inventory Losses/Obsolescence	135.5	129.9	129.1
Salaries and Wages	285.7	311.9	302.4
Military Personnel Compensation & Benefits	1.0	1.0	1.1
Civilian Personnel Compensation & Benefits	284.7	310.9	301.3
Travel & Transportation of Personnel	3.2	3.4	3.6
Materiel & Supplies (For Internal Operations)	1.1	1.1	1.1
Equipment	3.2	1.1	1.1
Other Purchases from Revolving Funds	240.1	308.2	327.9
Transportation of Things	130.8	136.5	135.3
Depreciation - Capital	19.2	20.4	41.6
Printing and Reproduction	7.3	0.1	0.1
Advisory and Assistance Services	27.6	21.1	21.5
Rent, Communication, Utilities & Misc. Charges	5.4	9.8	10.0
Other Purchased Services	258.0	239.9	274.1
Total Expenses	9,188.6	9,776.4	9,415.0

*FY 2007 Supplemental Appropriation funding (Public Law 11-5, Revised Continuing Resolution, 2007) \$611.5 million

FY 2008 Supplemental Appropriation funding (Public Law 110-161, Division L of the Consolidated Appropriations Act, 2008) \$719.9 million

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

**Revenue and Expenses
(\$ in Millions)**

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Operating Result	1,552.8	957.8	264.3
Less Recovery of Prior Year Pricing Discrepancies	(435.7)	(191.5)	(236.1)
Other Changes Affecting NOR			
Less Direct Funding	(627.8)	(724.9)	(102.2)
Net Operating Result	489.3	41.5	(74.1)
Prior Year AOR	(36.7)	452.6	74.1
Less Retained Earnings		(420.0)	
Accumulated Operating Result	452.6	74.1	0.0

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

**Source of Revenue
(\$ in Millions)**

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
1. New Orders			
a. Orders from DOD Components			
Department of Army			
Operation & Maintenance, Army	9,652.6	9,026.4	8,994.6
Operation & Maintenance, ARNG	607.9	671.1	579.5
Operation & Maintenance, AR	56.0	49.7	47.7
Subtotal, O&M	10,316.5	9,747.2	9,621.8
Industrial Operations Business	839.7	1,011.1	900.3
Procurement Appropriations	640.2	736.0	773.0
RDT&E	12.6	9.5	8.3
All Other Army	27.0	33.7	28.4
Subtotal, Department of the Army	11,836.0	11,537.5	11,331.8
Department of Navy	123.6	131.2	111.8
Department of Air Force	188.4	214.4	193.9
US Marine Corps	188.0	237.4	195.6
Other Department of Defense	55.1	50.9	41.7
Subtotal, Other DoD Services	555.0	633.9	543.0
b. Total DOD	12,391.0	12,171.4	11,874.8
c. Other Orders			
SSA	77.5	0.0	0.0
FMS	111.3	141.1	133.2
Map (002) Limitation	3.2	0.0	0.0
Other Federal Agencies	1.8	91.4	87.9
All Other	0.9	0.0	0.0
Subtotal, Other Federal Agencies	194.7	232.5	221.1
2. Total New Orders	12,585.7	12,403.9	12,095.9
3. Carry-In Orders (Back Orders From Prior Years)	1,385.6	1,543.0	1,486.0
4. Total Gross Orders	13,971.3	13,946.9	13,581.9
5. Less Carry out	1,543.0	1,486.0	1,521.0
6. Gross Sales	12,428.3	12,460.9	12,060.9
7. Less Credit and Allowances	2,314.6	2,451.6	2,483.8
8. Net Sales	10,113.7	10,009.3	9,577.1

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

**Summary by Division
(\$ in Millions)**

<u>Division</u>	<u>Net Customer Orders</u>	<u>Net Sales</u>	<u>Obligation Targets</u>		
			<u>Operating</u>	<u>Mob</u>	<u>Total</u>
Non-Army Managed Items (NAMI)					
FY 2007	1,583.7	1,373.4	1,418.7	0.0	1,418.7
FY 2008	1,371.8	1,379.0	1,379.0	0.0	1,379.0
FY 2009	1,199.6	1,183.7	1,183.7	0.0	1,183.7
Army Managed Items (AMI)					
Aviation					
FY 2007	3,293.6	3,483.4	2,514.2	0.0	2,514.2
FY 2008	3,122.2	3,018.6	2,798.0	0.0	2,798.0
FY 2009	2,673.2	2,607.7	2,405.2	10.4	2,415.6
Missiles					
FY 2007	275.1	269.9	204.9	0.0	204.9
FY 2008	253.1	260.1	167.3	0.0	167.3
FY 2009	234.8	236.4	143.6	7.9	151.5
Communications-Electronics					
FY 2007	1,457.8	1,531.0	1,543.5	2.2	1,545.7
FY 2008	1,523.4	1,609.1	1,296.0	0.0	1,296.0
FY 2009	1,418.1	1,433.4	1,081.5	25.8	1,107.3
Tank & Automotive					
FY 2007	3,643.8	3,438.5	2,832.8	3.0	2,835.8
FY 2008	3,679.6	3,740.4	3,338.9	0.0	3,338.9
FY 2009	4,086.5	4,115.9	2,274.3	36.6	2,310.9
Total AMI					
FY 2007	8,670.3	8,722.7	7,095.4	5.2	7,100.6
FY 2008	8,578.3	8,628.2	7,600.2	0.0	7,600.2
FY 2009	8,412.5	8,393.4	5,904.6	80.8	5,985.4
AMC Mobilization					
FY 2007	17.2	17.8	29.9	1.8	31.7
FY 2008	2.1	2.1	2.2	0.0	2.2
FY 2009	0.0	0.0	0.0	21.5	21.5
Cost of Operations					
FY 2007			962.5	0.0	962.5
FY 2008			1,033.0	0.0	1,033.0
FY 2009			1,077.2	0.0	1,077.2
Variability Target					
FY 2007			0.0	0.0	0.0
FY 2008			1,726.6	0.0	1,726.6
FY 2009			1,658.2	0.0	1,658.2
ESI					
FY 2007			5.2	0.0	5.2
FY 2008			64.0	0.0	64.0
FY 2009			65.4	0.0	65.4

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

**Summary by Division
(\$ in Millions)**

<u>Division</u>	<u>Net Customer Orders</u>	<u>Net Sales</u>	<u>Obligation Targets</u>		
			<u>Operating</u>	<u>Mob</u>	<u>Total</u>
Spares Augmentation*					
FY 2007			0.0	0.0	0.0
FY 2008			133.0	0.0	133.0
FY 2009			0.0	0.0	0.0
Army Preposition Stocks*					
FY 2007			0.0	0.0	0.0
FY 2008			0.0	586.9	586.9
FY 2009			0.0	0.0	0.0
Total Operating OA					
FY 2007			9,511.7	7.0	9,518.7
FY 2008			11,938.0	586.9	12,524.9
FY 2009			9,889.1	102.2	9,991.3
Capital OA					
FY 2007			73.0	0.0	73.0
FY 2008			88.8	0.0	88.8
FY 2009			68.8	0.0	68.8
Total					
FY 2007	10,271.1	10,113.8	9,584.6	7.0	9,591.6
FY 2008	9,952.2	10,009.3	12,026.8	586.9	12,613.7
FY 2009	9,612.1	9,577.1	9,957.9	102.2	10,060.1
Budget Authority					
War Reserve Authority					
FY 2007			0.0	16.4	16.4
FY 2008			0.0	5.0	5.0
FY 2009			0.0	102.2	102.2
Army Preposition Stocks					
FY 2007			0.0	0.0	
FY 2008			0.0	586.9	
FY 2009			0.0	0.0	
Inventory Augmentation					
FY 2007			611.5	0.0	611.5
FY 2008			133.0	0.0	133.0
FY 2009			0.0	0.0	0.0
Total Budget Authority					
FY 2007			611.5	16.4	627.9
FY 2008			133.0	591.9	724.9
FY 2009			0.0	102.2	102.2

* Public Law 110-161, Division L of the Consolidated Appropriations Act, 2008

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

**Operating Budget Requirements by Weapons System
(\$ in Millions)**

<u>Weapon System</u>	<u>FY 2007</u>	<u>NMCSR</u>	<u>FY 2008</u>	<u>NMCSR</u>	<u>FY 2009</u>	<u>NMCSR</u>
AH-64, Apache	614.1	1%	551.0	25%	512.8	25%
CH-47D, Chinook	610.9	2%	755.8	25%	614.3	25%
UH-60, Black Hawk	1,169.0	2%	1,397.1	25%	1,207.5	25%
OH-58D, Kiowa Warrior	141.0	2%	134.2	25%	112.6	25%
Other Aviation	312.6	2%	223.9	25%	203.4	25%
MLRS	8.1	3%	11.0	10%	8.9	10%
Patriot	106.6	1%	76.6	10%	50.6	10%
Other Missile	41.3	2%	51.9	10%	51.3	10%
Firefinder	306.1	2%	232.8	10%	188.6	10%
Night Vision Goggles	288.6	3%	175.8	10%	200.5	10%
SINCGARS	128.9	2%	149.5	10%	173.0	10%
Other Communication Electronics	536.8	3%	527.7	10%	320.2	10%
FMTV	20.8	3%	28.1	10%	26.7	10%
HEMTT	63.6	4%	114.2	10%	73.1	10%
HMMWV	256.0	1%	291.4	10%	261.7	10%
M109A6, Paladin	46.8	1%	37.3	10%	29.5	10%
M198, Towed Howitzer	7.9	1%	18.5	10%	7.2	10%
M1A1, Abrams Tank	654.9	3%	800.6	10%	368.5	10%
M1A2, Abrams Tank (SEP)	58.9	3%	93.0	10%	91.7	10%
M2/M3, Bradley Fighting Vehicle	437.4	2%	586.2	10%	219.3	10%
Stryker	0.1	2%	0.0	10%	22.7	10%
Other Tank - Automotive & Armament	1,285.0	2%	1,343.6	10%	1,160.6	10%
SUBTOTAL	7,095.4		7,600.2		5,904.6	
NAMI	1,418.7		1,379.0		1,183.7	
Spares Augmentation*	0.0		133.0			
Army Preposition Stocks*	0.0		586.9			
War Reserve Spares	5.2		0.0		80.8	
AMC-MOB	31.7		2.2		21.5	
TOTAL	8,551.0		9,701.3		7,190.5	

NMCSR -- Non Mission Capable Supply Rate

* Public Law 110-161, Division L of the Consolidated Appropriations Act, 2008

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

**Inventory Status
(\$ in Millions)**

	FY 2007			
	<u>Total</u>	<u>Mobil- ization</u>	<u>Operating</u>	<u>Other</u>
1. Inventory BOP	28,725.9	2,302.4	13,257.8	13,165.7
2. BOP Inventory Adjustments				
a. Reclassification (Memo)	0.0	(764.6)	1,664.4	(899.9)
b. Price Change Amount (Memo)	1,265.5	85.0	622.3	558.3
c. Adj. Inventory BOP (1+2A+2B)	29,991.5	1,622.8	15,544.5	12,824.1
3. Receipts at Standard/Cost	6,954.1	37.4	6,916.7	0.0
4. Sales at Standard/Cost	12,049.1	0.0	12,042.3	6.8
5. Inventory Adjustments				
a. Capitalization (+ or -)	(54.9)	31.7	2.8	(89.5)
b. Returns from Customers (+)	4,390.3	0.0	1,189.8	3,200.5
c. Returns from Customers Without Credit (+)	10,524.8	1.8	2,236.3	8,286.7
d. Returns to Suppliers (-)	(162.4)	0.0	0.0	(162.4)
e. Transfers to DRMO (-)	(2,865.0)	(0.0)	0.0	(2,865.0)
f. Issues/Receipt w/o Adj (+ or -)	(116.7)	0.0	(3.9)	(112.8)
g. Other	(3,846.8)	15.0	(959.8)	(2,902.0)
h. Exchange Price Inventory Adjustment (-)	0.0	0.0	0.0	0.0
i. Total Adjustments (5A thru 5H)	7,869.3	48.5	2,465.2	5,355.5
6. Inventory EOP	32,765.7	1,708.7	12,884.1	18,172.8
7. Inventory EOP, Revalued (LAC Discounted)	31,123.4	1,708.7	12,279.3	17,135.4
a. Economic Retention (Memo)	6,305.0	0.0	0.0	6,305.0
b. Contingency Retention (Memo)	8,823.4	0.0	0.0	8,823.4
c. Potential DOD Reutilization (Memo)	2,007.0	0.0	0.0	2,007.0
8. On Order EOP @ Cost	7,065.7	44.9	3,992.8	3,028.0

9. Narrative

The value shown under Other (line 5G) is the current estimate of the amount of the overstatement of inventory caused by the transfer of spares from distribution depots to supply support locations. Army has formed teams to analyze specific areas of the automated system process, identify erroneous transactions, and make appropriate corrections.

Communication-Electronics LCMC inventory is valued at Moving Average Cost (MAC). All other inventory is valued at Standard Price.

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

**Inventory Status
(\$ in Millions)**

	FY 2008			
	<u>Total</u>	<u>Mobil- ization</u>	<u>Operating</u>	<u>Other</u>
1. Inventory BOP	32,765.7	1,708.7	12,884.1	18,172.8
2. BOP Inventory Adjustments				
a. Reclassification (Memo)	0.0	2.5	2,410.1	(2,412.6)
b. Price Change Amount (Memo)	(233.7)	(1.5)	(162.0)	(70.2)
c. Adj. Inventory BOP (1+2A+2B)	32,532.0	1,709.7	15,132.2	15,690.0
3. Receipts at Standard/Cost	7,282.7	19.0	7,263.7	0.0
4. Sales at Standard/Cost	12,049.5	0.0	12,049.5	0.0
5. Inventory Adjustments				
a. Capitalization (+ or -)	(443.0)	2.4	(125.0)	(320.4)
b. Returns from Customers (+)	4,089.4	1.0	3,372.1	716.3
c. Returns from Customers Without Credit (+)	8,332.9	0.0	1,120.5	7,212.4
d. Returns to Suppliers (-)	(98.9)	0.0	0.0	(98.9)
e. Transfers to DRMO (-)	(3,550.9)	0.0	0.0	(3,550.9)
f. Issues/Receipt w/o Adj (+ or -)	(44.0)	0.0	0.0	(44.0)
g. Other	(4,673.8)	0.0	(571.6)	(4,102.2)
h. Exchange Price Inventory Adjustment (-)	0.0	0.0	0.0	0.0
i. Total Adjustments (5A thru 5H)	3,611.7	3.4	3,796.0	(187.7)
6. Inventory EOP	31,376.9	1,732.1	14,142.4	15,502.3
7. Inventory EOP, Revalued (LAC Discounted)	29,575.8	1,732.1	14,142.4	13,701.3
a. Economic Retention (Memo)	6,220.9	0.0	0.0	6,220.9
b. Contingency Retention (Memo)	5,917.2	0.0	0.0	5,917.2
c. Potential DOD Reutilization (Memo)	1,563.2	0.0	0.0	1,563.2
8. On Order EOP @ Cost	6,586.1	13.8	6,572.3	0.0

9. Narrative

The value shown under Other (line 5G) is the current estimate of the amount of the overstatement of inventory caused by the transfer of spares from distribution depots to supply support locations. Army has formed teams to analyze specific areas of the automated system process, identify erroneous transactions, and make appropriate corrections.

Communication-Electronics LCMC inventory is valued at Moving Average Cost (MAC). All other inventory is valued at Standard Price.

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

**Inventory Status
(\$ in Millions)**

	FY 2009			
	<u>Total</u>	<u>Mobil- ization</u>	<u>Operating</u>	<u>Other</u>
1. Inventory BOP	31,376.9	1,732.1	14,142.4	15,502.3
2. BOP Inventory Adjustments				
a. Reclassification (Memo)	0.0	14.1	1,642.8	(1,656.9)
b. Price Change Amount (Memo)	(12.4)	8.7	(48.0)	26.9
c. Adj. Inventory BOP (1+2A+2B)	31,364.5	1,754.9	15,737.2	13,872.3
3. Receipts at Standard/Cost	7,378.2	21.8	7,356.4	0.0
4. Sales at Standard/Cost	11,717.1	0.0	11,717.1	0.0
5. Inventory Adjustments				
a. Capitalization (+ or -)	(68.5)	0.0	44.5	(113.0)
b. Returns from Customers (+)	3,751.8	1.0	3,127.4	623.4
c. Returns from Customers Without Credit (+)	7,917.3	0.0	1,098.5	6,818.8
d. Returns to Suppliers (-)	(114.2)	0.0	0.0	(114.2)
e. Transfers to DRMO (-)	(3,505.5)	0.0	0.0	(3,505.5)
f. Issues/Receipt w/o Adj (+ or -)	(40.6)	0.0	0.0	(40.6)
g. Other	(3,633.2)	0.0	(274.1)	(3,359.1)
h. Exchange Price Inventory Adjustment (-)	0.0	0.0	0.0	0.0
i. Total Adjustments (5A thru 5H)	4,307.1	1.0	3,996.3	309.8
6. Inventory EOP	31,332.7	1,777.7	15,372.8	14,182.1
7. Inventory EOP, Revalued (LAC Discounted)	29,887.7	1,777.7	15,372.8	12,737.2
a. Economic Retention (Memo)	5,025.9	0.0	0.0	5,025.9
b. Contingency Retention (Memo)	6,148.5	0.0	0.0	6,148.5
c. Potential DOD Reutilization (Memo)	1,562.8	0.0	0.0	1,562.8
8. On Order EOP @ Cost	5,949.9	71.2	5,878.7	0.0

9. Narrative

The value shown under Other (line 5G) is the current estimate of the amount of the overstatement of inventory caused by the transfer of spares from distribution depots to supply support locations. Army has formed teams to analyze specific areas of the automated system process, identify erroneous transactions, and make appropriate corrections.

Communication-Electronics LCMC inventory is valued at Moving Average Cost (MAC). All other inventory is valued at Standard Price.

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

**War Reserve Materiel (WRM)
(\$ in Millions)**

FY 2007

	<u>Total</u>	<u>WRM Protected</u>	<u>WRM Other</u>
1. Inventory BOP	2,302.4	2,273.7	28.8
2. Price Change	85.0	85.0	0.0
3. Reclassification	(764.6)	(765.3)	0.7
4. Inventory Changes			
a. Receipts @ standard	39.2	37.1	2.1
(1) Purchases	37.4	35.3	2.1
(2) Returns from customers	1.8	1.8	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	46.7	46.7	0.0
(1) Capitalizations	31.7	31.7	0.0
(2) Gains and losses	0.0	0.0	0.0
(3) Other	15.0	15.0	0.0
5. Inventory EOP	1,708.7	1,677.2	31.6
Stockpile Costs			
1. Storage	2.0		
2. Manage	4.9		
3. Maintenance/Other	0.9		
Total Costs	7.8		
WRM Budget Request (Obligations @ cost)			
1. Additional WRM	5.0		
2. Replenishment WRM	29.7		
3. Repair WRM	0.0		
4. Assemble/Disassemble	0.0		
5. Other	0.0		
Total Request	34.7		

Narrative

War Reserve (WR) inventory is aligned to match what is reported in the Logistics WR reports.

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

**War Reserve Materiel (WRM)
(\$ in Millions)**

FY 2008

	<u>Total</u>	<u>WRM Protected</u>	<u>WRM Other</u>
1. Inventory BOP	1,708.7	1,677.2	31.6
2. Price Change	(1.5)	(1.4)	(0.1)
3. Reclassification	2.5	2.4	0.1
4. Inventory Changes			
a. Receipts @ standard	20.0	20.0	0.0
(1) Purchases	19.0	19.0	0.0
(2) Returns from customers	1.0	1.0	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	2.4	2.4	0.0
(1) Capitalizations	2.4	2.4	0.0
(2) Gains and losses	0.0	0.0	0.0
(3) Other	0.0	0.0	0.0
5. Inventory EOP	1,732.1	1,700.6	31.6
Stockpile Costs			
1. Storage	2.0		
2. Manage	5.1		
3. Maintenance/Other	0.9		
Total Costs	8.0		
WRM Budget Request (Obligations @ cost)			
1. Additional WRM	0.0		
2. Replenishment WRM	2.2		
3. Army Preposition Stocks*	586.9		
4. Repair WRM	0.0		
5. Assemble/Disassemble	0.0		
6. Other	0.0		
Total Request	589.1		

Narrative

War Reserve (WR) inventory is aligned to match what is reported in the Logistics WR reports.

* Public Law 110-161, Division L of the Consolidated Appropriations Act, 2008

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**War Reserve Materiel (WRM)
(\$ in Millions)**

FY 2009

	<u>Total</u>	<u>WRM Protected</u>	<u>WRM Other</u>
1. Inventory BOP	1,732.1	1,700.6	31.6
2. Price Change	8.7	8.8	(0.1)
3. Reclassification	14.1	13.9	0.2
4. Inventory Changes			
a. Receipts @ standard	22.8	22.6	0.2
(1) Purchases	21.8	21.6	0.2
(2) Returns from customers	1.0	1.0	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	1,777.7	1,745.8	31.9
Stockpile Costs			
1. Storage	2.0		
2. Manage	5.7		
3. Maintenance/Other	0.9		
Total Costs	8.6		
WRM Budget Request (Obligations @ cost)			
1. Additional WRM	102.2		
2. Replenishment WRM	0.0		
3. Army Preposition Stocks*	0.0		
4. Repair WRM	0.0		
5. Assemble/Disassemble	0.0		
6. Other	0.0		
Total Request	102.2		

Narrative

War Reserve (WR) inventory is aligned to match what is reported in the Logistics WR reports.

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**Price Change to Customer
(\$ in Millions)**

	FY 2007	FY 2008	FY 2009
1. Total AMI Materiel Cost	9,766.1	9,807.9	9,751.5
2. Less LAC Materiel Inflation Adjustment	116.7	204.1	202.8
3. Revised Gross Sales at Cost	9,649.4	9,603.8	9,548.7
4. Cost Recovery in Dollars	1,213.8	1,273.3	1,118.8
5. Change to Customers			
a. Previous Year's Cost Recovery Rate	12.7%	12.7%	13.0%
b. This year's Cost Recovery Dollars plus Inflation Adjustment divided by Revised Gross Sales at Cost	14.1%	15.4%	13.8%
c. Percent Change to Customer	1.2%	2.4%	0.7%

OPERATING BUDGET
Industrial Operations

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**Army Working Capital Fund
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Functional Description

The Army Working Capital Fund Industrial Operations (IO) activity group is comprised of thirteen government-owned and operated installation activities, each with unique core competencies. These include five depots, three arsenals, two munitions production facilities, and three storage sites.

The Army defines depot maintenance as the materiel maintenance or repair of equipment that requires the overhaul, upgrading, or rebuilding of parts, assemblies, or subassemblies. Depot Maintenance also includes equipment testing and reclamation. The five hard-iron depots (Anniston, Corpus Christi, Letterkenny, Red River, and Tobyhanna) are part of an enterprise of maintenance, modernization, and remanufacturing providers comprised of government and contract sources. Depot level workload represents the highest level of repair and rework in terms of technical complexity and scope.

The Army Arsenals provide capabilities not widely available in the private sector. Arsenals manufacture, renovate, and demilitarize an array of defense-related materiel and components. They provide the full range of ammunition maintenance services for the Department of Defense (DoD) and U.S. allies. Munitions plants produce large caliber ammunition, rockets, bombs, missiles, and incendiary devices. Storage sites receive, store, and issue ammunition or operational project stocks.

Ten of the thirteen activity groups provide installation base support for both internal operations and tenant activities. Corpus Christi and Crane are tenants on Navy installations and Rock Island receives installation base support from the Army Installation Management Command.

IO activities collaborate with the private sector using formal Public Private Partnership agreements to perform work or utilize facilities and equipment. Partnering with private industry leverages capacity, sustains core maintenance capabilities, provides access to facilities, and shares technical expertise in the workforce. On-going partnering arrangements include programs to: refurbish and upgrade tanks; reset Stryker; produce new parts for the M1 tank's turbine engine; and improve the performance of the T-700 helicopter engine overhaul line.

The five hard-iron depots are designated as Centers of Industrial and Technical Excellence (CITE) for the performance of core maintenance workload in support of the DoD and U.S. allies. The CITE designation provides authority to partner with or lease facilities to industry on programs relating to core maintenance expertise.

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In FY 2007, six Industrial Operations (IO) activities were awarded a total of eleven Shingo Prizes for Excellence in Manufacturing: three Gold, five Silver, and three Bronze. The Shingo Prize recognizes industry leaders who promote world-class business and manufacturing processes that enable on-time delivery and customer satisfaction. In addition, the prize recognizes the implementation of a continuous process improvement environment and lean world-class management practices.

Activity	Shingo Prize	Production Line
Anniston	Silver Bronze	Field Artillery Ammunition Supply Vehicle (FAASV) Gas Turbine 1500 Engine
Corpus Christi	Bronze	HH-60 Pavehawk
Letterkenny	Silver Bronze	HMMWV RECAP Power Generator
Red River	Gold Silver Silver	HMMWV Production Line HEMTT Power Train Bradley Power Train
Rock Island	Gold Silver	Forward Repair System Shop Equipment Contact Maintenance (SECM)
Tobyhanna	Gold	AN/TPQ-36

On-site examiners conducted the Shingo Prize evaluations and scored 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.

Activity Group Composition

The U.S. Army Materiel Command (AMC) is located at Fort Belvoir, Virginia. AMC serves as the management command for the IO activity group. 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.

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Major Subordinate Commands		Activity	IO Category
AMCOM LCMC	Aviation and Missile Life Cycle Management Command Redstone Arsenal, Huntsville, AL	Corpus Christi Letterkenny	Hard-Iron Depot Hard-Iron Depot
C-E LCMC	Communications-Electronics Life Cycle Management Command Fort Monmouth, NJ	Tobyhanna	Hard-Iron Depot
TACOM LCMC	Tank-automotive and Armaments Life Cycle Management Command Detroit Arsenal, Warren, MI; Rock Island, IL; Natick, MA	Anniston Red River Sierra Rock Island Watervleit	Hard-Iron Depot Hard-Iron Depot Ordnance Storage Arsenal Arsenal
CMA	Chemical Materiel Agency Aberdeen, MD	Pine Bluff	Arsenal
JM&L- LCMC	Joint Munitions & Lethality Life Cycle Management Command Rock Island, IL	Bluegrass Toole Crane Ammo Activity McAlester Ammo Plant	Ordnance Storage Ordnance Storage Munitions Production Munitions Production

Anniston Army Depot (ANAD) is located in Anniston, Alabama. ANAD is the only Army depot capable of performing maintenance on both heavy and light-tracked combat vehicles, and their components. The depot is designated as the Center of Industrial and Technical Excellence for the M1 Abrams Tank and is the primary depot for the repair of the Armored Vehicle Launched Bridge, M728 and M88 combat vehicles. ANAD also has responsibility for the towed and self-propelled artillery, the M113 Family of Vehicles, Stryker Reset, Small Arms, M9 ACE, GPS, and Opposing for Surrogate Vehicles. 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.

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Blue Grass Army Depot (BGAD) is located in Richmond, Kentucky. BGAD is a Tier I ammunition depot which receives, stores, issues, renovates, modifies, maintains, and destroys conventional munitions for all Department of Defense (DoD) Services. In addition, BGAD is a Tier I power projection platform for munitions, chemical defense equipment, and special operations support for all of DoD. Anniston Munitions Center is a subordinate unit under the command and control of BGAD. It is a multi-functional production facility and is a Tier II facility for conventional ammunition and a Tier I facility for missiles.

Crane Army Ammunition Activity (CAAA) is located in Crane, Indiana and is a tenant of the Crane Division, Naval Surface Warfare Center. CAAA is a Tier I ammunition storage site within the DoD, which stores war reserve ammunition. CAAA's mission is to produce and renovate conventional ammunition and ammunition-related components. This includes manufacturing, engineering, and product assurance in support of production. Other functions are storing, shipping and/or demilitarizing and disposing of conventional ammunition and related items. CAAA's diverse manufacturing capabilities allow for the production of detonators weighing only 20 grams to 40,000-pound cast shock test charges. 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. Letterkenny Munitions Center (LEMC) is a directorate under CAAA and is a tenant on Letterkenny Army Depot. LEMC stores, maintains, distributes, and demilitarizes conventional ammunition.

Corpus Christi Army Depot (CCAD) is located in Corpus Christi, Texas 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 DoD and U.S. allies. 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, MH-47, HH-60, 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.

Letterkenny Army Depot (LEAD) is located in Chambersburg, Pennsylvania. 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 maintenance, modification, storage, and demilitarization

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operations on tactical missiles and ammunition. In addition, Letterkenny Army Depot (LEAD) supports repair and maintenance programs on a multitude of generators and the Army's Recapitalization (RECAP) program for the High Mobility Multi-purpose Wheeled Vehicle (HMMWV) family. In response to Global War on Terror requirements, LEAD is rebuilding HMMWVs that are returning from theater and modifying them to support add-on armor.

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 Letterkenny Munitions Center.

McAlester Army Ammunition Plant (MCAAP) is located in McAlester, Oklahoma. MCAAP's mission is twofold; it continues to serve both as a Tier I munitions storage and maintenance depot, as well as, a production facility. MCAAP produces and renovates conventional ammunition, bombs, warheads, rockets, missiles, and 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 Red River Munitions Center (RRMC) is a directorate under MCAAP and is a tenant on Red River Army Depot in Texarkana, Texas. RRMC stores, maintains, and distributes conventional ammunition.

Pine Bluff Arsenal (PBA) is located in Pine Bluff, Arkansas. PBA produces, renovates, and stores over 60 different conventional ammunition products ranging in caliber from 40 mm to 175 mm. Specialties include production of munitions containing payloads for smoke, 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.

PBA has strengthened business initiatives by forming public/private 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). Key tenant activities include the Pine Bluff Chemical Activity, the Pine Bluff Chemical Agent Disposal Facility,

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752nd Explosive Ordnance Disposal Company, Technical Escort Unit, and the Pine Bluff Contracting Division.

Rock Island Arsenal-Joint Manufacturing and Technology Center (RIA-JMTC)

is located in Rock Island, Illinois. RIA-JMTC manufactures weapons, weapon components, and mobile maintenance systems. RIA-JMTC is noted for its expertise in the manufacture of weapons and weapon components that are provided for all Department of Defense (DoD) and U.S. allies. Every phase of development and production is available at RIA-JMTC. Specially trained machinists fabricate prototypes in the fully equipped prototype shop and the manufacturing complex is capable of limited initial production, to include spare and repair parts. RIA-JMTC is currently producing the M119A2 Howitzer, Forward Repair System and Shop Equipment Contact Maintenance, as well as manufacturing artillery, gun mounts, recoil mechanisms, small arms, aircraft weapon sub-systems, and weapons simulators. In addition, RIA-JMTC produces a host of spare and repair parts and also demilitarizes containers.

Red River Army Depot (RRAD) is located in Texarkana, Texas. RRAD conducts ground combat, air defense and tactical systems maintenance, certification and related support services worldwide for the Army, DoD components, and allied nations. RRAD is a designated activity for tactical and wheeled vehicles, Bradley Fighting Vehicle Series (BFVS), Multiple Launch Rocket System (MLRS) Chassis, Small Emplacement Excavator (SEE), and rubber products necessary for depot maintenance missions. Systems supported include the Bradley, MLRS, SEE, 5-ton dump truck, Heavy Expanded Mobility Tactical Truck (HEMTT), 25-ton crane, track and roadwheels, HMMWV, M800 and 900 series trucks and Patriot and Homing All the Way Killer (HAWK) missile systems. RRAD has two production directorates – Maintenance and Theater Readiness Monitoring (TRMD). The Maintenance Directorate has the only capability within the DoD for the remanufacture of roadwheel and track vehicle systems. TRMD has the only capability within DoD for recertification of Patriot and HAWK missile systems. RRAD is also actively engaged in restoring equipment returning from operations in Iraq and Afghanistan in support of the Global War on Terror.

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.

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Sierra Army Depot (SIAD) is located in Herlong, California. SIAD provides a complete range of logistics support, as the Center of Industrial and Technical Excellence for operational project stocks, including receipt, storage, repair, shipping, maintenance, containerization and fabrication of assets. In addition, SIAD supports critical Operational Project Systems including Deployable Medical Systems, Petroleum and Water Systems, Force Provider, strategic configured loads, and other items as directed. SIAD has also been identified as the redistribution point for all unmarked/undocumented containers of secondary items returning from South West Asia.

Tooele Army Depot (TEAD) is located in Tooele, Utah. TEAD is a Tier I ammunition depot that receives, stores, issues, renovates, modifies, maintains, and destroys conventional munitions for all Department of Defense (DoD) Services. TEAD provides America's joint fighting forces with munitions and Ammunition Peculiar Equipment in support of military missions before, during, and after any contingency. Storage capabilities at TEAD are some 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, Pennsylvania. TYAD is a communications and electronics (C-E), avionics, and missile guidance and control maintenance depot. 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. This provides for the maintenance, issue, and disposal of assigned commodities of DoD and other customers. TYAD also provides installation support to attached organizations and assigned operating facilities. TYAD is the Air Force Technology Repair Center for command, control, computers, and intelligence systems providing maintenance of radio and satellite communications; command, control and computers; air traffic control; surveillance; and range threat systems. TYAD is also actively engaged in resetting equipment returning from operations in Iraq and Afghanistan in support of the Global War on Terror.

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, Army Materiel Command Logistics

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Support Activity, Defense Reutilization and Marketing Office, and Air Force Liaison (with Ogden Air Logistics Center, Utah and Air Combat Command, Langley, Virginia).

Watervleit Arsenal (WVA) is located in Watervliet, New York and recognized as the premier cannon maker for the Army. WVA produces armaments, mortars, cannons, recoilless rifles, and howitzers for U.S. Forces. This includes all life cycle support elements from research & development through prototype, manufacturing, testing support, legacy system support, and technical expertise. The guns manufactured at WVA provide the firepower for the Army's main battlefield tank, the M1A1 Abrams.

Budget Highlights

Overview

The stress on Army equipment increased steadily during the past six years of war. Industrial Operations (IO) plays a central role in meeting the equipment needs of the nation for forces in Iraq, Afghanistan, at home, and upholding the full range of America's global commitments. IO is providing the Combatant Commanders with a wide range of equipment and capabilities that allow *boots on the ground* soldiers to perform essential combat and non-combat missions. The sufficiency and predictability of resources remains a critical variable in forecasting and executing IO workload.

This submission is a business plan that supports equipment readiness requirements associated with heightened global commitments and the continuing pace of the war. Production at the IO activities continues at elevated levels to support rapidly changing Warfighter needs and to reset the force. Workload to support the Global War on Terror (GWOT) is included to properly size the workforce and define facility and materiel requirements. The FY 2008 estimate assumes GWOT workload activity approximately equal to FY 2007 levels. The FY 2009 estimate assumes GWOT workload will decrease below FY 2007 levels. The five hard-iron depots comprise the largest portion of the workload and funding, accounting for approximately 80% of the revenue, expense, and workload for each budget cycle.

The accuracy of projecting GWOT workload requirements and customer funding levels increases as we approach the year of execution. Workload has been coordinated with IO customers for baseline and GWOT requirements. Each installation works with its customers to develop weapon system delivery schedules

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that support the wartime mission, enable day-to-day operations, and prepare for the future missions.

The Army must return units to pre-deployment levels of mission readiness and equip them at the standards required as part of the modular Army posture. Equipment that is damaged from battle or prolonged heavy use must be repaired and returned to the Army inventory. Increasing equipment materiel costs and extensive damage are a direct result of combat operations in Iraq and Afghanistan. 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 five times higher than comparable peacetime rates. The Army has Reset and recapitalization (Recap) programs in place to repair this equipment. These repair programs must continue throughout the current conflict and for an anticipated additional three years afterward.

The Army Reset program reverses the effects of combat stress on equipment and prepares equipment for future missions. Reset restores unit equipment to combat capability after it returns from contingency operations. Resetting units requires more than a one-time infusion of funds; it will require a sustained, predictable commitment of funds over time. IO workload also includes Recap of equipment. Under the Recap program, 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. All recapitalized equipment is in the Army’s future force structure.

The IO activity groups support wartime production levels by meeting production schedules while improving work flow processes. The following table shows output growth attributable to wartime activity.

Production Lines	Annual Pre-War	FY 2007 Actual	FY 2008 Planned
Aircraft	4	66	85
UH60 Main Rotor Blade	372	728	1,298
Bradley Fighting Vehicles	144	897	1,258
HMMWVs	< 100	9,344	11,767
M1 Series Combat Tank	125	488	681
M113 Family of Vehicles	34	482	559
Heavy Expanded Mobility Tactical Truck (HEMTT)	84	181	417

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Personnel

The Industrial Operations 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. Recognizing that wartime workload is not permanent, the activity group continues to staff most of this workload through a combination of term, temporary, and contractor field team employees.

The industrial installations also pursue workforce revitalization initiatives for the permanent workforce utilizing local cooperative agreements with colleges and trade schools. The Student Career Experience Program (SCEP) is active at several installations. SCEP is a three-tiered co-op program that begins with junior and senior high school students. The program is specifically designed to transition candidates to technical or trade schools resulting in permanent employment upon graduation. Various intern and apprentice programs are also ongoing.

	FY 2007	FY 2008	FY 2009
Civilian End Strength	22,910	23,342	23,318
Civilian FTEs	22,142	23,545	23,693
Military End Strength	25	26	25
Military Average Strength	24	25	25
Percentage of Overtime	24.7%	17.9%	17.0%

Revenue

Revenue, costs and operating results are driven by workload assumptions. This budget assumes a decrease in war-related workload from FY 2008 to FY 2009. Additionally, positive operating results from previous years are being given back to the customers via lower rates. These two adjustments reduce the revenue stream by \$366 million from FY 2008 to FY 2009.

The Army is not requesting Industrial Mobilization Capacity funding for this budget submission.

Costs

FY 2008 costs increase \$966 million above the FY 2007 actual costs and are directly attributable to additional workload budgeted in FY 2008.

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The costs are primarily for materiel, personnel, and contractor field teams. Estimated FY 2009 costs decrease \$275 million from FY 2008 and are consistent with projected workload and the forecast for FY 2009 revenue.

Operating Results and Rates (\$ Millions)	FY 2007	FY 2008	FY 2009
Revenue	5,286.2	6,295.9	5,929.5
Costs	5,403.9	6,369.4	6,094.4
Net Operating Results	(117.7)	(73.5)	(164.9)
Non-recoverable		(40.0)	(30.0)
Accumulated Operating Results	324.7	211.2	16.3
Customer Revenue Rate per Direct Labor Hour (\$/DLH)	\$148.91	\$167.73	\$161.66
Percent Change from Prior Year	14.2%	12.6%	(3.6%)
Unit Costs (\$/DLH)	\$175.91	\$194.53	\$193.44
DLH (000)	30,719	32,743	31,505

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. Changes in revenue and expenses from the previous submission result in changes to NOR and AOR in this submission.

Actual FY 2007 execution AOR was \$324.7 million. For FY 2008 and FY 2009, the Industrial Operations (IO) activities will retain AOR as non-recoverable to repair or replace production equipment that is wearing at an accelerated rate because of Global War on Terror workload. FY 2008 and FY 2009 end of year AOR estimates are \$211.2 million and \$16.3 million, respectively. AOR returned to customers in FY 2008 and FY 2009 results by setting the composite rate lower than the actual amount of cost.

The FY 2008 IO composite rate change from FY 2007 results from increasing materiel, personnel costs, and less AOR returned from previous years. Increasing materiel costs are attributable to higher standards required for recapitalization programs and maintenance requirements generated by deteriorated asset conditions caused by combat operations. The decrease in the FY 2009

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IO composite rate results from a higher amount of accumulated operating results returned to the customer through the rates.

Cash Collections, Disbursements, and Net Outlays

The following table displays projected cash outlays for Industrial Operations (IO). Collections and disbursements reflect workload assumptions which include Reset requirements and the return of accumulated operating results in FY 2008 and FY 2009.

(\$ Millions)	FY 2007	FY 2008	FY 2009
Collections	5,149.6	6,122.2	5,911.9
Disbursements	5,405.9	6,294.5	6,126.0
Net Outlays	256.3	172.3	214.2

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 Army Working Capital Fund activities forecast wartime requirements in budget estimates in order to properly reflect resources required (funding, personnel, equipment, and time) and set customer rates.

The IO activity group receives customer orders from various sources. Primary Army sources include: Operations and Maintenance; Procurement appropriations for end item (weapon system) work; and Supply Management Army activity group for secondary item (component part) work. In addition to Army sources, other Services, Defense Agencies, and Foreign Military Sales customers place orders.

The FY 2009 new order projections decrease based on current estimates of workload requirements and a lower customer rate. Workload requirements are dependent on the level of Global War on Terror (GWOT) funding appropriated in the year of execution. The level of supplemental funded workload totaled \$2,924.2 million in FY 2007 and GWOT workload is estimated at \$2,766.6 million and \$1,730.2 million in FY 2008 and FY 2009, respectively.

(\$ Millions)	FY 2007	FY 2008	FY 2009
New Orders	6,850.3	6,220.2	5,015.7
Allowable Carryover	2,752.4	2,619.6	1,975.7
Funded Carryover	3,029.5	2,922.7	2,073.2

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Actual funded carryover for FY 2007 exceeded the allowable amount by \$277.1 million. Carryover projections are also above the allowable amount in FY 2008 and FY 2009 by approximately \$303.1 million and \$97.4 million, respectively. Year of execution production is impacted by changes in the Operation Iraqi Freedom and Operation Enduring Freedom missions. Delayed or accelerated troop rotations, the timing of assets arriving from theater, and availability of parts and materials that have long acquisition or production lead times all can either increase or decrease carryover.

FY 2007 carryover above the allowable amount represents approximately two weeks of work at FY 2008 production levels. Funded carryover includes: orders received late in the fiscal year, orders requiring an unanticipated level of remanufacturing, and work for Public Private Partnerships (PPP) not scheduled for completion until the following fiscal year.

The Army is aggressively managing Industrial Operations production lines and is moving production schedules to the left to fill the Army's critical need for equipment. Production rates are being increased by; ensuring parts availability through partnering with supply chain operations, continuing Lean Six Sigma initiatives, hiring additional staff, and increasing capital investment. These actions are reviewed by senior Army leadership at weekly production updates and are driving down funded carryover and increasing revenue. FY 2008 workload estimates include an elevated level of manufacturing orders and anticipate PPP production schedules which cross the fiscal year boundary. FY 2009 funded carryover is budgeted at less than four days above allowable levels.

Based on ongoing aggressive strategic actions, Army expects actual FY 2008 and FY 2009 carryover will be less than projected and possibly under the allowable levels.

Performance Measurements

Performance measurements include the Net Operating Results , Accumulated Operating Results, and productive yield. The FY 2007 actual results and goals for FY 2008 and FY 2009 are shown on the following table.

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Measurements/Goal	FY 2007	FY 2008	FY 2009
NOR (\$M) (Achieve President's Budget Goal)	(117.7)	(73.5)	(164.9)
AOR (\$M) (Achieve President's Budget Goal)	324.7	211.2	16.3
Productive yield (Goal 1,615)	1,599	1,615	1,611

Working capital fund policy requires activities to set their rates in the budget years so that accumulated operating results (AOR) approaches zero and gains, or losses, are made up in the customer rates. 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. The customer rates in this budget produce an AOR very near to zero. Productive Yield is at or near the goals for both FY 2008 and FY 2009.

Business Process Improvements

The Industrial Operations 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 (ANAD) received the 2007 Silver Shingo Prize for the Field Artillery Ammunition Supply Vehicle line's 41% increase in the total units produced, 40.4% decrease in overtime hours, 33% decrease of direct labor hours, reduction in cycle time from 73 to 57 days and a cost savings of \$2.9 million. In addition, ANAD received the Bronze Shingo Prize for the Automotive Gas Turbine 1500 Engine line with a first pass yield improvement from 63% to 90%, 100% on time delivery and a cost savings in excess of \$17 million to-date.

**Army Working Capital Fund
Fiscal Year (FY) 2009 Budget Estimates
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- Corpus Christi Army Depot received the 2007 Shingo Bronze Prize for the Special Operations Forces HH-60 Pavehawk line which reduced average direct labor hour by 3,324 hours per aircraft with a cost avoidance of \$287 thousand.
- Letterkenny Army Depot (LEAD) received the 2007 Silver Shingo Prize for the HMMWV Recap line that increased throughput to 17 vehicles per day with a \$5.7 million annual cost reduction. In addition, LEAD also received the Bronze Shingo Prize for the power generator line which increased output from 118 a month to 500 a month with a labor savings of 83,349 direct labor hours which represents \$2.9 million since April of 2006.
- Red River Army Depot (RRAD) received 3 Shingo Prizes in 2007: 1 Gold and 2 Silver awards. They received the Gold Shingo Prize for the HMMWV production line which increased production from 3 vehicles per month to 32 vehicles per day and experienced a cost avoidance of \$3.89 million. In addition, RRAD received the Silver Shingo Prize for the Heavy Expanded Mobility Tactical Truck (HEMTT) and the Bradley Power-Train lines. The HEMTT line improved productivity from 2003 direct labor hours (DLHs) per vehicle to 1100 DLHs per vehicle, increased output from 13 to 32 vehicles per month and decreased lead time from 120 to 30 days. The Bradley Power-Train line reduced DLHs from 116 to 72.5 per unit, improved first pass yield from 86% to 98%, increased output from 2 to 6 units per day and reduced lead time from 7 to 3 days per unit.
- Rock Island Arsenal – Joint Manufacturing and Technology Center (RIA-JMTC) received the Gold 2007 Shingo Prize for a 40% reduction of manufacturing lead time for the Forward Repair System, resolution of 36 safety/ergonomic issues and 1 quality issue. They also increased production from 4 to 29 FRS units per month. In addition, RIA-JMTC received the Silver Shingo Prize for the Shop Equipment Contract Maintenance line completing 89 Foreign Military Sales one year ahead of schedule and increased production from 40 to 70 per month.
- Tobyhanna Army Depot received the 2007 Gold Shingo Prize for the AN/TPQ-36 Firefinder Antenna line reducing repair cycle time from 245 to 136 days and increasing production from 6 to 20 systems with a total cost avoidance of \$1.2 million.

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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.

Direct Appropriations

The Industrial Operations activity group did not receive a direct appropriation in FY 2007. The FY 2008 Global War on Terror Supplemental request included \$1.3 million for baseline fuel price increases. There is no direct appropriation requested for FY 2009.

Capital Budget Program

The Army Working Capital Fund capitalizes and depreciates any item with an acquisition cost equal to or greater than \$250,000 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) and Telecommunications; Minor Construction; and Software.

The capital budget reflects a significant increase from the FY 2008 President's Budget submission, increasing \$108.4 million and \$134.9 million in FY 2008 and FY 2009, respectively. At many activities the industrial equipment is outdated or worn out from workload associated with the Global War on Terror and is in need of replacement or repair. There is also a continuing need to acquire equipment and technology to accommodate new weapon systems coming into the depot programs, e.g. Stryker. Consequently, investment in new equipment, minor construction, and new technology acquisition at the five depots will be above the levels required in The National Defense Authorization Act for FY 2007. 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 2007	FY 2008	FY 2009
Equipment	54.0	127.8	119.9
ADPE & Telecommunications	11.5	14.3	25.0
Software	43.0	44.6	39.5
Minor Construction	<u>24.6</u>	<u>27.0</u>	<u>32.5</u>
TOTAL CIP *	133.1	213.8	216.9

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

**Army Working Capital Fund
Fiscal Year (FY) 2009 Budget Estimates
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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. Actual depot investment was 6% for FY 2007, and planned investment is 9% for FY 2008 and 2009.

(\$ Millions)	FY 2007	FY 2008	FY 2009
Investment Target	131.1	188.5	256.5
Investment Actual/Request	196.8	345.7	385.2
Amount above Target	65.7	157.2	128.7

**Army Working Capital Fund
Fiscal Year (FY) 2009 Budget Estimates
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**Revenue and Expenses
(\$ Millions)**

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Revenue			
Gross Sales:	5,286.2	6,295.9	5,929.5
Operations	5,241.0	6,241.2	5,871.4
Depreciation	45.2	54.7	58.1
Total Income:	5,286.2	6,295.9	5,929.5
Expenses			
Salaries and Wages:	1,712.9	1,796.8	1,850.6
Military Personnel Compensation & Benefits	2.8	3.0	3.0
Civilian Personnel Compensation & Benefits	1,710.1	1,793.8	1,847.6
Travel & Transportation of Personnel	32.5	37.7	38.5
Materials & Supplies (For Internal Operations)	2,204.7	2,907.4	2,652.5
Equipment	92.2	125.4	109.1
Other Purchases from Revolving Funds	123.1	122.0	114.9
Transportation of Things	27.2	25.9	26.6
Depreciation - Capital	45.2	54.7	58.1
Printing and Reproduction	1.2	1.9	1.9
Advisory and Assistance Services	108.2	122.4	122.2
Rent, Communication, Utilities, & Misc. Charges	100.5	103.8	105.1
Other Purchased Services	956.1	1,071.5	1,014.9
Total Expenses:	5,403.9	6,369.4	6,094.4
Revenue less costs incurred before extraordinary items	(117.7)	(73.5)	(164.9)
Net Operating Result	(117.7)	(73.5)	(164.9)
Recoverable AOR			
a. AOR Beginning of Year (Unadjusted)	437.8	324.7	211.2
b. +/- Prior Year Adjustments	4.6		
c. Equals AOR BOY (Adjusted)	442.4	324.7	211.2
d. +/- Net Operating Results	(117.7)	(73.5)	(164.9)
e. - Non-recoverable Amount		40.0	30.0
f. Equals Recoverable AOR EOP	324.7	211.2	16.3

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

**Source of Revenue
(\$ Millions)**

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
1. New Orders			
a. Orders from DoD Components:			
Department of Army			
Operations & Maintenance, Army	2,952.1	2,855.3	2,418.2
Operations & Maintenance, ARNG	50.7	56.7	63.6
Operations & Maintenance, AR	82.2	38.0	43.2
Subtotal, O&M:	3,085.0	2,949.9	2,524.9
Aircraft Procurement	75.5	11.5	7.0
Missile Procurement	2.6	0.1	0.1
Weapons & Tracked Combat Vehicles	292.6	240.9	167.3
Procurement of Ammunition	159.2	111.6	103.0
Other Procurement	778.5	651.6	217.8
Subtotal, Procurement:	1,308.4	1,015.8	495.3
RDTE	39.3	13.9	21.8
BRAC	69.5	28.1	37.0
Family Housing	3.0	1.9	1.8
Military Construction	0.2		
Chem Agents & Munitions Dest, Army	27.1	19.5	20.0
Other	33.6	3.7	0.7
Subtotal, Other Army:	172.7	67.0	81.3
Subtotal, Department of Army:	4,566.1	4,032.7	3,101.6
Department of Air Force O&M	108.1	68.1	68.3
Department of Air Force Investment	27.6	25.1	51.1
Department of Navy O&M	13.6	7.3	6.8
Department of Navy Investment	40.4	21.4	17.0
US Marines O&M	267.2	144.2	71.3
US Marines Investment	85.7	21.9	10.0
Department of Defense O&M		0.0	0.0
Department of Defense Investment	0.0		
Subtotal, Other DoD Services:	542.6	288.0	224.4
Other DoD Agencies	46.3	35.2	40.0
Subtotal, DoD Agencies:	46.3	35.2	40.0

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

**Source of Revenue
(\$ Millions)**

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
b. DWCF:			
Industrial Operations, Army	43.7	27.5	27.1
Supply Management, Army	1,299.0	1,497.7	1,338.8
Supply Management, Air Force	56.8	51.2	52.8
Supply Management, Navy	66.8	70.5	65.1
DECA	0.2	0.3	0.3
DFAS	0.7	0.3	0.3
DISA	1.7	1.7	1.7
DLA	43.5	27.3	25.5
Other	10.0	12.7	8.4
Subtotal, DWCF:	1,522.3	1,689.2	1,519.9
c. Total DoD	6,677.3	6,045.2	4,885.9
d. Other Orders:			
Other Federal Agencies	5.7	12.1	12.1
Foreign Military Sales	37.2	39.3	26.9
Nonappropriated	26.6	10.7	9.6
Non-Federal Agencies	103.4	112.9	81.2
Subtotal, Other Orders:	173.0	175.0	129.8
Total New Orders:	6,850.3	6,220.2	5,015.7
2. Carry-in Orders	2,236.0	3,800.2	3,724.4
3. Total Gross Orders	9,086.4	10,020.3	8,740.1
4. Revenue (-)	5,286.2	6,295.9	5,929.5
5. End of Year Work-inProcess (-)			
6. FMS, BRAC, Other Federal, and Non-Federal orders (-)	188.7	191.1	148.1
Crash Damage	161.0	164.0	167.3
4th Quarter Other Service Workload	147.5	167.9	137.8
Long Lead Items	79.3	80.8	82.4
Public Private Partnerships	194.2	197.9	201.9
7. Funded Carryover	3,029.5	2,922.7	2,073.2
8. Allowable Carryover	2,752.4	2,619.6	1,975.7
9. Over/Under Allowable Carryover	277.1	303.1	97.4

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

**Carryover Reconciliation
(\$ Millions)**

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
1. Net Carry-In	2,236.0	3,800.2	3,724.4
2. Revenue	5,286.2	6,295.9	5,929.5
3. New Orders	6,850.3	6,220.2	5,015.7
4. Exclusions:			
FMS	37.2	39.3	26.9
BRAC	69.5	28.1	37.0
Other Federal Depts & Agencies	5.7	12.1	12.1
Non-Federal and Others	130.1	123.6	90.8
Crash Damage	191.9	195.6	199.5
4th Quarter Other Service Workload	157.0	186.5	153.1
Long Lead items	79.9	81.4	83.0
Public Private Partnerships	232.4	197.9	201.9
5. Orders for Carryover Calculation	5,946.6	5,355.7	4,211.4
6. Weighted Composite Outlay Rate	54%	51%	53%
7. Carryover Rate	46%	49%	47%
8. Allowable Carryover	2,752.4	2,619.6	1,975.7
9. Balance of Customer Orders at Year End	3,800.2	3,724.4	2,810.6
10. Work-in-progress			
11. Exclusions:			
FMS	39.6	50.3	44.0
BRAC	69.1	65.1	65.1
Other Federal Depts & Agencies	3.3	3.9	3.8
Non-Federal and Others	76.8	71.8	35.3
Crash Damage	161.0	164.0	167.3
4th Quarter Other Service Workload	147.5	167.9	137.8
Long Lead items	79.3	80.8	82.4
Public Private Partnerships	194.2	197.9	201.9
12. Calculated Actual Carryover	3,029.5	2,922.7	2,073.2

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

**Changes in the Cost of Operations
(\$ Millions)**

	<u>Expenses</u>
FY 2007 Actuals	5,403.9
FY 2008 Estimate in President's Budget	6,746.1
Pricing Adjustments:	(12.2)
FY 2008 Pay Raise	
- Civilian Personnel	0.0
- Military Personnel	0.0
Inflation	(12.2)
Program Changes	(364.4)
Civilian Personnel Compensation	(292.8)
Material and Supplies	(197.6)
Equipment	58.4
Other Purchased Services	67.6
FY 2008 Current Estimate	6,369.4
Pricing Adjustments	123.5
Annualization of Prior Year Pay Raises	13.3
FY 2009 Pay Raise	38.6
-Civilian Personnel	38.5
-Military Personnel	0.1
Materials and Supplies	43.5
General Purchase Inflation	28.2
Productivity Initiatives and Other Efficiencies	(1.6)
Lean Program	(14.2)
Value Engineering Program	(0.4)
Reinvestment of Lean savings	13.0
Program Changes	(396.9)
Civilian Personnel Compensation	2.0
Materials and Supplies	(298.3)
Equipment	(18.8)
Other Purchases from Revolving Funds	(5.3)
Other Purchased Services	(76.5)
FY 2009 Budget Estimate	6,094.4

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

**Material Inventory
(\$ Millions)**

FY 2007

	<u>Total</u>	<u>Mobilization</u>	<u>Operating</u>	<u>Other</u>
Material Inventory BOP	338.3		338.3	
<u>Purchases</u>				
A. Purchases to Support Customer Orders (+)	2,185.6		2,185.6	
B. Purchase of long lead items in advance of customer orders (+)	103.8		103.8	
C. Other Purchases (list) (+)	10.3		10.3	
D. Total Purchases	2,299.7		2,299.7	
<u>Material Inventory Adjustments</u>				
A. Material Used in Maintenance (and billed/charged to customer orders) (-)	2,204.7		2,204.7	
B. Disposals, theft, losses due to damages (-)	25.7		25.7	
C. Other reductions (list) (-)	1.5		1.5	
D. Total inventory adjustments	2,231.9		2,231.9	
Material Inventory EOP	406.1		406.1	

FY 2008

	<u>Total</u>	<u>Mobilization</u>	<u>Operating</u>	<u>Other</u>
Material Inventory BOP	406.1		406.1	
<u>Purchases</u>				
A. Purchases to Support Customer Orders (+)	2,803.0		2,803.0	
B. Purchase of long lead items in advance of customer orders (+)	113.5		113.5	
C. Other Purchases (list) (+)	10.3		10.3	
D. Total Purchases	2,926.8		2,926.8	
<u>Material Inventory Adjustments</u>				
A. Material Used in Maintenance (and billed/charged to customer orders) (-)	2,907.4		2,907.4	
B. Disposals, theft, losses due to damages (-)	14.3		14.3	
C. Other reductions (list) (-)	1.5		1.5	
D. Total inventory adjustments	2,923.1		2,923.1	
Material Inventory EOP	409.8		409.8	

FY 2009

	<u>Total</u>	<u>Mobilization</u>	<u>Operating</u>	<u>Other</u>
Material Inventory BOP	409.8		409.8	
<u>Purchases</u>				
A. Purchases to Support Customer Orders (+)	2,526.9		2,526.9	
B. Purchase of long lead items in advance of customer orders (+)	120.1		120.1	
C. Other Purchases (list) (+)	9.1		9.1	
D. Total Purchases	2,656.1		2,656.1	
<u>Material Inventory Adjustments</u>				
A. Material Used in Maintenance (and billed/charged to customer orders) (-)	2,652.5		2,652.5	
B. Disposals, theft, losses due to damages (-)	14.2		14.2	
C. Other reductions (list) (-)	1.5		1.5	
D. Total inventory adjustments	2,668.2		2,668.2	
Material Inventory EOP	397.7		397.7	

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CAPITAL BUDGET

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Supply Management Capital Investment Summary

**Department of Army
Supply Management**

February 2008

(\$ in Millions)

Line No.	Description	FY07		FY08		FY09	
		Quantity	Total Cost	Quantity	Total Cost	Quantity	Total Cost
04-3	ADPE & Telecommunications Equipment Terminal Servers	1	0.611	1	0.611	1	0.611
	ADPE & TELECOM EQUIPMENT TOTAL	1	0.611	1	0.611	1	0.611
	SOFTWARE						
04-7	Exchange Pricing (EP)	1	6.195	1	7.554	1	10.762
00-2	Logistics Modernization Program (LMP)	1	59.780	1	80.640	1	57.400
06-02	System Change Request for LMP Systems for National Maintenance Management	1	6.364				
	SOFTWARE TOTAL	3	72.339	2	88.194	2	68.162
	Activity TOTAL	4	72.950	3	88.805	3	68.773
	Total Capital Outlays		27.700		29.074		77.177
	Total Depreciation Expense		19.213		20.362		41.600

SUPPLY MANAGEMENT INVESTMENT JUSTIFICATION ADPE & TELECOMMUNICATIONS EQUIPMENT (\$ in Thousands)							A. Budget Submission FY 2009 OSD/OMB Submission			
B. Component, Activity Group, Date Supply Management		C. Line No Feb-08 04-03		Item Description Terminal Servers			D. Activity Identification Various			
Element of Cost	Quantity	FY07			FY08			FY09		
		Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Terminal Servers	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	611.000	
Narrative Justification:										
<p>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.</p> <p>b. ANTICIPATED BENEFITS: The establishment of a Terminal Environment is the most cost-effective method for satisfying the 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.</p> <p>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 of individual computers. The status quo does not allow for a communal (or terminal) environment. In addition, there will be no deployment across AMC acquisition community.</p> <p>d. ECONOMIC ANALYSIS PERFORMED: Yes - Indicators included below</p> <p>e. FULLY OPERATIONAL CAPABLE DATE: FY 2011</p>										
ECONOMIC INDICATORS:										
Investment Cost: \$2,444.000		Present Value of Benefits:		5,249.000		Benefit to Investment Ratio:		3.148		Payback Period: 1.91

SUPPLY MANAGEMENT CAPITAL INVESTMENT JUSTIFICATION SOFTWARE (\$ in Thousands)								A. Budget Submission FY 2009 OSD/OMB Submission			
B. Component, Activity Group		Date	C. Line No		Item Description			D. Activity Identification			
Supply Management		Feb-08	04-07		Exchange Pricing (EP)			HQAMC G3			
Element of Cost		Quantity	FY07		FY08			FY09			
			Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	
Travel		1	75.000	75.000	1	30.000	30.000	1	31.000	31.000	
Contract Support		1	6,055.000	6,055.000	1	7,397.000	7,397.000	1	10,601.000	10,601.000	
Other Gvt.		1	65.000	65.000	1	127.000	127.000	1	130.000	130.000	
TOTAL		3		6,195.000	3		7,554.000	3		10,762.000	
<p>Narrative Justification:</p> <p>a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: OSD decision in 2001 directed the Army to implement Exchange Pricing (EP) for reparable repair parts to mitigate financial problems associated with excess credit provided through the supply business area. Process functionality required to implement EP in current logistical and financial systems does not exist. To rectify this shortcoming, EP will tie customer issues and carcass turn-ins together, and link unmatched returns to the financial billing process. EP is not a system nor does it replace a system but rather it is a series of system software changes to Logistics Modernization Program (LMP), Commodity Command Standard System (CCSS), Global Combat Supply System-Army (GCSS-A), Standard Army Retail Supply System (SARSS), Funds Control Module (FCM), Middle Ware (MW) and Logistics Integrated Warehouse (LIW).</p> <p>b. ANTICIPATED BENEFITS: The EP Interim Solution requested by ASA (FM&C) and ABO will require \$5,020,000 in FY07 and \$3,735,000 in FY08 for the tactical level. The majority of this funding will be used to implement Engineering Change Packages (ECPs) in SARSS, GCSS-A, FCM, MW and LIW. The remainder of the funding supports program management, integration testing, documentation, travel and training. This funding will provide the Army the ability to track issues to turn-ins, which is the most significant component of EP by 1 April FY08. At the national level, ECPs for LMP and CCSS are estimated at \$4,500,000 for FY07 and \$3,100,000 for FY08. As with the tactical level, the majority of funding is needed for ECP implementation and associated support. The EP Interim Solution is estimated to cost \$17 million. Due to the complexity of the national financial requirements, the IOC date was changed from April 08 to Jan 09 so LMP/CCSS programming changes could be accomplished. EP will stabilize credit for reparable secondary items, separate credit from OPTEMPO funding, enable a multiple price/exchange price structure, improve tracking of carcass returns to the supply system, reduce associated logistical and financial transactions and employee workloads, and reduce risk to AWCF cash flow by providing credit only where credit is due. An Economic Viability Analysis was performed by AMCOPS and certified by AMCRM-I. In general terms, expected benefits of EP include, but are not limited to : (1) Establish a two price IAW DoD FMR, EP for sale of reparable items in an exchange price transaction and continue sales at Standard Price for all other transactions; (2) Eliminate the management of unserviceable credit for reparable items for Army organizations; (3) For reparable items eliminate unserviceable credit and charge customers an EP discounted price that recovers all AWCF expenses for an exchange transaction and enforce the customer buy one, return one relationship.</p> <p>c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: Army will not comply with OSD directive.</p> <p>d. ECONOMIC ANALYSIS PERFORMED: No. Program is OSD directed.</p> <p>e. FULLY OPERATIONAL CAPABLE DATE: Initial Operating Capability - January 2009 Fully Operational Capability - January 2010</p> <p>f. MONTHLY DEPRECIATION ESTIMATE: \$374,750 per month.</p>											
ECONOMIC INDICATORS:											
Investment Cost: \$44,970.000		Present Value of Benefits:		N/A		Benefit to Investment Ratio:		N/A		Payback Period:	N/A

SUPPLY MANAGEMENT CAPITAL INVESTMENT JUSTIFICATION SOFTWARE (\$ in Thousands)							A. Budget Submission FY 2009 OSD/OMB Submission			
B. Component, Activity Group		Date	C. Line No		Item Description		D. Activity Identification			
Supply Management		Feb-08	00-2		Logistics Modernization Program - SMA		Army Materiel Command			
Element of Cost		Quantity	FY07		FY08		FY09			
			Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Contract		1	59,780.000	59,780.000	1	80,640.000	80,640.000	1	57,400.000	57,400.000
TOTAL		1		59,780.000	1		80,640.000	1		57,400.000
<p>Narrative Justification:</p> <p>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 inventory management requirements development work in LMP.</p> <p>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 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 Federal Financial Management Improvement Act (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.</p> <p>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.</p> <p>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.</p> <p>e. FULLY OPERATIONAL CAPABLE DATE: FY 2010</p>										
ECONOMIC INDICATORS:										
Investment Cost: \$379,531.000		Present Value of Benefits:		306,600.000	Benefit to Investment Ratio:		2.400	Payback Period:		N/A

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

PROJECTS ON THE FY 2008/2009 PRESIDENT'S BUDGET

<u>FY</u>	<u>Approved Project Title</u>	<u>Approved Project Amount</u>	<u>Reprogs</u>	<u>Approved Proj Cost</u>	<u>Current Proj Cost</u>	<u>Asset/Deficiency</u>	<u>Explanation</u>
AUTOMATED DATA PROCESSING							
FY07	Terminal Servers	0.611		0.611	0.611		
SOFTWARE							
FY07	Exchange Pricing	4.789	1.406	6.195	6.195		Requirements Increase
FY07	Logistics Modernization Program	59.780		59.780	59.780		
FY07	NMM Task Order 52	6.100	0.264	6.364	6.364		Requirements Increase
TOTAL		71.280	1.670	72.950	72.950	0.000	

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

PROJECTS ON THE FY 2008/2009 PRESIDENT'S BUDGET

FY	Approved Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/ Deficiency	Explanation
AUTOMATED DATA PROCESSING							
FY08	Terminal Servers	0.611		0.611	0.611		
SOFTWARE							
FY08	Exchange Pricing	8.959		8.959	7.554	(1.405)	Reprogrammed to FY07
FY08	Logistics Modernization Program	80.640		80.640	80.640		
TOTAL		90.210		90.210	88.805	(1.405)	

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

PROJECTS ON THE FY 2008/2009 PRESIDENT'S BUDGET

<u>FY</u>	<u>Approved Project Title</u>	<u>Approved Project Amount</u>	<u>Reprogs</u>	<u>Approved Proj Cost</u>	<u>Current Proj Cost</u>	<u>Asset/Deficiency</u>	<u>Explanation</u>
AUTOMATED DATA PROCESSING							
FY09	Terminal Servers	0.611		0.611	0.611		
SOFTWARE							
FY09	Exchange Pricing	10.762		10.762	10.762		
FY09	Logistics Modernization Program (LMP) SMA	57.400		57.400	57.400		
	TOTAL	68.773		68.773	68.773	0.000	

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT SUMMARY

Department of Army
Industrial Operations
February 2008
(\$ in Millions)

Line No.	Description	FY07		FY08		FY09	
		Quantity	Total Cost	Quantity	Total Cost	Quantity	Total Cost
05 - 13	EQUIPMENT CAPABILITIES						
	- Replacement	35	20.302	24	91.947	23	67.209
	- Productivity	26	27.465	28	33.595	48	47.319
	- New Mission	1	0.968	2	1.969	3	3.038
	- Environmental	4	5.255	1	0.313	2	2.296
	EQUIPMENT TOTAL	66	53.990	55	127.824	76	119.862
	ADPE & Telecommunications Equipment						
04 - 26	Miscellaneous ADPE	4	1.533	3	2.144	4	4.940
06 - 46	Automatic Identification Technology	3	10.000	4	12.200	3	16.910
09 - 01	Base Radio System					1	3.135
	ADPE & TELECOM EQUIPMENT TOTAL	7	11.533	7	14.344	8	24.985
	SOFTWARE						
00 - 02	Logistics Modernization Program	1	25.620	1	34.560	1	24.600
07 - 35	Environmental, Safety, and Occupational Health Program	2	5.600	1	2.500	1	2.500
04 - 16	Industrial Base Modernization Software	2	7.236	1	4.064	1	5.600
99 - 08	Army Workload Performance System	1	4.564	1	3.500	1	5.564
09 - 03	ASRS Baseline Rewrite for LAN Integration					1	0.495
09 - 04	Document Management Software System					1	0.732
	SOFTWARE TOTAL	6	43.020	4	44.624	6	39.491
	MINOR CONSTRUCTION						
05 - 26	Various Minor Construction \$100K <\$750K	44	19.995	28	27.042	50	32.544
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	48	24.556	28	27.042	50	32.544
	Activity TOTAL	127	133.099	94	213.834	140	216.882
	Total Capital Outlays		118.722		149.730		196.864
	Total Depreciation Expense		45.199		54.664		58.079

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION EQUIPMENT (\$ in Thousands)										A. Budget Submission FY2009 OSD/OMB Submission				
B. Component, Activity Group, Date Army, Industrial Operations Feb-08				C. Line No 05-13		Item Description Various Capital Equipment				D. Activity Identification Various Installations				
Element of Cost				FY07			FY08			FY09				
	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost		
Replacement				35		20,302.000	24		91,947.000			23	67,209.000	
Productivity				26		27,465.000	28		33,595.000			48	47,319.000	
New Mission				1		968.000	2		1,969.000			3	3,038.000	
Environmental				4		5,255.000	1		313.000			2	2,296.000	
TOTAL				66		53,990.000	55		127,824.000			76	119,862.000	
Narrative Justification:														
<p>a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: This represents equipment purchases costing more than \$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.</p> <p>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.</p> <p>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, increases man-hour expenditures, cause inability to meet production schedules, lead to excessive downtime, increase maintenance costs, and decrease accuracy and dependability.</p> <p>d. ECONOMIC ANALYSIS PERFORMED? Economic Analyses have been performed on individual projects when required and are available upon request.</p>														
ECONOMIC INDICATORS:														
Total Cost of the Project	\$301,676.000			Net Present Value of Benefits:	N/A			Benefit to Investment Ratio:	N/A			Payback Period:	N/A	

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION ADPE & TELECOMMUNICATIONS EQUIPMENT (\$ in Thousands)										A. Budget Submission FY2009 OSD/OMB Submission					
B. Component, Activity Group, Date Army, Industrial Operations Feb-08				C. Line No 04-26		Item Description Miscellaneous ADPE <\$1M			D. Activity Identification Various Installations						
Element of Cost				FY07			FY08			FY09					
				Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost			
Miscellaneous ADPE < \$1M				4		1,533.000	3		2,144.000	8		4,940.000			
TOTAL				4		1,533.000	3		2,144.000	8		4,940.000			
Narrative Justification:															
<p>a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: These miscellaneous information management projects replace old/obsolete and unreliable equipment with state-of-the-art equipment.</p> <p>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.</p> <p>c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: Systems and equipment will continue to be unreliable, downtime will increase and administrative costs 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.</p> <p>d. ECONOMIC ANALYSIS PERFORMED? Economic Analyses have been performed on individual projects when required and are available upon request.</p>															
ECONOMIC INDICATORS:															
Total Cost of the Project		\$8,617.000		Net Present Value of Benefits:		N/A		Benefit to Investment Ratio:		N/A		Payback Period:		N/A	

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION ADPE & TELECOMMUNICATIONS EQUIPMENT (\$ in Thousands)							A. Budget Submission FY2009 OSD/OMB Submission			
B. Component, Activity Group, Date		C. Line No	Item Description				D. Activity Identification			
Army Industrial Operations		Feb-08	06-46	Automatic Identification Technology (AIT)				Various		
Element of Cost		FY 07			FY 08			FY 09		
		Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Contract (252B)		1	5,400.000	5,400.000	1	7,549.000	7,549.000	1	6,800.000	6,800.000
Equipment(31T4)		1	3,600.000	3,600.000	1	4,051.000	4,051.000	1	4,345.000	4,345.000
Software (31TG)					1	600.000	600.000			
Equipment/IUID (314T)		1	1,000.000	1,000.000	1			1	5,765.000	5,765.000
TOTAL		3		10,000.000	4		12,200.000	3		16,910.000

NARRATIVE JUSTIFICATION:

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: The Army's five maintenance depots currently have extremely limited automatic identification technology (AIT) capability. Current automated capabilities do not tie into an Enterprise Resource Planning (ERP), nor do they send data to shop floor control systems or inventory/accountability systems. This requires industrial installations personnel to manually key data into systems, resulting in expenditure of many man-hours that could be used to perform other vital depot functions. AIT is an enabling technology that will be linked to an automated management network that includes communications and information security. This will allow use of the full potential of automated data and will result in significant improvements to the supply chain, maintenance, manufacturing, and remanufacturing business processes. The combination of AIT enablers with the automated information systems (AIS) will allow the tracking of materiel in motion and will provide real time data. This submission is to satisfy AIT needs and on-going AIT initiatives to meet the mandates for item unique identification (IUID), active and passive radio frequency identification (RFID), and Wide Area Workflow (WAWF). Presently, Army Materiel Command (AMC) depots/arsenals/plants do not have the required business process hardware to support the use of automated reporting in their respective shop floor operations. They are unable to capitalize on labor/production reporting and materiel 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 RFID and interface with the WAWF. They are unable to electronically accept vendor pallets and cases and report receipt to the WAWF.

b. ANTICIPATED BENEFITS: The FY07 AIT program implementation contract provides full operational capability (FOC) at Corpus Christi and Tobyhanna Army Depots as a completion to the FY06 initial implementation. It will provide for IUID hardware at Corpus Christi and Tobyhanna Army Depots. The AIT implementation contract will provide hardware acquisition, installation, test, and configuration of the middleware. This will establish a state-of-the-art FOC to automatically capture the source data required to fully use the potential of the Single Army Logistics Enterprise (SALE). The FY08 funds will continue the AIT program implementation contract. The AIT implementation contract will provide FOC at Letterkenny and initial operating capability (IOC) at Anniston and Red River Army Depots. The FY09 funds will continue the AIT program implementation contract by providing FOC at Anniston and Red River Army Depots as a completion to the FY08 initial implementation. FY09 funding will also provide FOC at Sierra Army Depot and will also provide IUID for the 13 AMC AWCF-funded industrial base organizations. This IUID capability is required to meet OSD mandates to mark tangible and real property in the possession of contactors. IUID hardware acquired will include laser parts marking equipment, verification devices, laser management software, and other capabilities. The FY 10 funds will provide AIT FOC at Watervliet, Rock Island, and Pine Bluff Arsenals.

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: Failure to fund would prohibit the Army from realizing many tangible (man-hours) and intangible (real time data) benefits inherent in implementing AIT. In addition, the Army will not conform to OSD mandated AIT, RFID, WAWF and IUID policies. Currently, the intense data requirements require diverting labor and productivity to manually inputting data.

d. ECONOMIC ANALYSIS PERFORMED? AIT was directed by OSD; therefore, an EA is not required. The policy reference, Acting OUSD (AT&L) Policy Memorandum dated 2 October 2003.

ECONOMIC INDICATORS:

Total Cost of the Project	\$96,301.000	Net Present Value of Benefits:	N/A	Benefit to Investment Ratio:	N/A	Payback Period:	N/A
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INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION ADPE & TELECOMMUNICATIONS EQUIPMENT (\$ in Thousands)										A. Budget Submission FY2009 OSD/OMB Submission	
B. Component, Activity Group, Date Army, Industrial Operations Feb-08				C. Line No 09-01		Item Description Base Radio System			D. Activity Identification TACOM-Anniston Army Depot		
Element of Cost	FY07			FY08			FY09				
	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost		
Base Radio System									1		3,135.000
TOTAL									1		3,135.000
<p>Narrative Justification:</p> <p>a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: Current Base Radio System (BRS) is the primary means of secure voice communications for emergency responders and the organizations involved in support to the Chemical Surety Program. The system also supports voice communications in production for the movement of combat vehicle material and spare parts. The current BRS uses trunked land mobile radio (TLMR) technology and is 10 years old. The original equipment was manufactured and purchased from Motorola in 1996 and has a ten year life cycle. Motorola has provided documentation (dated 28 September 2006) stating they will no longer provide life cycle/technical support after 31 December 2009.</p> <p>b. ANTICIPATED BENEFITS: New equipment is fully digital and provides packet-switched technology improving secure voice communications by allowing more channels and network users to be supported with less system administration and a cost savings in infrastructure maintenance from radio technicians. Anniston Army Depot (ANAD) will be in compliance with Army Regulation (AR) 50-6, Nuclear and Chemical Weapons and Materiel, Chemical Surety, 26 June 2001. This project will provide state-of-the-art sirens and a more reliable radio frequency (RF) communications infrastructure to increase the reliability and coverage. The system will also provide compatibility standards with other civilian and government agencies. The new system will allow for over-the-air programming of mobile and portable radios. The new BRS will provide increased radio channel management, fast and reliable communications protocol, advanced internet protocol (IP) based system architecture through a complete operating system upgrade, dispatch functionality to improve the management of radio users, ensures secure message reliability, provides additional alarms and diagnostics and includes network security and anti-virus protection. The BRS is critical to the mission support of ANAD. The BRS infrastructure support the emergency outdoor warning system which also supports local civilians, etc.</p> <p>c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: If the existing BRS is not replaced and upgraded, there is a very high likelihood of a an emergency response communications failure. During that time personnel would be subjected to extreme safety, health and security risks.</p> <p>d. ECONOMIC ANALYSIS PERFORMED? No economic analysis was prepared for this project as it qualifies 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.</p>											
ECONOMIC INDICATORS:											
Total Cost of the Project	\$3,135.000	Net Present Value of Benefits:		N/A	Benefit to Investment Ratio:		N/A	Payback Period:		N/A	

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION SOFTWARE DEVELOPMENT (\$ in Thousands)										A. Budget Submission FY2009 OSD/OMB Submission			
B. Component, Activity Group, Date Army, Industrial Operations Feb-08				C. Line No 00-02		Item Description Logistics Modernization Program (LMP)				D. Activity Identification PEO EIS			
Element of Cost				FY07			FY08			FY09			
				Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	
Contract				1	25,620.000	25,620.000	1	34,560.000	34,560.000	1	24,600.000	24,600.000	
TOTAL				1		25,620.000	1		34,560.000	1		24,600.000	
Narrative Justification:													
<p>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 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.</p> <p>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 (hardware (H/W) or software (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. Army Materiel Command (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 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). 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.</p> <p>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.</p> <p>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.</p>													
ECONOMIC INDICATORS:													
Investment Cost:				\$ 137,987.000 Present Value of Benefits:				\$306,600.000 Benefit to Investment Ratio:				2.400 Payback Period:	N/A

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION SOFTWARE DEVELOPMENT (\$ in Thousands)										A. Budget Submission FY2009 OSD/OMB Submission		
B. Component, Activity Group, Date Army, Industrial Operations Feb-08				C. Line No 07-35		Item Description Environmental, Safety, and Occupational Health Program				D. Activity Identification Various Installations		
Element of Cost	Quantity	Unit Cost	Total Cost	FY07			FY08			FY09		
				Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Accident Incident Management (AIM)				1	2,500.000	2,500.000	1	2,500.000	2,500.000	1	2,500.000	2,500.000
Reference Library				1	3,100.000	3,100.000						
TOTAL				2		5,600.000	1		2,500.000	1		2,500.000
<p>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).</p> <p>b. ANTICIPATED BENEFITS: ESOHP 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 and 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 and affected parties (identifies contact list & criteria for contact, option for automatic contact), tools to analyze event (analyze contaminants, dispersion modeling, material and personnel resource allocation/depletion, etc), and tracks resource expenditures. Post incident investigation provides tools to identify causes and analyze trends, identify corrective action, follow-up on corrective actions and make internal and 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). 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 Secretary of Defense's goal to reduce lost workdays by 50% and support AMC Commanding General's #1 priority - Safety. SALE provides a critical component to production and capacity planning for AMC depot maintenance and munitions production.</p> <p>c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: AMC will continue to have non-standardized metrics for safety, impairing the Command's ability to manage safety risks. LMP will continue to be in non-compliance with the BEA implementing ESOHP now provides for functionality required to comply with DOD 5000.1 and DoDD 4515.1E "Environmental, Safety and Occupational Health."</p> <p>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.</p>												
ECONOMIC INDICATORS:												
Investment Cost:	\$10,600.000	Present Value of Benefits:	N/A	Benefit to Investment Ratio:	N/A	Payback Period:	N/A					

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION SOFTWARE DEVELOPMENT (\$ in Thousands)	A. Budget Submission FY2009 OSD/OMB Submission
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B. Component, Activity Group, Date Army, Industrial Operations Feb-08	C. Line No 04-16	Item Description Industrial Base Modernization (IBM)	D. Activity Identification Various
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Element of Cost	FY07			FY08			FY09		
	Qty	Unit Cost	Total Cost	Qty	Unit Cost	Total Cost	Qty	Unit Cost	Total Cost
MES Contract/Labor	1	3,836.000	3,836.000	1	4,064.000	4,064.000	1	5,600.000	5,600.000
Software	1	3,400.000	3,400.000						
TOTAL	2		7,236.000	1		4,064.000	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 the loss of the 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. FY09 funds will cover the manufacturing execution system (MES) interface to LMP to achieve full operational capability for all five maintenance depots. It will require \$20.9M to achieve FOC by FY11 in the maintenance depots. On-going initiatives that include Automatic Identification Technology (AIT) and Manufacturing Execution System (MES) will provide for a combination of AIT enablers with the automated information systems (AIS) to track materiel in motion, provide for real time data and management of the end-to-end business processes in an industrial plant. The lack of interfaces and data feeds from the existing legacy systems and also from the Logistics Modernization Program (LMP) will not allow the depots to achieve full potential of real-time information unless required interfaces and data feeds are provided.

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 limited to shipping and receiving, work in progress, tool and 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 functionality that include disassembly, disposition, repair, assembly and part and asset serialization and component tracking. MES has the ability to capture data in real time enabling better shop floor decision making. MES 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. MES will reduce automation sustainment costs, software fees, and system infrastructure requirements at each maintenance depot. MES will also ensure a common operating environment exists throughout the depot maintenance community. MES provides increased asset visibility and facilitates lean remanufacturing and the incorporation of DOD Item Unique Identification (IUID) requirements as well as helping to reduce total ownership cost, given that MES is an integrated solution it will be able to turn off local unique applications thereby reducing overall sustainment cost, which will adversely affect the depot rates and therefore the cost to the warfighter. The real-time information on the shop floor will reduce the loss of work in process visibility causing material cost escalation and labor costs increases caused by continuous causative research.

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: Failure to complete this project will result in the continuation of relying on numerous unique legacy systems without benefits of real-time information to the shop floor. 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 and RESET programs.

d. ECONOMIC ANALYSIS PERFORMED: Yes, the EA was performed and completed in May 06.

ECONOMIC INDICATORS:
Investment Cost: \$ 39,131.497 Present Value of Benefits: \$ 91,242.758 Benefit to Investment Ratio: 2.332 Payback Period: 5.520

**INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION
SOFTWARE DEVELOPMENT
(\$ in Thousands)**

A. Budget Submission
FY2009
OSD/OMB Submission

B. Component, Activity Group, Date
Army, Industrial Operations

Feb-08

C. Line No
99-08

Item Description
Army Workload and Performance System (AWPS)

D. Activity Identification
Various Installations

Element of Cost				FY07			FY08			FY09		
	Quantity	Unit Cost	Total Cost									
Army Workload and Performance System (AWPS)				1		4,564.000	1		3,500.000	1		5,564.000
TOTAL				1		4,564.000	1		3,500.000	1		5,564.000

Narrative Justification:

- a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS:** General 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 Major Subordinate Commands (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.

ECONOMIC INDICATORS:

Investment Cost: \$49,107.000 Present Value of Benefits: N/A Benefit to Investment Ratio: N/A Payback Period: N/A

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION SOFTWARE DEVELOPMENT (\$ in Thousands)									A. Budget Submission FY2009 OSD/OMB Submission														
B. Component, Activity Group, Date Army, Industrial Operations Feb-08				C. Line No 09-03		Item Description Automated Storage Retrieval System			D. Activity Identification Tobyhanna Army Depot														
Element of Cost				Quantity			Unit Cost			Total Cost													
				FY08			FY09																
				Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost											
ASRS							1					495.000											
TOTAL							1					495.000											
<p>Narrative Justification:</p> <p>a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: The current system does not meet the hardware/software requirements that require network security protection with operating system parameters. Current usage of the existing system is in direct violation of 10 June 03 NETCOM Memorandum Directive.</p> <p>b. ANTICIPATED BENEFITS: The Automated Storage Retrieval System (ASRS) performs the Retail Receiving and Retail Distribution functions for Tobyhanna Army Depot (TYAD), inclusive of credit card purchases, local contracts, and all remaining Maintenance Shop Floor (MSFS) requisitions. Receipts, stores, and issues turn-in material for TYAD. Responsible for the movement of property book material upon it's turn-in. receives, store, and issues all material.</p> <p>c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: TYAD LAN ASRS will not meet 10 June 03 NETCOM Memorandum Directive that allows TYAD ASRS to interconnect with the Army Enterprise structure (AIE). This inability for TYAD to connect and operate mission functions with AIE will continue to generate inefficiencies to the War Fighter trying to get weapon systems repaired. The guidelines provided in the AIE implementation Memorandum dictate that the ASRS LAN must be upgraded prior to connection to any Army Enterprise Structure. Current usage of the existing system is in direct violation of this directive.</p> <p>d. ECONOMIC ANALYSIS PERFORMED? No economic analysis was prepared for this project as at qualifies 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.</p>																							
ECONOMIC INDICATORS:																							
Investment Cost:			\$495.000			Present Value of Benefits:			N/A			Benefit to Investment Ratio:			N/A			Payback Period:			N/A		

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION SOFTWARE DEVELOPMENT (\$ in Thousands)										A. Budget Submission FY2009 OSD/OMB Submission					
B. Component, Activity Group, Date Army, Industrial Operations Feb-08				C. Line No 09-04		Item Description Document Management Software System			D. Activity Identification Pine Bluff Arsenal						
Element of Cost				FY08			FY09								
				Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost			
Document Management Software System										1		732.000			
TOTAL										1		732.000			
<p>Narrative Justification:</p> <p>a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: Currently, there is no document management system in place at Pine Bluff Arsenal (PBA). In most cases, the document creator is responsible for making sure the document is carried around for review and approval. This process can take anywhere from a day to weeks depending on the complexity of the document and if the individuals are in their office or if they have authorized someone else to review and approve. With the current way of doing business the document creator has a lot of information to track, not including their normal daily duties. This makes the process accessible to human error. As a result, you have many incidences where the obsolete version of a document is circulated for use, documents being changed without notification, or important procedures being out of date because the annual review was neglected or forgotten. This software will provide an automated system of approval, tracking, and storing documentation at PBA.</p> <p>b. ANTICIPATED BENEFITS: The document management software will automate business processes. Allowing documents that must be approved and periodically reviewed to be electronically circulated to the proper individual, reducing the non-value added time associated with physically taking the document around. The system will also provide version control for all stored documents eliminating the uncertainty of knowing if a document is current or obsolete. The system will eliminate documents such as standard operating procedures (SOP's) from expiring because the annual review was not scheduled. The system will also allow individuals to determine how long documents have set in a certain location as well as send out notifications to the proper individuals of the document's time in that location has expired. In addition, the system will provide the necessary controls and audit trails for ISO 9001:2000 regulatory compliance. Lastly, the new system will run on PBA's existing infrastructure and support 250 users.</p> <p>c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: PBA will continue to experience non-value added time due to the inefficiency of the manual document management system. PBA will continue to experience untimely reviews of documents, due to the fact that all documents needing approval have to be hand delivered to the approving parties. Currently there is no method of tracking how long a document sits on someone's desk awaiting approval or review. The ISO program could also be negatively affected by possible documentation loss or having documents that have expired because of inadequately track documents through their life cycles.</p> <p>d. ECONOMIC ANALYSIS PERFORMED? Yes, the EA was performed and completed in Jan 07.</p>															
ECONOMIC INDICATORS:															
Investment Cost:				\$732.000	Present Value of Benefits:				\$1,011.164	Benefit to Investment Ratio:		1.381	Payback Period:		3.974

INDUSTRIAL OPERATIONS CAPITAL INVESTMENT JUSTIFICATION										A. Budget Submission			
MINOR CONSTRUCTION										FY2009			
(\$ in Thousands)										OSD/OMB Submission			
B. Component, Activity Group, Date				C. Line No		Item Description				D. Activity Identification			
Army, Industrial Operations				01-Feb-08		05-26		Various Minor Construction <\$750K				Various Installations	
Element of Cost				FY07			FY08			FY09			
	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	
Minor Construction \$100K < \$750K				48		24,556.000	28		27,042.000	50		32,544.000	
TOTAL				48		24,556.000	28		27,042.000	50		32,544.000	
Narrative Justification:													
<p>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, modernized, additions, to renovation of, existing facilities. The construction projects are for additions or modifications to meet mission needs and quality of life improvements (safety/environmental concerns).</p> <p>b. ANTICIPATED BENEFITS: The projects will increase productivity and allow for quality of life improvements. Specifically, with a couple projects the efficiency of the mission work will improve with improved plant layout, better electrical distribution, improved lighting and heating, ventilation and air conditioning. The projects specific to quality of life improvements, will improve worker morale, and eliminate potential health and safety concerns.</p> <p>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.</p> <p>d. ECONOMIC ANALYSIS PERFORMED? Economic Analyses have been performed on individual projects when required and are available upon request.</p>													
ECONOMIC INDICATORS:													
Total Cost of the Project	\$84,142.000		Net Present Value of Benefits:	N/A		Benefit to Investment Ratio:	N/A		Payback Period:	N/A			

Department of Army
Industrial Operations
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(\$ in Millions)

PROJECTS ON THE FY 2008/2009 PRESIDENT'S BUDGET

<u>FY</u>	<u>Approved Project Title</u>	<u>Approved Project Amount</u>	<u>Reprogs</u>	<u>Approved Proj Cost</u>	<u>Current Proj Cost</u>	<u>Asset/Deficiency</u>	<u>Explanation</u>
EQUIPMENT							
EQUIPMENT-Replacement							
Various Capital Equipment-Replacement							
		21.708	1.544	23.252			Replacement Capability Total
FY07	Bulldozer D&R	0.496	(0.496)				Substituted with the Bulldozer LEMC
FY07	Bulldozer LEMC		0.496	0.496			New project
FY07	Motorgrader	0.179		0.179			
FY07	Gradell	0.242	(0.003)	0.239			Reprogram from VCE to actual project
FY07	Railroad Multi-Purpose Crane	0.283	0.088	0.371			Reprogram from Pallet Building System to fund cost increase
FY07	Pallet Building System	0.803	(0.088)	0.715			Reprogram to Railroad Multi-Purpose Crane to fund cost increase
FY07	Eb Welder Replacement	1.406	(0.001)	1.405			Reprogram from VCE to actual project
FY07	T-55 Fuel Control Test Stand	1.052	0.217	1.269			Reprogram from VCE to actual project
FY07	T-700 Engine Test Equipment	1.427	(0.089)	1.338			Reprogram from VCE to actual project
FY07	SEM/EDS Replacement	0.297	(0.297)				Reprogram from VCE to actual project
FY07	UH-60 Aircraft Main Blande Leading edge replacement and spreader tool		0.968	0.968			Reprogram from VCE to actual project
FY07	Inside/Outside Diameter Grinder	0.178	(0.065)	0.113			Reprogram from VCE to actual project
FY07	Cat 140 H Motor Grader	0.159	0.002	0.161			Reprogram from VCE to actual project
FY07	Rotary Blast	0.200	(0.018)	0.182			Reprogram from VCE to actual project
FY07	Matsuura CNC Vertical Mill	0.389	(0.001)	0.388			Reprogram from VCE to actual project
FY07	Articulating Tractor	0.307	(0.117)	0.190			Reprogram from VCE to actual project
FY07	Blisst Booth		0.496	0.496			Reprogram from VCE to actual project
FY07	CNC Router	0.218	(0.218)				Reprogram from VCE to actual project
FY07	Truck Forklift 35K Capacity	0.197		0.197			
FY07	Front end yield 5YD Bucket Loader		0.336	0.336			Reprogram from VCE to actual project
FY07	Rebuild Controls Drives WS Omni 20 Mill	0.575	(0.136)	0.439			Reprogram from VCE to actual project
FY07	Upgrade Engine Test Cells	1.827	(1.827)				Reprogram from VCE to actual project
FY07	Rebuild Controls Drives WS Omni 20 Mill	0.575	(0.182)	0.393			Reprogram from VCE to actual project
FY07	Rubber Inject Mold Machine	0.253	(0.253)				Reprogram from VCE to actual project
FY07	Rebuild Control Drives ELB Recip Grinder	0.375	0.006	0.381			Reprogram from VCE to actual project
FY07	Rebuild Control Drives Wohlenberg Lathe	0.495	(0.495)				Reprogram from VCE to actual project
FY07	Replace J&L Lathe	0.325		0.325			
FY07	Drive-through paint Booth	0.205		0.205			
FY07	Replace Controls Drives RD&D Lathe	0.300	0.020	0.320			Reprogrammed from Turret Control Drives
FY07	Replace Turret Control Drive RD&D Lathe	0.350	(0.020)	0.330			Reprogrammed to fund REPLACE CONTROLS DRIVES RD&D LATHE
FY07	CNC 5-AXIS Maching Center	1.437		1.437			
FY07	Rebuild Controls Drives Wohleberg Lathe	0.425	(0.014)	0.411			Reprogram from VCE to actual project
FY07	Rebuild 1000 Ton Hydraulic Press	0.325	0.204	0.529			Reprogram from VCE for actual project
FY07	Pit Furnace	0.263		0.263			
FY07	Conveyor for power pack assembly		0.134	0.134			Reprogram from VCE for actual project
FY07	Bridge Crane bldg 490B		0.162	0.162			Reprogram from VCE for actual project
FY07	Bridge Crane bldg 345 Line 16-20		0.218	0.218			Reprogram from VCE for actual project
FY07	Bradley final drive test stand		0.365	0.365			Reprogram from VCE for actual project
FY07	Grab system main gate		0.634	0.634			Reprogram from VCE for actual project
FY07	Grab system south perimeter		0.401	0.401			Reprogram from VCE for actual project
FY07	Grab system West gate		0.413	0.413			Reprogram from VCE for actual project
FY07	Fiber Optics upgrade bldg 595		0.235	0.235			Reprogram from VCE for actual project
FY07	Rebuild 2 Vertical Mills		1.042	1.042			Reprogram from VCE for actual project
FY07	Replace SELAS cooling tower		0.321	0.321			Reprogram from VCE for actual project
FY07	Replace control drive ELB Grinder		0.454	0.454			Reprogram from VCE for actual project
FY07	Upgrade 81mm Mortar RP Line	0.616	0.063	0.679			Reprogram from VCE for actual project
FY07	Agilent HP3070 Upgrade	0.996	(0.175)	0.821			Reprogrammed to fund FETCH
FY07	Factron 720 TS	0.548	(0.548)				Reprogrammed to fund FETCH
FY07	VXI ATE Test System	0.320	(0.050)	0.270			Reprogram from VCE to actual project
FY07	Shear Replacement	0.165	(0.165)				Reprogrammed to fund FETCH
FY07	FETCH		2.238	2.238			New project
FY07	Line of Credit	3.500	(2.711)	0.789			Reprogram from VCE to actual projects

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(\$ in Millions)

PROJECTS ON THE FY 2008/2009 PRESIDENT'S BUDGET

<u>FY</u>	<u>Approved Project Title</u>	<u>Approved Project Amount</u>	<u>Reprogs</u>	<u>Approved Proj Cost</u>	<u>Current Proj Cost</u>	<u>Asset/Deficiency</u>	<u>Explanation</u>
EQUIPMENT - Productivity							
Various Capital Equipment-Productivity		27.465	-3.920	23.545			
FY07	ADMC Superstacker	0.300	(0.300)				Reprogrammed to fund Shot Blast Wheelabrator
FY07	Bulldozer - ADMC	0.382	(0.382)				Reprogrammed to fund Shot Blast Wheelabrator
FY07	Shot Blast Wheelabrator		0.758	0.758			New project reprogrammed from VCE
FY07	Upgrade 370 ASRS path	0.900	(0.900)				Reprogram from VCE to actual project
FY07	Retrofit Accurate Gun Drill WV12491	0.375	0.125	0.500			Reprogram from VCE to actual project
FY07	Coordinate Measuring Machine	0.443	(0.047)	0.396			Reprogram from VCE to actual project
FY07	Retrofit SIG Gun Drill WV12216	0.250	0.085	0.335			Reprogram from VCE to actual project
FY07	CNC OD Grinder	0.303	0.047	0.350			Reprogram from VCE to actual project
FY07	Maneuver System Sustainment Center	13.145	(13.145)				Reprogram from VCE to actual project
FY07	Vertical CNC Mill	0.296		0.296			
FY07	Ingersol Gantry	0.274	(0.274)				Reprogram from VCE to actual project
FY07	Vertical CNC Mill	0.269		0.269			
FY07	Air Flow Machine	0.113	(0.113)				Reprogram from VCE to actual project
FY07	Vertical CNC Mill	0.269		0.269			
FY07	Wire EDM Machine	0.296		0.296			
FY07	Rapid Prototype	0.393	(0.393)				Reprogram from VCE to actual project
FY07	Devlieg Horizontal Boring Mill	0.484	(0.484)				Reprogram from VCE to actual project
FY07	HYDRAU SIMUL # 1 Upgrade	0.924		0.924			
FY07	Blasting Facility	0.484		0.484			
FY07	Turbine Engine test Cells	4.036	5.142	9.178			Reprogram from VCE for actual project
FY07	4 axis CNC Horizontal Mill	0.850		0.850			
FY07	G&L Retrofit	0.207	0.078	0.285			Reprogram from VCE for actual project
FY07	Parts washing equipment		0.890	0.890			Reprogram from VCE for actual project
FY07	Ingersol Gantry 400		0.831	0.831			Reprogram from VCE for actual project
FY07	CNC Vertical Machining Center		0.238	0.238			Reprogram from VCE for actual project
FY07	5 Axis Horizontal Boring Mill		2.996	2.996			Reprogram from VCE for actual project
FY07	50K lb Capacity Forklift		0.288	0.288			Reprogram from VCE for actual project
FY07	Bridge Crane System 592		0.396	0.396			Reprogram from VCE for actual project
FY07	3 Axis Machining Center		0.370	0.370			Reprogram from VCE for actual project
FY07	230 Ton CNC Press Brake		0.288	0.288			Reprogram from VCE for actual project
FY07	HAAS Mill		0.590	0.590			Reprogram from VCE for actual project
FY07	Monarch Engine Lathe	0.443	(0.443)				Reprogram from VCE to actual project
FY07	Hydraulic Shear	0.273	(0.273)				Reprogram from VCE to actual project
FY07	Hydraulic Press Brake	0.246	(0.246)				Reprogram from VCE to actual project
FY07	M40 Mask Process Optimization	0.548	0.040	0.588			Reprogram from VCE to actual project
FY07	Automate Fuse and Pre-Pack, B 33-530	0.962	(0.082)	0.880			Reprogram from VCE to actual project
EQUIPMENT - New Mission							
Various Capital Equipment-New Mission		0.968	-0.968				
FY07	Upgrade 370 ASRS path w/ wireless AGVs		0.900	0.900			Reprogram from VCE to actual project
FY07	UH-60 Aircraft Alignment Checker	0.968	(0.968)				Reprogram from VCE to actual project
EQUIPMENT-Environmental							
Various Capital Equipment-Environmental		5.255	-4.463	0.792			
FY07	Upgrade Metal Finish Operation	3.104	(3.104)				Reprogram from VCE to actual project
FY07	Air Pollution Control Equipment	1.482	(1.482)				Reprogram from VCE to actual project
FY07	Tractor Hoe w/mower attachment	0.392	(0.070)	0.322			Reprogram from VCE to actual project
FY07	Thermal Cleaning system		0.186	0.186			Reprogram from VCE to actual project
FY07	Hydro Ax	0.277	0.007	0.284			Reprogram from VCE to actual project
ADPE & TELECOMMUNICATIONS EQUIPMENT		11.533	0.876	12.409			
FY07	Communications Infrastructure Upgrade	0.286		0.286			
FY07	Lan/Campus Wide Network Backup	0.646	(0.001)	0.645			Reprogram from VCE to actual project

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(\$ in Millions)

PROJECTS ON THE FY 2008/2009 PRESIDENT'S BUDGET

<u>FY</u>	<u>Approved Project Title</u>	<u>Approved Project Amount</u>	<u>Reprogs</u>	<u>Approved Proj Cost</u>	<u>Current Proj Cost</u>	<u>Asset/Deficiency</u>	<u>Explanation</u>
FY07	Office Software Upgrade	0.219	0.049	0.268			Reprogram from VCE to actual project
FY07	Voice Over IP Upgrade	0.382		0.382			
FY07	LAN Upgrade		0.181	0.181			Reprogram from VCE to actual project
FY07	Automatic Identification Technology	10.000		10.000			
FY07	Disaster Recovery System		0.647	0.647			Reprogram from VCE to actual project
SOFTWARE DEVELOPMENT		43.284	-0.264	43.020			
FY07	Logistics Modernization Program	25.620		25.620			
FY07	Environmental Health/Safety	5.600		5.600			
FY07	Industrial Base Modernization Software	7.500	(0.264)	7.236			Reprogram from VCE to actual project
FY07	Army Workload and Performance System (AWPS)	4.564		4.564			
MINOR CONSTRUCTION		19.995	6.634	26.629			
FY07	Magnesium Recover Pilot Demil Plant	0.325	(0.325)				Reprogrammed to fund Secure Area Demo Range and Security System Bldg 160
FY07	Lumber Storage Facility - ADMC	0.375		0.375			
FY07	Blast Booth Building #3382	0.360	0.012	0.372			Reprogram from Minor Construction for actual project
FY07	Munitions Shed X-Site 1	0.297	(0.020)	0.277			Reprogram from Minor Construction for actual project
FY07	General Purpose Storage Shed	0.297		0.297			
FY07	Inert Material Storage Facility @555	0.297	(0.004)	0.293			Reprogram from Minor Construction for actual project
FY07	Inert Material Storage Facility @562	0.297	(0.030)	0.267			Reprogram from Minor Construction for actual project
FY07	Munitions Shed, Site CC	0.296	(0.007)	0.289			Reprogram from Minor Construction for actual project
FY07	Munitions Shed, Site DD	0.296	(0.010)	0.286			Reprogram from Minor Construction for actual project
FY07	Munitions Shed, Site QQ	0.296	0.039	0.335			Reprogram from Minor Construction for actual project
FY07	Storage Facility f/CDC Material Near Bldg 211	0.426	0.067	0.493			Reprogram from Minor Construction for actual project
FY07	Sandblast-Building Project (Industrial Area)	0.430		0.430			
FY07	Construct Two Munition Sheds	0.562	(0.015)	0.547			Reprogram from Minor Construction for actual project
FY07	Construct Multi-Purpose Mtnce Facility 1231	0.708		0.708			
FY07	Transportation Office Building	0.320	(0.320)				Reprogrammed to fund Secure Area Demo Range and Security System Bldg 160
FY07	Combat Vehical Repair Facility	0.729	(0.001)	0.728			Reprogram from Minor Construction for actual project
FY07	Heat & Insulate Car Level Warehouse	0.622	(0.067)	0.555			Reprogram from Minor Construction for actual project
FY07	Heat & Insulate Ground Level Warehouse	0.622	(0.143)	0.479			Reprogram from Minor Construction for actual project
FY07	Battery Charging Facility	0.303	(0.016)	0.287			Reprogram from Minor Construction for actual project
FY07	IWTP FORCE MAIN TO STP	0.556		0.556			
FY07	Acid Wastewater Mixing	0.110		0.110			
FY07	Air Compressor Upgrade	0.598	(0.598)				Reprogrammed to fund Bldg 102 Expansion
FY07	Bldg 102 Expansion		0.590	0.590			New Project reprogrammed from Minor Construction
FY07	Sprinkler System Bldg 108	0.478	(0.070)	0.408			
FY07	HARDSTAND LIGHTING (208-210) NORTH	0.379	0.261	0.640			Reprogram from Minor Construction for actual project
FY07	HARDSTAND LIGHTING (210-211) SOUTH	0.362	0.195	0.557			Reprogram from Minor Construction for actual project
FY07	HDSTAND LIGHTIN (BTWN.353/354 & 357/358)	0.266	(0.266)				Reprogram from Minor Construction for actual project
FY07	Construct Sheds at Bldg 133	0.482		0.482			
FY07	Box Shop Renovation	0.709	(0.003)	0.706			Reprogram from Minor Construction for actual project
FY07	Radiant Heaters Bldg 214	0.265	0.119	0.384			Reprogram from Minor Construction for actual project
FY07	Upgrade Steam Controls	0.394	0.086	0.480			Reprogram from Minor Construction for actual project
FY07	Sludge Bed 3, 4, 5 Upgrade for IWTP	0.627		0.627			

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(\$ in Millions)

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<u>FY</u>	<u>Approved Project Title</u>	<u>Approved Project Amount</u>	<u>Reprogs</u>	<u>Approved Proj Cost</u>	<u>Current Proj Cost</u>	<u>Asset/Deficiency</u>	<u>Explanation</u>
FY07	Radiant Heaters, 215	0.209	0.072	0.281			Reprogram from Minor Construction for actual project
FY07	Install exterior lighting at BLDG 306		0.616	0.616			Reprogram from Minor Construction for actual project
FY07	Install exterior lighting at bldg 307		0.607	0.607			Reprogram from Minor Construction for actual project
FY07	HDSTAND LIGHTING at 5 ACRE HDSTND East of 307		0.728	0.728			Reprogram from Minor Construction for actual project
FY07	Renovate BLDG 441S for Bradley transmission		0.536	0.536			Reprogram from Minor Construction for actual project
FY07	Renovation of EOC		0.162	0.162			Reprogram from Minor Construction for actual project
FY07	Install Paint Booth and drying oven bldg 1184		0.613	0.613			Reprogram from Minor Construction for actual project
FY07	Security fencing type FE-5		0.632	0.632			Reprogram from Minor Construction for actual project
FY07	Visitor Control center/Parking Lot		0.354	0.354			Reprogram from Minor Construction for actual project
FY07	Main gate ACP Guard house redesign		0.602	0.602			Reprogram from Minor Construction for actual project
FY07	Modular office for OEE		0.391	0.391			Reprogram from Minor Construction for actual project
FY07	Alterations to BLDG 531		0.337	0.337			
FY07	HDSTAND LIGHTING #3 (EAST OF 354-358)	0.704	(0.704)				Reprogram from Minor Construction for actual project
FY07	HDSTAND LIGHTING #2 (EAST OF 362-366)	0.600	(0.600)				Reprogram from Minor Construction for actual project
FY07	HDSTND LGHTIN GS07 HDSTND WEST 351	0.301	(0.301)				Reprogram from Minor Construction for actual project
FY07	HDSTAND LIGHTIN VI GS99 (HMMWV LOT)	0.603	(0.603)				Reprogram from Minor Construction for actual project
FY07	Renovate Functional Firing Bldg 129	0.247		0.517			Reprogram from Minor Construction for actual project
FY07	Upgrade Small Arms Repair Facility	0.725	(0.725)				Reprogram from Minor Construction for actual project
FY07	Production Administration Bldg	0.703	(0.703)				Reprogram from Minor Construction for actual project
FY07	Fire Station Expansion	0.654	(0.002)	0.652			Reprogram from Minor Construction for actual project
FY07	Temp. Controlled Mix Prep & Storage Fac.	0.745	0.004	0.749			Reprogram from Minor Construction for actual project
FY07	SATCOM Antenna	0.400		0.400			
FY07	Classroom Add Bldg 310	0.300		0.300			
FY07	HVAC	0.720		0.720			
FY07	Request Replace CTRL/Feed Bldg of DEAC Furnace		0.461	0.461			Reprogram from Minor Construction for actual project
FY07	Secure Area Demo Range		0.435	0.435			Reprogrammed from Magnesium Recover Pilot Demil Plant and Transportation Ofc Bldg
FY07	Security System Bldg 160		0.201	0.201			Reprogrammed from Magnesium Recover Pilot Demil Plant and Transportation Ofc Bldg
FY07	Sewage treatment plant		0.342	0.342			Reprogram from Minor Construction for actual project
FY07	Automated blow down controllers		0.306	0.306			Reprogram from Minor Construction for actual project
FY07	Shower change room BLDG 400		0.725	0.725			Reprogram from Minor Construction for actual project
FY07	Construct Training Facility		0.725	0.725			New Project
FY07	Awnings at Bldg 490B		0.287	0.287			New Project
FY07	Additions to Bldg 407		0.649	0.649			New Project
FY07	Convert Bldg 561 Warehouse to Production		0.743	0.743			New Project
FY07	Equipment Staging Facility						New Project
Minor Construction >\$750K		4.561	(1.109)	3.452			
FY07	Sprinkler System Addition Bldg 409	0.970	(0.286)	0.684			Reprogrammed to fund Construct Training Facility
FY07	Install Automatic Sprinkler System Bldg 143	1.325		1.325			
FY07	Sprinkler System Bldg 7	1.443		1.443			
FY07	Sprinkler System Addition Bldg 501	0.823	(0.823)				Reprogrammed to fund Construct Training Facility
TOTAL		134.769	-1.670	133.099			

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PROJECTS ON THE FY 2008/2009 PRESIDENT'S BUDGET

<u>FY</u>	<u>Approved Project Title</u>	<u>Approved Project Amount</u>	<u>Reprogs</u>	<u>Approved Proj Cost</u>	<u>Current Proj Cost</u>	<u>Asset/Deficiency</u>	<u>Explanation</u>
EQUIPMENT							
FY08	EQUIPMENT-Replacement Various Capital Equipment-Replacement	22.401		22.401	91.947	69.546	Replacement Capability Total
FY08	EQUIPMENT-Productivity Various Capital Equipment-Productivity	8.798		8.798	33.595	24.797	Productivity Capability Total
FY08	EQUIPMENT - New Mission Various Capital Equipment-New Mission	1.969		1.969	1.969		New Mission Capability Total
FY08	EQUIPMENT-Environmental Various Capital Equipment-Environmental	0.313		0.313	0.313		Environmental Capability Total
ADPE & TELECOMMUNICATIONS EQUIPMENT							
FY08	Miscellaneous ADPE < \$1M	0.534		0.534	1.434	0.900	
FY08	Automatic Identification Technology	12.200		12.200	12.200		
	Wireless Network Upgrade	0.710		0.710	0.710		
SOFTWARE DEVELOPMENT							
FY08	Logistics Modernization Program	34.560		34.560	34.560		
FY08	Environmental Health/Safety	2.500		2.500	2.500		
FY08	Industrial Base Modernization Software	3.800		3.800	4.064	0.264	
FY08	Army Workload and Performance System (AWPS)	5.064		5.064	3.500	(1.564)	Cost decrease
MINOR CONSTRUCTION							
FY08	Various Minor Construction <\$750K	12.018		12.018	27.042	15.024	No prior submission/Approval of project
	TOTAL	104.867		104.867	213.834	108.967	

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(\$ in Millions)

PROJECTS ON THE FY 2008/2009 PRESIDENT'S BUDGET

<u>FY</u>	<u>Approved Project Title</u>	<u>Approved Project Amount</u>	<u>Reprogs</u>	<u>Approved Current Proj Cost</u>	<u>Current Proj Cost</u>	<u>Asset/Deficiency</u>	<u>Explanation</u>
EQUIPMENT							
FY09	EQUIPMENT-Replacement Various Capital Equipment-Replacement	6.642		6.642	67.209	60.567	Replacement Capability Total
FY09	EQUIPMENT-Productivity Various Capital Equipment-Productivity	10.240		10.240	47.319	37.079	Productivity Capability Total
FY09	EQUIPMENT - New Mission Various Capital Equipment-New Mission				3.038	3.038	New Mission Capability Total
FY09	EQUIPMENT-Environmental Various Capital Equipment-Environmental	0.816		0.816	2.296	1.480	Environmental Capability Total
ADPE & TELECOMMUNICATIONS EQUIPMENT							
FY09	Miscellaneous ADPE < \$1M	0.845		0.845	4.940	4.095	No prior submission/Approval of project
FY09	Automatic Identification Technology	14.200		14.200	16.910	2.710	Cost increase
FY09	Base Radio System				3.135	3.135	No prior submission/Approval of project
SOFTWARE DEVELOPMENT							
FY09	Logistics Modernization Program	24.600		24.600	24.600		
FY09	Environmental Health/Safety	2.500		2.500	2.500		
FY09	Industrial Base Modernization Software	5.600		5.600	5.600		
FY09	Army Workload and Performance System (AWPS)	5.564		5.564	5.564		
FY09	ASRS Baseline Rewrite for LAN Integration				0.495	0.495	No prior submission/Approval of project
FY09	Document Management Software System				0.732	0.732	No prior submission/Approval of project
MINOR CONSTRUCTION							
FY09	Various Minor Construction <\$750K	10.956		10.956	32.544	21.588	No prior submission/Approval of project
	TOTAL	81.963		81.963	216.882	134.919	

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

Minimum Capital Investment for Certain Depots
(\$ Millions)

	Revenue			Budgeted Capital			Difference		
	FY 2007	3-Year Average		FY 2007	FY 2008	FY 2009	Positive numbers exceed required investment		
		FY 2008	FY 2009				FY 2007 4%	FY 2008 5%	FY 2009 6%
ANAD									
Revenue	850.885	997.531	1,211.934						
Capital Investment Program				21.753	15.853	33.121			
Maintenance & Repair				27.242	15.388	14.797			
Equipment from other appropriations				0.104	13.000	0.000			
Equipment (500 lines and 923)				17.630	17.620	13.091			
Lean Investment				0.460	0.905	0.905			
MILCON				0.000	26.100	51.000			
Actual/ Budgeted Investment				67.189	88.866	112.914			
Required Investment				34.035	49.877	72.716			
Over (+)/ Under (-) Investment							33.154	38.989	40.198
CCAD									
Revenue	982.047	1,058.769	1,159.173						
Capital Investment Program				4.980	30.958	9.728			
Maintenance & Repair				13.127	15.195	15.655			
Equipment from other appropriations				0.000	15.410	16.450			
Equipment (500 lines and 923)				11.586	23.743	22.574			
Lean Investment				0.227	0.000	0.000			
MILCON				0.000	0.000	38.000			
Actual/ Budgeted Investment				29.920	85.306	102.407			
Required Investment				39.282	52.938	69.550			
Over (+)/ Under (-) Investment							(9.362)	32.368	32.857
LEAD									
Revenue	362.544	423.603	426.632						
Capital Investment Program				7.361	7.772	5.075			
Maintenance & Repair				1.511	1.682	1.766			
Equipment from other appropriations				0.000	0.000	0.000			
Equipment (500 lines and 923)				5.238	10.911	12.066			
Lean Investment				1.048	0.766	0.783			
MILCON				0.000	0.000	0.000			
Actual/ Budgeted Investment				15.158	21.131	19.690			
Required Investment				14.502	21.180	25.598			
Over (+)/ Under (-) Investment							0.656	(0.049)	(5.908)

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

Minimum Capital Investment for Certain Depots
(\$ Millions)

	Revenue			Budgeted Capital			Difference		
	FY 2007	3-Year Average		FY 2007	FY 2008	FY 2009	Positive numbers exceed required investment		
		FY 2008	FY 2009				FY 2007	FY 2008	FY 2009
							4%	5%	6%
RRAD									
Revenue	581.716	685.527	764.155						
Capital Investment Program				13.308	28.412	16.053			
Maintenance & Repair				10.200	20.289	22.104			
Equipment from other appropriations				0.000	0.000	0.000			
Equipment (500 lines and 923)				9.563	15.230	18.122			
Lean Investment				0.508	0.424	0.414			
MILCON				0.000	0.000	3.200			
Actual/ Budgeted Investment				33.579	64.355	59.893			
Required Investment				23.269	34.276	45.849			
Over (+)/ Under (-) Investment							10.310	30.079	14.043
TYAD									
Revenue	501.166	604.118	712.757						
Capital Investment Program				4.749	40.917	37.846			
Maintenance & Repair				22.800	20.025	17.421			
Equipment from other appropriations				11.721	7.627	6.835			
Equipment (500 lines and 923)				10.392	15.953	14.703			
Lean Investment				1.304	1.500	1.500			
MILCON				0.000	0.000	12.000			
Actual/ Budgeted Investment				50.966	86.022	90.306			
Required Investment				20.047	30.206	42.765			
Over (+)/ Under (-) Investment							30.919	55.817	47.540
TOTAL ARMY									
Revenue	3,278.358	3,769.549	4,274.650						
Capital Investment Program				52.151	123.912	101.823			
Maintenance & Repair				74.880	72.579	71.743			
Equipment from other appropriations				11.825	36.037	23.285			
Equipment (500 lines and 923)				54.409	83.457	80.556			
Lean Investment				3.547	3.595	3.602			
MILCON				0.000	26.100	104.200			
Total Actual/ Budgeted Investment				196.812	345.680	385.209			
Total Required Investment				131.134	188.477	256.479			
Over (+)/ Under (-) Investment							65.678	157.203	128.730
Investment percentage							6%	9%	9%