

ARMY WORKING CAPITAL FUND FISCAL YEAR (FY) 2010 BUDGET ESTIMATES



SUBMITTED TO CONGRESS MAY 2009

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ARMY STRONG

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Army Overview

Background

Working capital funds were established by Congress to more effectively control and account for the cost of programs and work performed in the Department of Defense. Under the provisions of Title 10, United States Code, § 2208 the Secretary of Defense may establish working capital funds to finance inventories of supplies; and industrial-type activities that provide common services, such as, repair, manufacturing, or remanufacturing. Unlike profit-oriented commercial businesses, the revolving fund's goal is to break even by returning any monetary gains to appropriated fund customers through lower rates or collecting any monetary losses from customers through higher rates. Revolving fund prices are generally stabilized or fixed during the year of execution to protect customers from unforeseen fluctuations that would impact their ability to execute the programs approved by Congress.

The basic tenet of the revolving fund structure is to create a customer-provider relationship between military operating units and support organizations. This relationship is designed to make managers of the Army Working Capital Fund (AWCF) and decision-makers at all levels more aware of costs for goods and services.



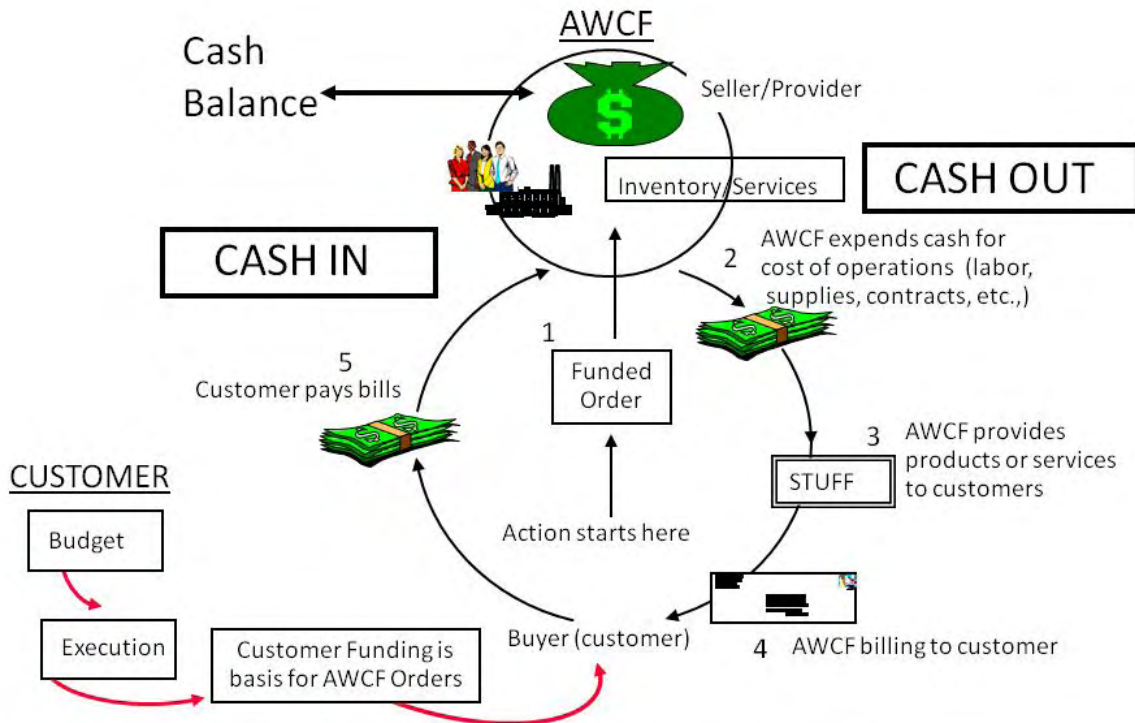
Fort Lewis Soldiers from the 17th Fires Brigade, fire an M198, 155mm howitzer during a recent combined live-fire exercise at the Yakima Training Center in Washington.

The Army's revolving fund activities evolved from two separate funds. The first type, Stock Funds, deals with procuring materiel in volume from commercial sources and holding in inventory. The second category, Industrial Funds, provides industrial services, such as depot maintenance, manufacturing, and ammunition storage. Both types of revolving funds are financed primarily by reimbursements from customers' appropriated accounts.



Figure 1 below shows the interaction of the customer's appropriated funds, the AWCF business operations, and cash. Customer appropriated funding is synchronized with the AWCF workload forecast during the budget development. During the year of execution, appropriated fund customers submit funded orders (1) to AWCF providers requesting services (repair, overhaul, or manufacturing) or supplies (spares or repair parts). This obligates appropriated funds. In step 2, AWCF Supply Management purchases inventory for resale to customers. Also in step 2, Industrial Operations orders materiel and hires labor, supporting the projected workload (CASH OUT). In step 3, the customer receives the completed product or service and a bill (4) for payment. The customer pays the AWCF (5) for the materiel or services (CASH IN). Proper pricing of inventory and services, and accurately forecasting workload allows a balance between CASH OUT and CASH IN. Variance between these actions results in either a gain or loss of AWCF cash. Gains are returned to customers through lower future prices while losses are recouped through higher future customer prices.

Figure 1



- Statutory requirement to maintain positive cash balance at Treasury level.



Introduction

The Fiscal Year 2010 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 defends the Nation. The Army uses the revolving fund concept to operate its supply and industrial facilities. Revolving funds encourage cost-effectiveness and provide flexibility to meet changing workload requirements in the year of execution. They also support full cost visibility and cost recovery while protecting appropriated fund customer accounts from year of execution price changes.

The AWCF consists of the Supply Management and Industrial Operations activity groups, with operations spanning across eighteen cities and local areas within fifteen states. The exact locations are shown in each business activity's portion of this budget. The AWCF activities disbursed and transferred over \$17.4 billion in FY 2008 to maintain the readiness and sustainability of military equipment, while supporting the broader National economy.

Performance Measures

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 budget request supports specific equipment and supply requirements funded by anticipated customer appropriations. As previously discussed, the goal of a revolving fund is to break even over the long term. The revolving fund rates established in this budget are stabilized (fixed) during the year of execution to achieve this goal while protecting customers from unforeseen fluctuations that would impact military programs approved by Congress.

Key financial measures are net operating result (NOR), accumulated operating results (AOR), and unit cost.

NOR is similar to the total Net Income of a private business during a fiscal year. The NOR measures the activity's gain or loss within a single fiscal year, monitoring how well the activity performs compared to its budget.

AOR is similar to equity over time for a private business. The AOR measures actual financial gains and losses, allowing prices and 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 by associating 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.

In addition to financial measures (net operating result, accumulated operating results, and unit cost), operational measures assess how well the financial inputs reflected in the AWCF budget support 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). These are identified within each activity's narrative.

Activity Groups

Supply Management

The Supply Management activity group buys and manages spares and repair parts for sale to its customers, primarily Army operating units. This activity group supports and builds 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 materiel. The activity group is managed by the Life Cycle Management Commands of the Army Materiel Command.

Supply Management administers spares inventory for Army managed items, Non-Army managed items (NAMI), and war reserve secondary items. Supply Management consists of four major commodity groups: aviation and missile; communications-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. As new equipment is added to Army's operational and training force, new spares are also scheduled for inclusion in the Supply Management inventory. For example, spares for Mine



Cougar MRAP Vehicles await final road testing at the 3rd Battalion, 401st Army Field Support Brigade, Army Preposition Stock area at Bagram Airfield, Afghanistan.



Resistant Ambush Protected (MRAP) vehicles are ordered from vendors in FY 2010 so they are available for customer requisitions beginning in FY 2011.

Industrial Operations

The Industrial Operations activity group of the AWCF provides the Army an organic industrial capability to: conduct depot level maintenance, repair and upgrade; produce munitions and large caliber weapons; and store, maintain, and demilitarize materiel for all branches of DOD. Industrial Operations 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 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 operations. Equipment is also employed in harsh environments and in more demanding ways during combat missions. These factors increase the maintenance requirements beyond what is typically budgeted. The Industrial Operations activities play an integral role in providing Reset support.



Foundry operations at Rock Island Arsenal, Illinois

The Army’s equipment Reset program is defined as a set of actions restoring equipment to a level of combat capability commensurate with a unit’s future mission. Since FY 2007, Congress has specifically appropriated supplemental funds assisting the Army in meeting its Reset requirements. The Reset program ensures Army equipment consumed in the war is replaced or restored for future missions. There are three components of Reset: replacement¹, recapitalization², and repair³. These repair programs must continue throughout

¹ The purchase of new equipment to replace battle losses, worn out or obsolete equipment, and critical equipment deployed and left in theater, but needed for homeland defense, homeland security and other critical missions

² A rebuild effort that extends the equipment’s useful life by returning it to a near “zero mile/zero hour” condition with either the original performance specifications or with upgraded performance specifications.

³ A repair or overhaul effort that returns the equipment’s condition to the Army standard. It includes the Special Technical Inspection and Repair Program of aircraft.



the current conflict and for an additional three years afterward. This budget submission incorporates depot workload assumptions associated with the Reset program (supplemental funding) and day-to-day operations.

Budget Highlights

Overview

The FY 2010 AWCF budget request supports the Army's plans to maintain and strengthen its war fighting readiness. It is a wartime submission supporting current operations. In recent years, the AWCF has experienced record levels of sales and revenue due to wartime operations.

This budget assumes reduced troop strength and a lower OPTEMPO level for the Nation's continued efforts in Operation Iraqi Freedom (OIF) resulting in reduced demands and workload forecasts. The Supply Management activity estimates OIF OPTEMPO level at 33 percent of FY 2008, resulting in lower supply demands and sales. Industrial Operations assumes FY 2010 Reset workload 67 percent of FY 2008 actuals. This budget still projects sales and expenditures at more than double pre-war levels to purchase, replenish, and repair inventory, but these levels are lower than the FY 2008 record levels.

The sufficiency and predictability of resources is critical for accurately forecasting and executing workload. OPTEMPO assumptions assist in the development of the budget request, but as leadership decisions unfold, the projections for the AWCF can change significantly.

Since FY 2004, \$4.8 billion of cash has been transferred from the AWCF to meet critical Army requirements. Some of this cash may have to be restored to maintain a seven to ten day cash level during FY 2010. Army anticipates implementing a cash surcharge on Operation Iraqi Freedom and Operation Enduring Freedom Supply Management sales. In addition, Industrial Operations anticipates implementing an advance billing to Army customers. Additional courses of action are outlined in the cash section of this budget.



UH-60 Blackhawk helicopters



Personnel

The AWCF civilian personnel posture reflects an overall decrease from FY 2008 through FY 2010 commensurate with the forecasted reduction in sales and workload. End strength requirements are validated by the U.S. Army Manpower Analysis Agency and the Army Workload and Performance System. Changes to personnel levels are discussed within the narrative of each activity group. Table 1 below shows Civilian and Military end strength and full time equivalents.

Table 1 Personnel

	FY 2008	FY 2009	FY 2010
Supply Management			
<i>Civilian End Strength</i>	3,143	3,021	3,021
<i>Full Time Equivalents</i>	3,163	3,021	3,028
<i>Military End Strength</i>	11	11	11
<i>Military Average Strength</i>	11	11	11
Industrial Operations			
<i>Civilian End Strength</i>	25,667	25,181	24,991
<i>Full Time Equivalents</i>	24,220	25,376	25,118
<i>Military End Strength</i>	25	26	26
<i>Military Average Strength</i>	25	26	26
Total			
<i>Civilian End Strength</i>	28,810	28,202	28,012
<i>Full Time Equivalents</i>	27,383	28,397	28,146
<i>Military End Strength</i>	36	37	37
<i>Military Average Strength</i>	36	37	37

Revenue and Expenses

Revenue is an indicator of the combined volume of work completed by the AWCF activity groups. Expenses identify the cost of goods and services produced. Both revenues and expenses are expected to decline in the budget years from the record FY 2008 levels. Major expense drivers include cost of goods sold for Supply Management and the cost of labor and materiel for Industrial Operations. Table 2 on the following page shows revenue and expenses for Supply Management and Industrial Operations.



On patrol in Afghanistan



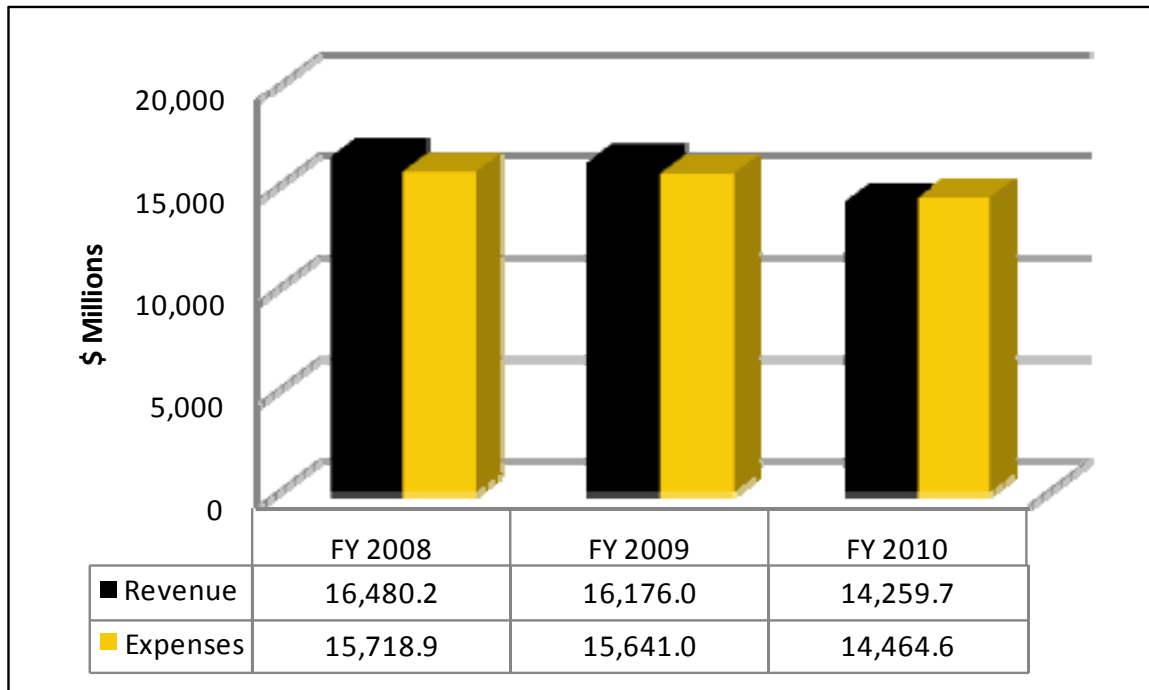
Table 2 Revenue and Expenses

(\$ Millions)	FY 2008	FY 2009	FY 2010
Revenue			
<i>Supply Management</i>			
Gross Sales	12,276.2	12,053.7	10,895.1
Less Credit	2,273.3	2,510.4	2,943.9
<i>Net Supply Management</i>	10,002.9	9,543.3	7,951.2
<i>Industrial Operations</i>	6,477.3	6,632.7	6,308.5
Total Revenues	16,480.2	16,176.0	14,259.7
Expenses			
<i>Supply Management</i>	9,400.3	9,032.9	8,045.4
<i>Industrial Operations</i>	6,318.6	6,608.1	6,419.2
Total Expenses	15,718.9	15,641.0	14,464.6

Note: Total revenues above does not include appropriated funds for War Reserve Secondary Items or Inventory Augmentation shown on Supply Management's exhibit Fund 14, Revenue and Expenses.

Chart 1 below displays revenue and expenses through FY 2010. Expenses exceed revenue in FY 2010 due to a partial return of accumulated operating results to customers through reduced rates in the Supply Management and Industrial Operations businesses.

Chart 1 Revenue and Expenses



Net and Accumulated Operating Results

Financial performance is measured by comparing actual results to goals. The goal of the AWCF is to break even over time. Army considers several factors when determining the accumulated operating results (AOR) amount to return in the rates. Returning a large positive AOR balance in one year causes the rates to drop significantly in that year and increase significantly in the following year. In addition, the Army reviews the cash balance and the projected balance for the budget year to determine if sufficient cash exists to return the gain to the customers. Because of previous years' cash transfers and the resulting negative cash projections, this budget does not return the entire positive AOR to customers. In the next budget cycle, the Army will evaluate its cash position and impact on rates in determining the AOR amount to return. In FY 2008, the Army retained \$920 million of positive AOR to cover congressional directed and other cash transfers, and plans to retain \$114.4 million in FY 2010. Table 3 below shows the net and accumulated operating results for both Supply Management and Industrial Operations.



Weapon test firing at Rock Island Arsenal, Illinois

Table 3 Operating Result

(\$ Millions)	FY 2008	FY 2009	FY 2010
Supply Management			
<i>Net Operating Result</i>	411.0	510.4	(94.2)
<i>Retained Earnings</i>	(920.0)	0.0	0.0
<i>Accumulated Operating Result</i>	(56.4)	454.0	359.8
Industrial Operations			
<i>Net Operating Result</i>	158.8	24.6	(110.8)
<i>Retained Earnings</i>	0.0	0.0	(114.4)
<i>Accumulated Operating Result</i>	481.5	506.1	280.9

Customer Rates

Each activity group has a unique rate structure. The Supply Management activity group adds a cost recovery rate (CRR) to the price of items to recoup total cost. The CRR is levied based on a percentage of sales. Typical costs categories are supply operations, transportation, and distribution depot costs. 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. Activity



group rates are stabilized so that the customer's buying power is protected from price swings during the year of execution. Office of Management and Budget's standard inflation factors of 1.3 percent and 1.2 percent for FY 2009 and FY 2010 respectively, were used in the budget development. Table 4 below shows the Supply Management cost recovery rates and Industrial Operations composite direct labor hour rates.

Table 4 Customer Rates

	FY 2008	FY 2009	FY 2010
Supply Management	13.0%	11.8%	12.0%
Industrial Operations	\$167.73	\$161.66	\$148.35

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. Line 5 on exhibit SM 5b (Customer Price Change) displays this calculation. The FY 2010 price change to customer reflects lower sales based on fewer deployed forces in support of Operation Iraqi Freedom. The negative Industrial Operations price change to customer results from the return of positive accumulated operating results (AOR). Table 5 shows the customer rate change for both business areas.

Table 5 Price Change to Customer

	FY 2008	FY 2009	FY 2010
Supply Management	2.4%	0.7%	2.1%
Industrial Operations	12.6%	(3.6%)	(8.2%)

Fund Balance with Treasury

The Defense Working Capital Fund (DWCF) Fund Balance with Treasury, account symbol 97X4930, is subdivided at the Treasury into five sub-numbered Treasury accounts. The Army's account is 97X4930.001. The current balance of funds with Treasury is equal to the amount as of the beginning of the fiscal year plus the cumulative fiscal-year-to-date amounts of collections, appropriations, and transfers-in minus the cumulative fiscal-year-to-date amounts of disbursements, withdrawals, and transfers-out. The AWCF is required to maintain a positive cash balance to prevent an Antideficiency Act violation under Title 31, United States Code, § 1517(a), *Prohibited obligations and expenditures*. Unlike appropriated funds, the AWCF cash balance is not equal to outstanding



obligations; however, the cash on hand at Treasury must be sufficient to pay bills when due.

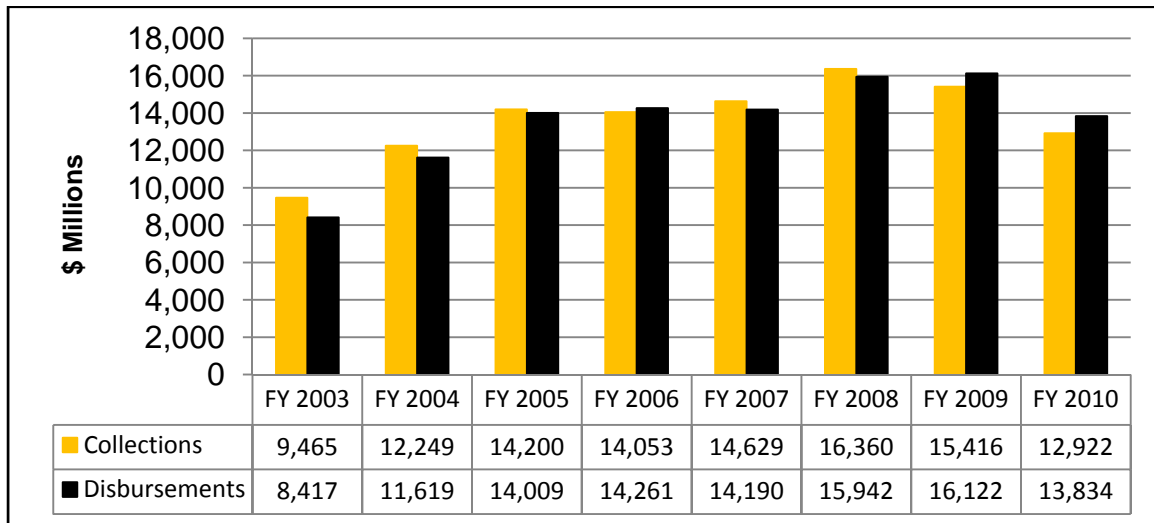
Cash levels should be maintained supporting seven to ten days of operational disbursements, plus cash adequate to meet six months of capital investment program disbursements, plus the amount of any positive accumulative operating results returned to customers.

The cash balance is primarily affected by cash generated from operations but the balance is also impacted by appropriations, transfers, and withdrawals. Maintaining a proper cash balance is dependent on setting rates recovering full costs, including prior year losses; accurately projecting work load; and meeting established operational goals.

Cash from Operations

The day-to-day operations of the fund consume and replenish cash. The FY 2010 cash plan includes all expected collections and disbursements from the operations of both the Supply Management and Industrial Operations activity groups, including appropriations and transfers. Chart 2 below only displays collections and disbursements from operations.

Chart 2 Cash from Operations



During a time of war, collections from sales are higher than disbursements for materiel deliveries, which increase the on-hand cash balance because of a timing difference. Delivery and disbursement can occur up to 24 months after ordering, while collections continue to increase more immediately due to operational demands. This generates a higher than normal cash balance during this period



of time. Although projections show Supply Management sales and collections are decreasing in FY 2010, deliveries and disbursements will not decrease at the same rate until after FY 2010. Army anticipates establishing a cash surcharge during FY 2010 to maintain a positive cash balance, and begin to restore funds previously transferred from the account.

Appropriations

The AWCF has received or requested direct appropriations for replacement of war reserve materiel, replacement of inventory lost in combat, inventory augmentation, and to cover increased fuel costs. These appropriations further contribute to high cash balances; disbursements occur over an 18-24 month period because of procurement lead times. Normally, AWCF receives all appropriations as no-year funds, 97X4930; however, the AWCF received \$719.9 million in FY 2008 supplemental funds designated as a three-year appropriation. Table 6 below shows the appropriations received or requested by AWCF.

Table 6 Appropriations

(\$ Millions)	FY 2008	FY 2009	FY 2010
Base Funding			
<i>War Reserve Secondary Items</i>	5.0	102.2	38.5
Supplemental Funding			
<i>Army Prepositioned Stocks</i>	1,057.9	443.2	0.0
<i>Spares, Combat Losses</i>	120.1	0.0	0.0
<i>Spares, OIF Demands</i>	134.5	0.0	0.0
<i>Fuel</i>	6.9	0.0	0.0
<i>Total Supplemental Funding</i>	1,319.4	443.2	0.0
Total Appropriated Funds	1,324.4	545.4	38.5

- War Reserve Secondary Items – provides funding for war reserve stock.
- Army Prepositioned Stocks – provides funding for replacement of war reserve stocks.
- Spares, Combat Losses – replaces spares lost or damaged during combat operations in Operation Enduring Freedom and Operation Iraqi Freedom (OIF).
- Spares, OIF Demands – provides funding for increase in required stockage levels.



- Fuel – provides funding to Industrial Operations for increased fuel cost in the year of execution.

Cash Transfers

Since FY 2004 almost \$4.8 billion has been transferred from the AWCF. Table 7 below provides the amount and the details of each transfer.

Table 7 Cash Transfers

Year	Transfer To	Amount (Millions)	Reason
FY 2004	OMA	1,300.0	OIF/OEF ^{1/}
	DECA	41.6	DOD Decision
	OMA	107.0	Congressionally directed
FY 2005	OMA	700.0	OIF/OEF
FY 2007	WTCV	107.0	MRAP ^{2/} procurement
	RDTE	38.7	GFEBs ^{3/}
FY 2008	OMA	420.0	Congressionally directed
	MPA	30.0	MPA FY 2005 PCS ^{4/}
	OMA	141.4	OIF/OEF
	OMA	658.7	OIF
	MPA	45.5	MPA FY 2008 Payroll
	NGPA	154.3	NGPA over-strength
FY 2009	MPA	200.0	MPA FY 2008 PCS/Payroll
	OMA	823.0	Congressionally directed
Total Transfers		4,767.3	

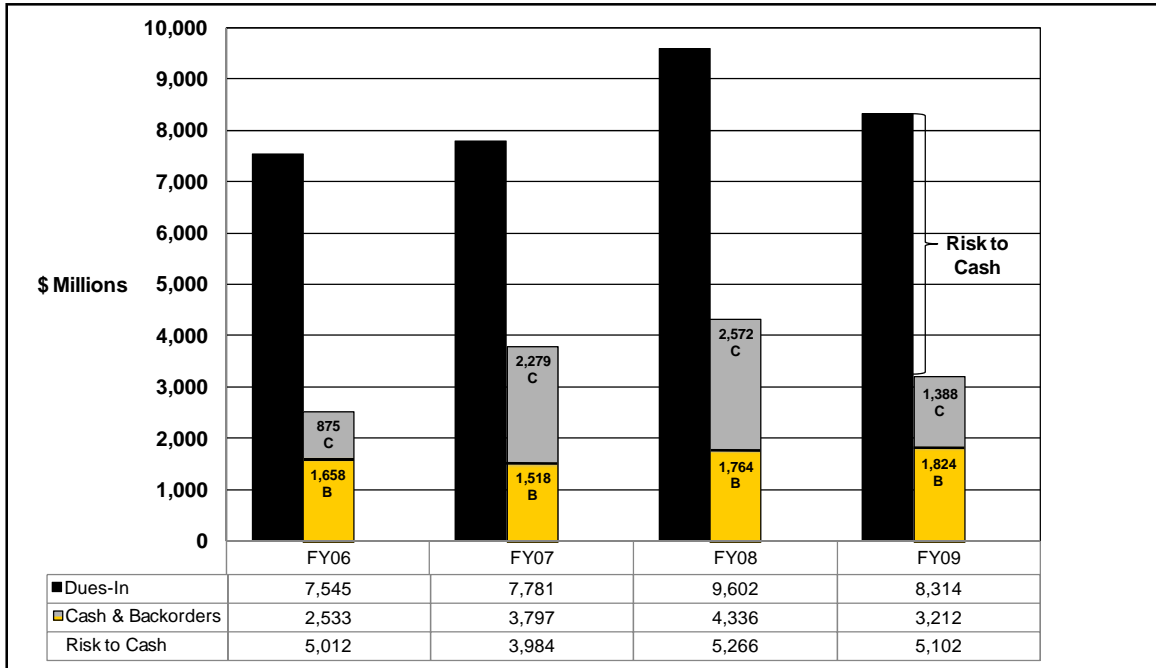
Note: ^{1/} OIF/OEF: Operation Iraqi Freedom/Operation Enduring Freedom
^{2/} MRAP: Mine Resistant Armor Protected vehicle
^{3/} GFEBs: General Fund Enterprise Business System
^{4/} MPA PCS: Military Personnel, Army Permanent Change of Station

The amounts transferred were used to assist other Army programs and were excess to AWCF requirements at the time of transfer. Factors considered before requesting transfer included: examining the emerging requirements; reviewing the current cash balance; the collections and disbursements projection; reviewing the accumulated operating results; examining undelivered orders; and considering previous amounts transferred. Chart 3 on the following page



displays the potential risk to the AWCF cash balance through FY 2009 should sales rapidly decrease and inventory deliveries continue.

Chart 3 Risk to Cash



Note: FY 2009 is projected.

End of Year Cash Balance

The projected cash balance in the AWCF reflects the anticipated decrease in spares consumption by Operation Iraqi Freedom (OIF) customers. Included in the balance are appropriations received for war reserve materiel, Army prepositioned stocks, spares augmentation, and fuel. The year-end cash balance for FY 2009 is projected to remain above the 10 day cash level of \$984.7 million; however, given assumptions for OIF wartime sales decreases, the ending FY 2010 cash balance could approach zero. Operational assumptions used in this budget are that OIF troop levels will rapidly decline shortly after Iraqi elections in early FY 2010. Supply Management sales and cash collections will decrease commensurate with the troop reductions.

Current projections indicate a cash shortfall below the 7 – 10 day goal through FY 2010. The shortfall is computed by subtracting the ending cash balance from operations from the required cash level for FY 2010. The Army is taking the following actions to maintain a 7 day cash balance in the AWCF:



- Implement a cash surcharge on Operation Iraqi Freedom (OIF) and Operation Enduring Freedom (OEF) Supply Management sales.
- Retain positive AOR. In this budget Army retains \$114.4 million positive AOR.
- Advance billing in Industrial Operations (short term solution to increase cash). Army is currently authorized to advance bill \$200 million. Total DOD advance billing limitation is \$1 billion.
- Reduce inventory levels. Based on operational assumptions of reduced troop strength in OIF, sell inventory without replenishment.

The FY 2010 ending cash balance from operations includes an estimated cash surcharge, a potential advance billing, and \$114.4 million positive AOR retention. Since most of the cash transferred from AWCF supported the war efforts the surcharge is applied to sales in OIF and OEF. Table 8 below shows total collections, disbursements, appropriations, transfers, and ending cash balances. Although the ending cash balance for FY 2009 (\$1,387.7 million) is above the 10 day level because of the supplemental direct appropriations that fund war reserve and spares, the actual cash balance from operations (\$842.3 million) is within the 7 – 10 day goal.

Table 8 Cash Balance

(\$ Millions)	FY 2008	FY 2009	FY 2010
<i>Disbursements</i>	15,942.1	16,121.8	13,834.0
<i>Collections</i>	16,360.0	15,415.7	12,922.0
<i>Net Outlays from Operations</i>	(417.9)	706.1	912.0
<i>Direct Appropriations</i>	1,324.4	545.4	38.5
<i>Transfers Out</i>	1,450.0	1,023.0	0.0
<i>Total Net Outlays</i>	(292.3)	1,183.7	873.5
<i>Ending Cash Balance</i>	2,571.4	1,387.7	514.2
<i>Undisbursed Appropriation</i>	1,324.4	545.4	38.5
<i>Cash Balance - Operations</i>	1,247.0	842.3	475.7
<i>7 day Cash Level</i>	558.7	789.9	503.3
<i>10 day Cash Level</i>	756.3	984.7	659.7

Note: Positive net outlays decrease cash

Capital Budget

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. The cost of these projects is recouped through depreciation expenses established in customer rates. The Supply Management activity group capital budget consists of software development costs for Logistics Modernization Program. The Industrial Operations capital budget funds equipment purchases and facilities upgrades. Increased investment has been budgeted for maintenance depots to ensure production equipment is updated for resetting the force. A more in-depth discussion is provided in each activity group's section and detailed exhibits are provided in the Capital Budget section. Table 10 below summarizes the AWCF capital investment program request.

Table 10 Capital Budget

(\$ Millions)	FY 2008	FY 2009	FY 2010
Supply Management	88.8	63.7	58.8
Industrial Operations	213.5	213.7	244.6
<i>Total Capital Budget</i>	302.3	277.4	303.4

Minimum Capital Investment for Certain Depots and Arsenals

The National Defense Authorization Act for FY 2007 requires infrastructure investments for the five Army maintenance depots (Anniston, Alabama; Red River, Texas; Letterkenny, Pennsylvania; Tobyhanna, Pennsylvania; and Corpus Christi, Texas) at a minimum of six percent in FY 2009 and beyond. In FY 2009 the National Defense Authorization Act added the three Arsenals (Rock Island, Illinois; Pine Bluff, Arkansas; and Watervliet, New York) to this requirement. 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. Table 11 below displays the investment budgeted in this submission. The excessive wear and tear on equipment and facilities require an investment amount greater than the required minimum.



Paint booth at Letterkenny Army Depot, Pennsylvania



The Minimum Capital Investment exhibit in the Capital Budget section of this submission provides additional details.

Table 11 Minimum Capital Investment

Minimum Required (\$ Millions)	5% FY 2008	6% FY 2009	6% FY 2010
<i>Average Revenue</i>	4,299.6	4,877.7	5,472.0
<i>Investment Target</i>	215.0	292.7	328.3
<i>Budget Investment</i>	387.0	530.0	447.2
<i>Percent Invested</i>	9.0%	10.9%	8.2%



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Supply Management

Introduction

Supply Management promotes a business-like behavior by relying on sales revenue rather than appropriations to finance continuing operations. Contract authority is used to procure spares and repair carcasses returned from customers. Upon delivery, Army Working Capital Fund (AWCF) cash is used to pay vendors and the spares are placed in inventory awaiting customer demands. Filling these demands results in collection of sales revenue which restores AWCF cash. The bulk of demands originate from Operation and Maintenance, Army customers, primarily Army operating forces, who request spares to maintain readiness of their combat equipment. Supply Management's rates and budget assumptions are synchronized with Army's appropriated funding requests.

Mission:
Provide the Army with inventory and acquisition management of spares and repair parts in support of equipment sustainment, operational readiness, and combat capability.

The pricing of the Army's spares is based on the most recent acquisition cost from a commercial vendor or the most recent repair cost at either a contractor location or an organic maintenance depot. In addition, the price of each item includes an amount recovering the Supply Management cost of operations. These costs include civilian labor, secondary items (spares) transportation costs, spares storage at distribution depots, accounting services, and disposal fees. This operating cost recovery – the Supply Management cost recovery rate – is a percent included in each sales transaction.

The financial measures for Supply Management are net operating result (NOR) and accumulated operating result (AOR). The NOR measures the gain or loss within a single fiscal year, monitoring how closely actual sales revenue compares to the amount in the budget. The AOR measures the accumulated gains and losses since the fund's inception. Rates are set during the budget development to bring the AOR to zero during the budget cycle. This process returns accumulated gains through reduced rates and recovers accumulated losses through increased rates.





Functional Description

Supply Management buys and manages an operating inventory of spare and repair parts for sale to its appropriated fund customers. It also maintains a protected inventory of spares in Army Prepositioned Stocks. The AWCF operating inventory is stored and maintained primarily at three types of locations:¹

- Tactical – at more than 260 support battalion supply support activities (SSAs) under the control of Sustainment Brigade Commanders. These Soldier-manned SSAs provide spares supporting the immediate needs of combat and combat support battalions and companies. The quantity of inventory items is limited to an amount capable of transport by unit organic vehicles or aircraft.
- Installation – at more than 160 Army installation SSAs under the control of the installation Director of Logistics. Operated by Army Civilians, these activities provide a means to retrograde unneeded materiel from tactical SSAs to meet other Army requirements. They also stock back-up inventory to meet tactical units' requirements that exceed storage capacity. When deployed to a contingency Theater of Operations (e.g., Iraq or Afghanistan) tactical activities receive back-up support from a Theater Distribution Center established by the deployed force command to centrally receive, redistribute, and retrograde spares as required.²
- National – at Defense Logistics Agency distribution depots and Army maintenance depots. This inventory provides a source of rapid replenishment to lower level stockage locations and for the immediate needs of the Army's maintenance depots. Examples are Defense Distribution Depot, Red River, Texas and Defense Distribution Depot, Tobyhanna, Pennsylvania.

¹ These do not match Army doctrinal descriptions but do describe the functional locations of AWCF spares inventory.

² The Theater Distribution Center supporting operations in Iraq is located at Arifjan, Kuwait.



The AWCF protected inventory is contained in Army Prepositioned Stocks (APS) located in the United States, Europe, South Korea, Kuwait, and stored aboard ships afloat in Guam and Diego Garcia. Pre-positioned war reserve materiel is retained in protected inventory and released to outfit combat and combat support units deploying to perform a combat, peacekeeping, or other contingency operation. Scheduled for completion in 2015, Army is reconfiguring the APS equipment and spares to match the current Brigade Combat Team organizational structure.

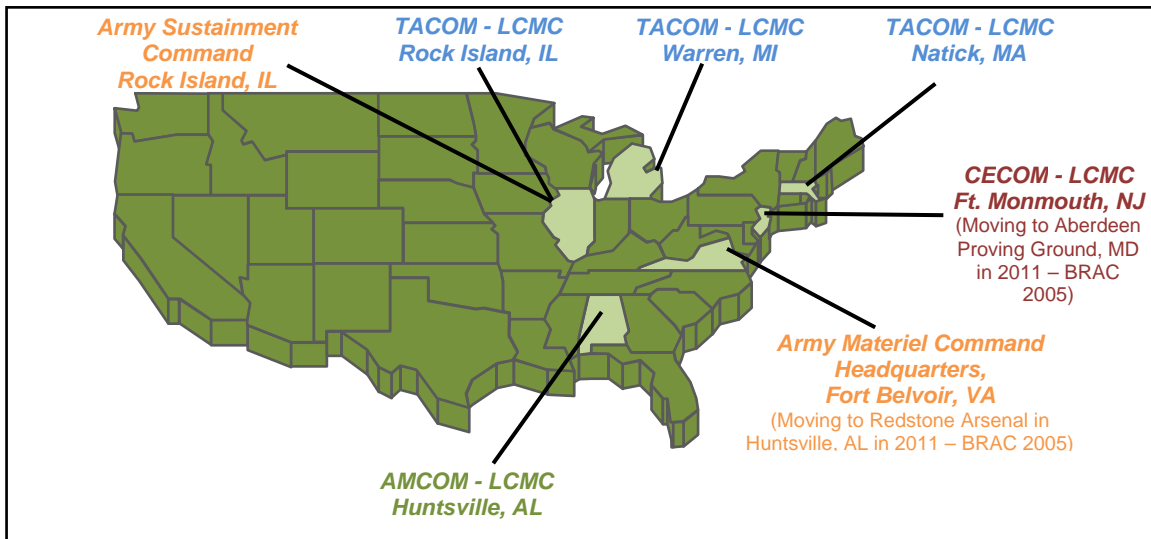


Large, medium-speed roll-on-roll-off (LMSR) ship used to store APS afloat materiel and equipment

Activity Group Composition

Figure SM-1 below displays the locations and of each Life Cycle Management Command (LCMC), and the locations of Headquarters, Army Materiel Command (AMC) and Army Sustainment Command. Each LCMC, a subordinate command of AMC, acquires and manages consumable supplies and spare parts for distinct categories of weapon systems. The Army Prepositioned Stocks contain materiel from each LCMC.

Figure SM-1 Supply Management locations



The TACOM-LCMC (formerly the Tank-automotive Armament Life Cycle Management Command) mission is to develop, acquire, field, and sustain Soldier and ground systems for the warfighter through the integration of effective and timely acquisition, logistics, and cutting-edge technology. They support a diverse set of product lines through their life cycles, from tracked combat and wheeled tactical vehicles, armaments, watercraft, fuel and water distribution equipment, to Soldier, biological, and chemical equipment. Major weapon systems supported include the M1 Abrams tank, M2 Bradley Fighting Vehicle, and M109A6 Paladin howitzer. TACOM-LCMC activities are located at Detroit Arsenal in Warren, Michigan; U.S. Army Soldier Systems Center in Natick, Massachusetts; and Rock Island Arsenal, Illinois.



An M109A6 Paladin fires its 155mm Howitzer from Badoush prison, just outside Mosul, Iraq

The AMCOM-LCMC (Aviation and Missile LCMC) mission is to develop, acquire, field, and sustain



AH-64D Apache

aviation, missile, and unmanned vehicle systems, and to ensure system readiness with seamless transition to combat operations. Major weapon systems supported include the AH-64 Apache attack helicopter, UH-60 Blackhawk helicopter, and CH-47 Chinook helicopter. AMCOM-LCMC activities are located at Redstone Arsenal in Huntsville, Alabama.

The CECOM-LCMC (Communications-Electronics LCMC) mission is to develop, acquire, field and sustain Command, Control Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) capabilities for the Army and Joint Force. CECOM-LCMC activities are located at Fort Monmouth, New Jersey but are moving to Aberdeen Proving Ground, Maryland as directed by Base Realignment and Closure 2005.

The Army Sustainment Command (ASC) mission is to provide Combat Service Support capability to Soldiers serving in Combat Commands in CONUS and overseas to ensure expeditionary war-fighting readiness and leverage national logistics to sustain a transforming Army at war. Included in this mission is the responsibility to acquire and maintain Army Prepositioned Stocks. ASC is located at Rock Island Arsenal, Illinois.

The Headquarters, Army Materiel Command (AMC) mission is complex and ranges from developing sophisticated weapon systems, to advanced research in such areas as lasers, to maintaining and distributing spare parts. This mission is best summarized by AMC's three core competencies: acquisition excellence, logistics power projection, and technology generation and application. To develop, buy, and maintain materiel for the Army, AMC works closely with industry, colleges and universities, the other Services, and government agencies



to ensure state-of-the-art technology and support are exploited to defend the Nation. Army Materiel Command Headquarters is located at Fort Belvoir, Virginia but is moving to Redstone Arsenal at Huntsville, Alabama as directed by Base Realignment and Closure 2005.

Budget Highlights

Assumptions

This budget submission is a business plan that supports Soldiers and weapon systems readiness for base-funded operational requirements, reset of equipment, and combat activity associated with the deployed force in Operation Iraqi Freedom (OIF) and Operation Enduring Freedom (OEF). FY 2010 estimates assume reduced troop strength and OIF OPTEMPO level at 33 percent of FY 2008, resulting in lower levels of supply demands and sales than in previous years. Customer demands and associated hardware obligation authority to fund inventory replenishment are also adjusted based on this assumption. If additional changes in funded OPTEMPO levels during the year of execution cause demand activity to exceed the estimates, additional obligation authority is included in this budget; this ensures supply funding is available to support Soldiers' supplies and spare part requirements.

The FY 2010 estimate assumes supplemental OIF OPTEMPO activity at approximately 33% of FY 2008 levels.

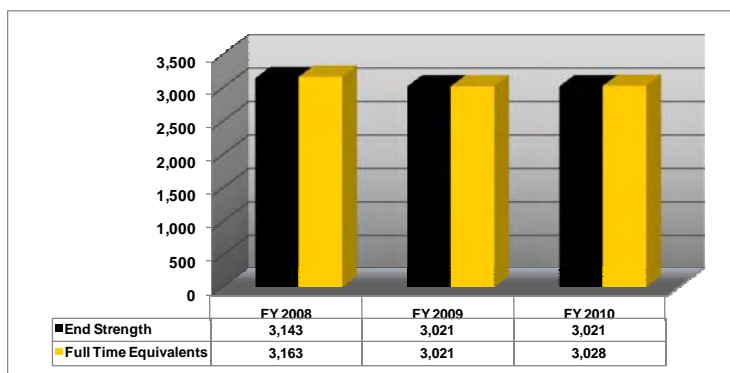


Soldiers from 1st Brigade, 1st Armored Division ride in a Bradley Fighting Vehicle during a patrol in Tal Afar, Iraq

Personnel

Civilian full time equivalent changes are related to workload adjustments associated with BRAC 2005 implementation of consumable items management and spares acquisition functions moving to Defense Logistics Agency. Civilian personnel transfers associated with BRAC 2005 will be completed during FY 2011. Military end strength and full time equivalents remain at 11 over the course of this budget submission.

Chart SM-1 Civilian Personnel

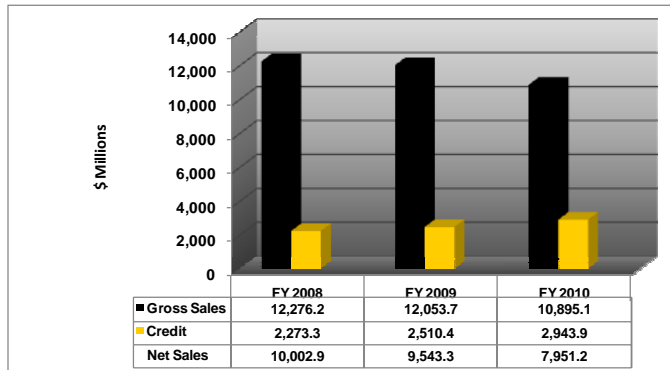


Sales

Sales are projected to decrease in FY 2010, driven by the assumption of lower Operation Iraqi Freedom (OIF) OPTEMPO. Sales reflect income from operations and do not include appropriations for war reserve materiel and inventory augmentation. Currently, credit is not allowed for materiel returns in

Operation Iraqi Freedom (OIF) and Operation Enduring Freedom (OEF) due to the higher repair cost and washout rate from increased wear and battle damage to the returned items. The credit change in FY 2010 is based on the assumption that troops are returning to home station from OIF and will receive credit for materiel returned at home station. Sales are displayed on the following exhibits: Fund 14, Revenue and Expenses; Fund 11, Source of New Orders and Revenue; SM 1, Supply Management Summary (sales net of credit); and SM 4, Inventory Status.

Chart SM-2 Sales

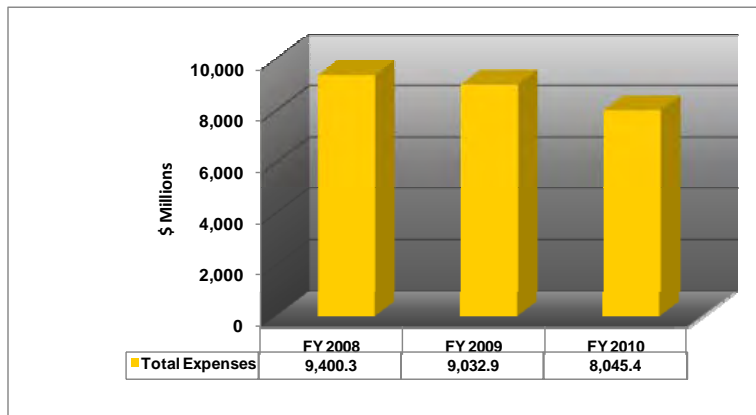


Expenses

Expenses are projected to decrease in FY 2010 in conjunction with lower sales, primarily due to reductions in the cost of goods sold, the sum of the acquisition and repair cost of all the items sold. Supply operations costs, distribution depot costs, and transportation costs

are anticipated to decrease in conjunction with fewer OIF sales. Expenses are displayed on exhibit Fund 14, Revenue and Expenses.

Chart SM-3 Expenses



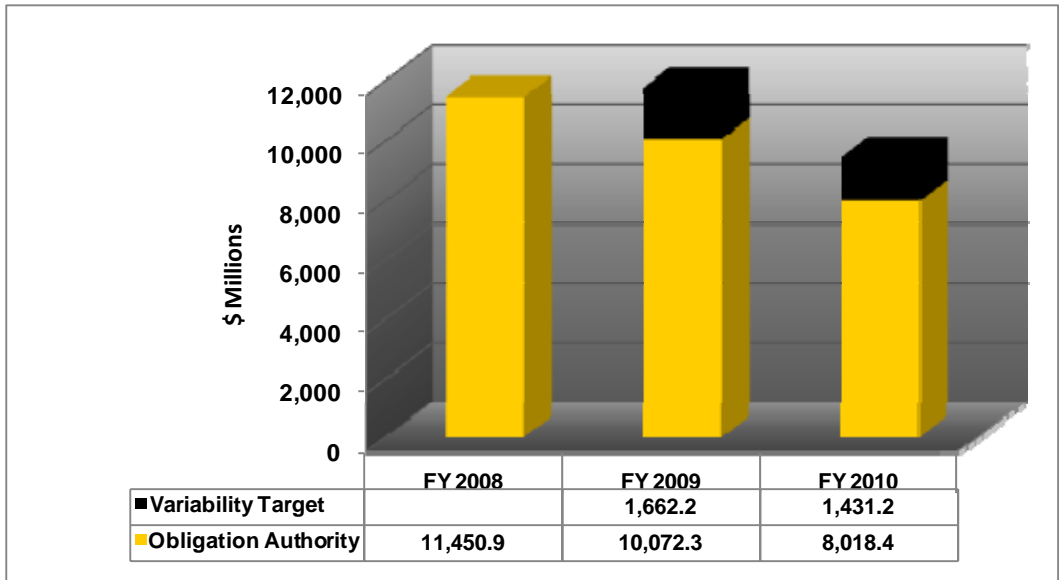
Operating Obligation Authority

Operating obligation authority (OA) is requested for the acquisition and repair of replenishment spares, and Supply Management's cost of operations. Variability target (formerly named commitment authority) in FY 2009 and FY 2010 is the projected amount of additional cost authority reflected on exhibit SM 1 (Supply Management Summary) allowing rapid response to variances in costs or



changes in customer demands during the execution year. Obligation authority requirements are projected to decrease in FY 2010 commensurate with projections of reduced customer demands due to lower force structure and OPTEMPO in Operation Iraqi Freedom. Operating obligation authority is displayed on exhibits SM 1, Supply Management Summary and SM 3b, Operating Requirements by Weapons System.

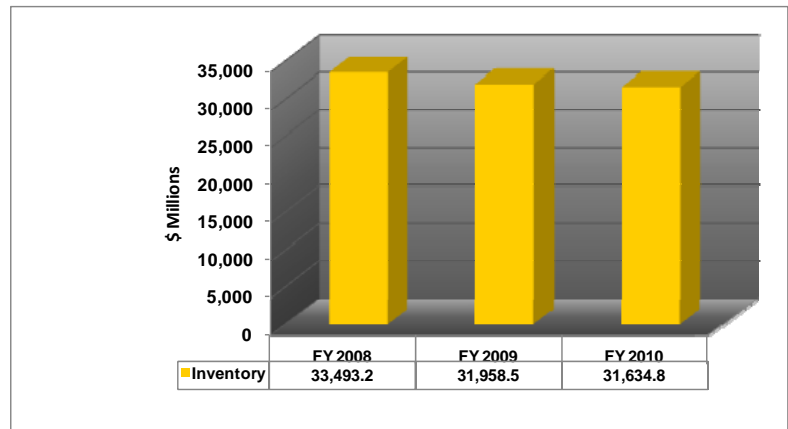
Chart SM-4 Obligation Authority



Inventory

Inventory values shown in chart SM-5 below, include operational inventory; carcasses awaiting repair; inventory required beyond the budget year; economic and contingency retention stock; and excess items awaiting disposal. Spares inventory levels

Chart SM-5 Inventory



are expected to decrease through FY 2010. AMC's inventory due diligence effort has resulted in a 34 percent (\$798 million) reduction in contingency retention stocks during FY 2008. Senior Leaders review materiel retention decisions that exceed the forecasted requirements. Inventory is displayed on exhibit SM 4, Inventory Status.



Operating Results

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 AWCF operates on a break-even basis during the budget cycle. Normally, the Army sets each activity's annual rate to bring AOR to zero in the budget cycle. This budget reflects the return of \$94.2 million in operating gains in aggregate across the budget years, allowing a decrease in prices for FY 2010. Because of cash transfers this budget does not return the entire amount of positive AOR to customers. In the next budget cycle, the Army will evaluate its cash position and impact on rates in determining the AOR amount to return. The NOR and AOR are displayed on exhibit Fund 14, Revenue and Expenses.

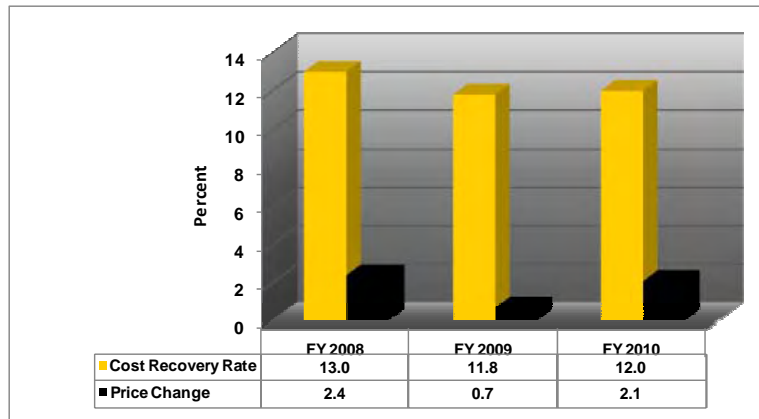
Table SM-1 Operating Results

(\$ Millions)	FY 2008	FY 2009	FY 2010
Net Operating Result	411.0	510.4	(94.2)
Retained Earnings	(920.0)	0.0	0.0
Accumulated Operating Result	(56.4)	454.0	359.8

Cost Recovery Rate

The Supply Management cost recovery rate is set to recover full costs and adjust for accumulated operating result. Typical costs recovered are civilian pay, distribution depot costs, transportation costs, Defense Agency bills associated with supply

Chart SM-6 Cost Recovery Rate and Price Change



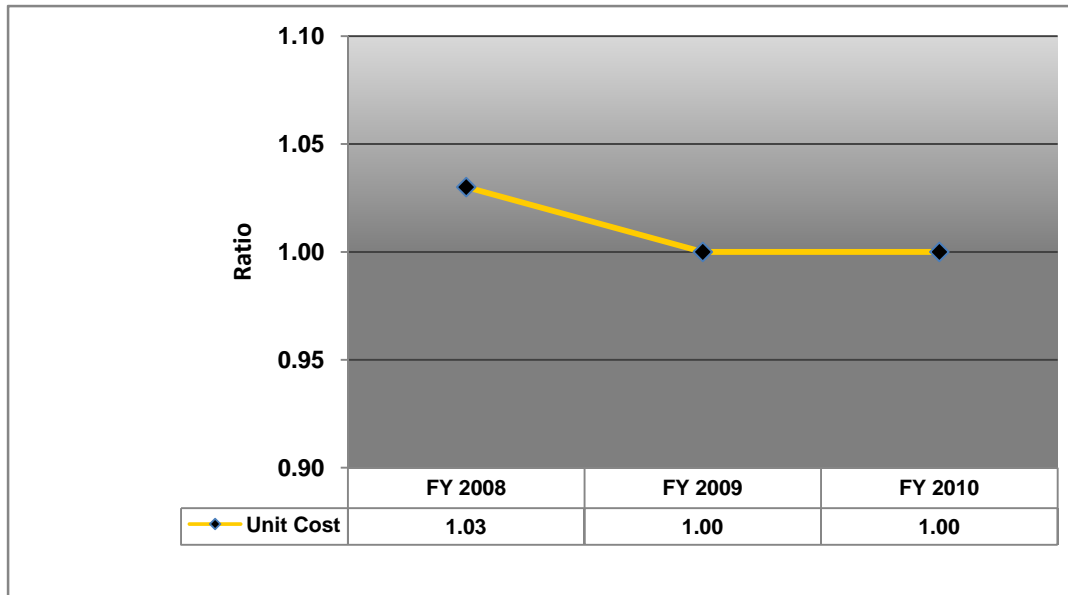
operations, and costs replacing inventory losses in shipment and handling. The increased cost recovery rate and the price change in FY 2010 is due to the reduced sales, based on budget assumptions of decreased OPTEMPO and force structure in Operation Iraqi Freedom. Also, overhead costs that are not variable with changes in sales, such as civilian pay and defense agency bills, have increased. The price change is displayed on exhibit SM 5b, Customer Price Change.



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 with the related work or output. Chart SM-7 below shows stable unit costs from FY 2009 through FY 2010 indicating a consistent operating cost in relation to the declining sales volume.

Chart SM-7 Unit Cost



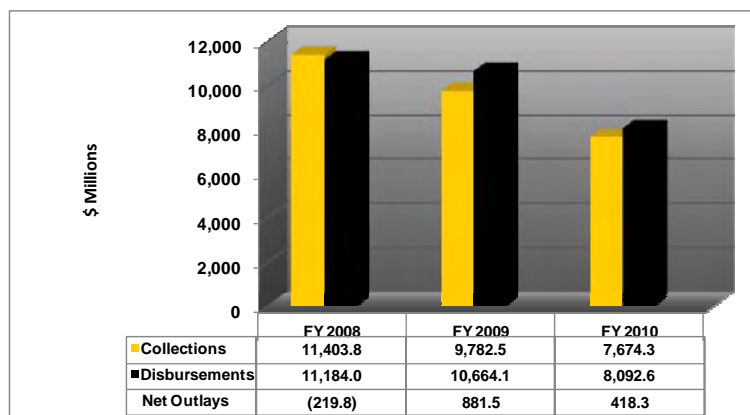
$$\text{Unit cost} = \frac{\text{Obligations} + \text{Credit} + \text{Depreciation expense}}{\text{Gross sales}}$$

Cash Management

Chart SM-8 shows FY 2008 and FY 2009 collections that include \$1,317.5 million of FY 2008 supplemental funding for replacement of spares lost in combat operations, for inventory augmentation to support higher demands in Operation Iraqi Freedom, and for replenishment of

war reserve secondary items. FY 2010 collections and disbursements correspond with decreased activity assumptions associated with wartime

Chart SM-8 Cash Management



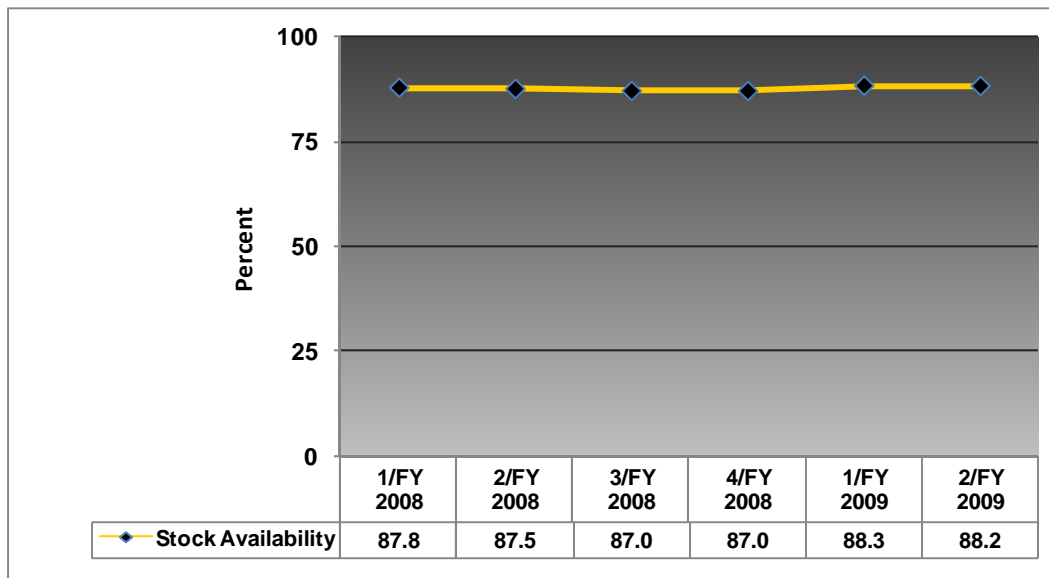
requirements and include a projected cash surcharge. The net outlays in FY 2010 are associated with decreasing sales, increased credit, and continued materiel deliveries against hardware obligations made in earlier fiscal years.

Performance Measurement

Stock Availability

Supplying and maintaining the Army's equipment remain key components of readiness. Army has a world-wide stock availability rate of 87 percent. This was accomplished through full funding of hardware, proper management of the supply chain, and reliable oversight of materiel stockage requirements. Stock availability is above 87 percent for critical, high density weapon systems deployed in Operation Iraqi Freedom and Operation Enduring freedom. This higher level equates to a faster response to Soldiers' supply requests. Stock availability has been relatively stable during FY 2008 and is expected to remain stable in FY 2009 as materiel is received from vendors to satisfy customers' supply requisitions. Chart SM-9 below shows stock availability achieved at the end of each quarter in FY 2008 and through second quarter FY 2009.

Chart SM-9 Stock Availability



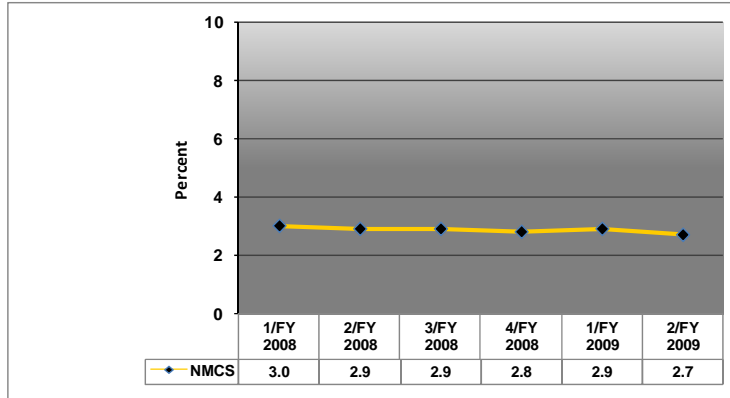
The stock availability goal, a primary performance measure relating supply system ability to fill requisitions, is 85% demand satisfaction.



Non Mission Capable, Supply

Chart SM-10 Non Mission Capable, Supply

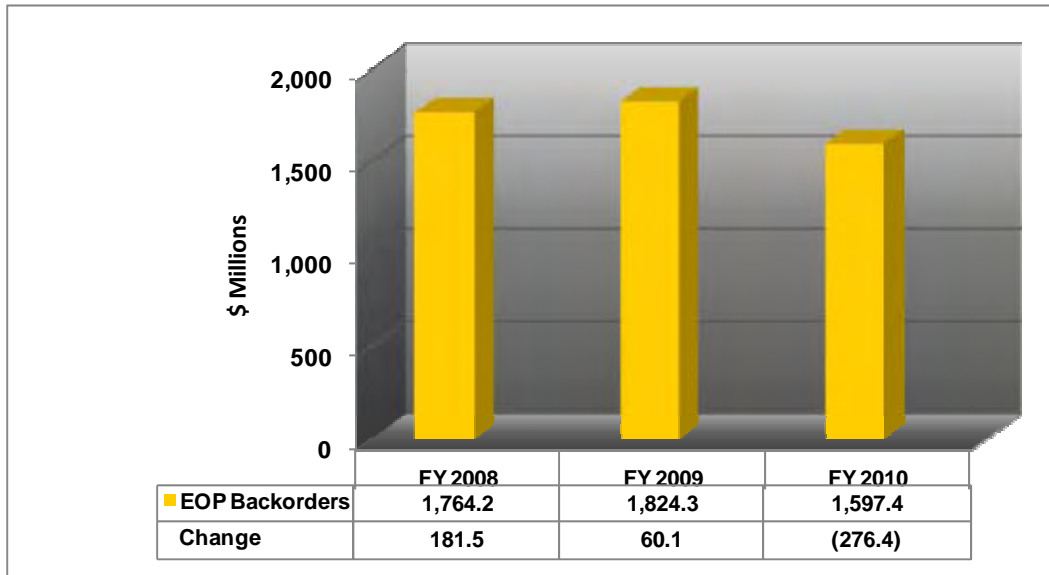
The non mission capable, supply (NMCS) value represents the percent of time a weapon system is not mission capable due to lack of critical spare parts. The goal is to maintain NMCS at or below five percent. Chart SM-10 shows NMCS rates achieved at the end of each quarter in FY 2008 and through second quarter FY 2009. Non mission capable supply by weapons system is displayed on exhibit SM 3b, Operating Requirements by Weapon System.



Customer Backorders

Backorders are projected to remain stable through FY 2009 with reductions in FY 2010 due to both materiel deliveries and the Base Realignment and Closure (BRAC) directed consumable item transfer to Defense Logistics Agency. Customer backorders for the end of each fiscal year are displayed on exhibit Fund 11, Source of New Orders and Revenue.

Chart SM-11 Customer Backorders



Supply Management Workload

Table SM-2 below displays Supply Management items of interest. The items managed decreases in FY 2010 are due to the Base Realignment and Closure (BRAC) directed consumable items transfer to Defense Logistics Agency. The decreases in requisitions received and issues completed in FY 2009 and FY 2010 are based on Operation Iraqi Freedom (OIF) deployed force activity assumptions and the BRAC directed consumable item transfer to Defense Logistics Agency.

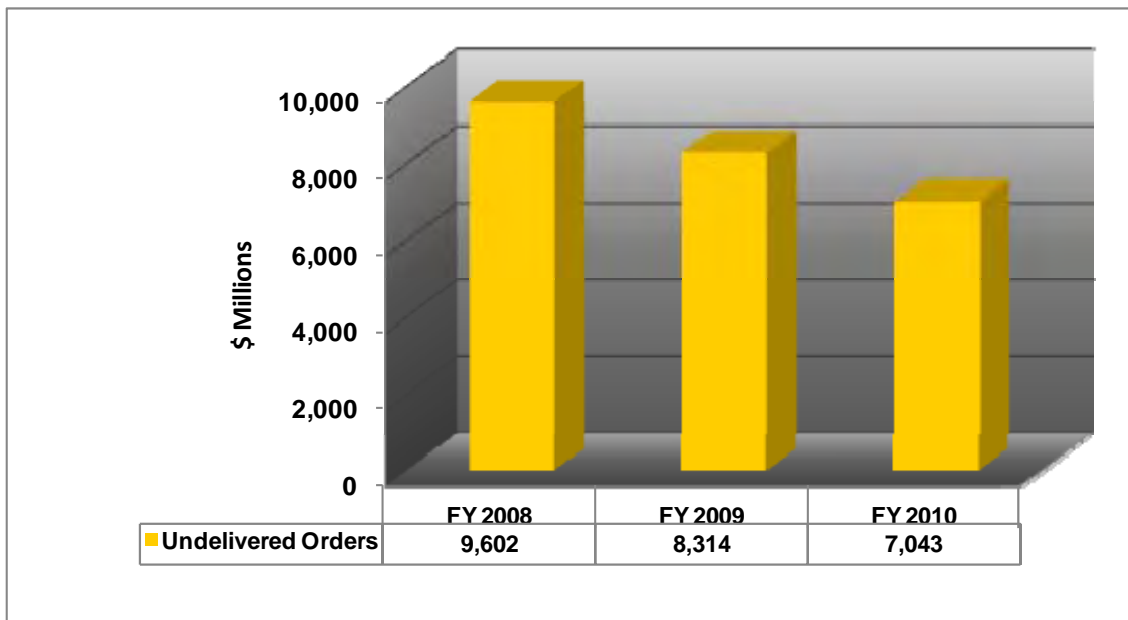
Table SM-2 Supply Management Workload

Supply Management Workload	FY 2008	FY 2009	FY 2010
Items Managed	121,737	117,850	117,377
Requisitions Received	1,233,000	1,128,000	838,000
Issues Completed	1,469,000	1,314,000	1,040,000
Procurement Receipts	63,000	60,000	56,000
Contracts Awarded	11,000	9,000	11,000

Undelivered Orders

Undelivered orders are goods and services ordered, but not yet received. A sufficient cash balance is required to pay vendors upon receipt of these orders. As shown in the chart to the right, undelivered orders are projected to decrease through FY 2010 due to continued materiel deliveries and decreased new materiel obligations based on lower OPTEMPO in OIF. Undelivered orders from commercial suppliers and repair facilities exceeded \$9.6 billion at the end of FY 2008

Chart SM-12 Undelivered Orders



Appropriations

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 reserve secondary items improve Army's ability to meet global missions by sustaining the deployed combat force until CONUS-based re-supply commences.

war reserves support important combat weapon systems such as M1 Tanks, Bradley Fighting Vehicles, artillery howitzers, rocket launchers, and HMMWVs. Army received \$1,057.9 million of FY 2008 supplemental funding to replenish spares in Army Prepositioned Stocks (APS) issued to combat forces during Operation Iraqi Freedom (OIF). The secondary items are required to support and maintain combat and lifesaving equipment that is released to deploying forces. War Reserve funding received in FY 2008 and requested in FY 2009 and FY 2010 supports the Army's 2015 APS Strategy. Army received \$254.6 million in the FY 2008 Supplemental to replace spares lost in combat operations and augment inventory to support continued high demands in OIF. Appropriations are displayed on exhibit Fund 14 Revenue and Expenses. War reserve inventory is displayed on exhibits SM 4, Inventory Status and SM 6, War Reserve Materiel.

Table SM-3 Appropriations

(\$ Millions)	FY 2008	FY 2009	FY 2010
War Reserve Secondary Items	5.0	102.2	38.5
Supplemental Funds			
<i>Army War Reserve Stocks</i>	1,057.9	443.2	
<i>Spares, Combat Losses</i>	120.1		
<i>Spares, OIF Demands</i>	134.5		
Total Supplemental Funds	1,312.5	443.2	0.0
Total Appropriated Funds	1,317.5	545.4	38.5

Capital Budget

The Supply Management Capital Investment Program (CIP) funds the development of software to improve managerial decision-making quality and timeliness. Logistics Modernization Program (LMP) continues as the main effort of the CIP. LMP re-engineers logistics processes and utilizes modern information technology to provide real-time visibility of the entire logistics supply chain. 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 obligations are shown below. Capital budget obligation authority is displayed on exhibits Fund 9a, Capital Investment Summary; Fund 9b, Capital Purchase Justification; and Fund 9c, Capital Budget Execution.

Table SM-4 Capital Budget

(\$ Millions)	FY 2008	FY 2009	FY 2010
Automated Data Processing Equipment	0.6	0.6	0.6
Software	88.2	63.1	58.2
Total	88.8	63.7	58.8



**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Supply Management**

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

	FY 2008	FY 2009	FY 2010
Revenue			
<i>AMI Sales</i>	10,661.5	10,584.7	9,784.5
<i>NAMI Sales</i>	1,614.5	1,468.0	1,109.6
<i>AMC MOB Sales</i>	0.2	1.0	1.0
Total Gross Sales	12,276.2	12,053.7	10,895.1
<i>Credit and Allowances</i>	2,273.3	2,510.4	2,943.9
Net Sales	10,002.9	9,543.3	7,951.2
Other Income	1,317.5	545.4	38.5
<i>War Reserve-Secondary Items</i>	1,062.9	545.4	38.5
<i>Inventory Augmentation</i>	254.6	0.0	0.0
Total Income	11,320.4	10,088.7	7,989.7
Expenses			
Cost of Materiel Sold from Inventory			
<i>AMI</i>	6,509.3	6,314.9	5,748.0
<i>NAMI</i>	1,614.5	1,468.0	1,109.6
<i>AMC MOB</i>	0.2	1.0	1.0
Total Cost of Materiel Sold from Inventory	8,124.0	7,783.9	6,858.6
<i>Inventory Losses/Obsolescence</i>	94.9	129.1	98.1
Salaries and Wages Total	302.5	304.6	311.9
<i>Military Personnel Compensation & Benefits</i>	1.0	1.1	1.1
<i>Civilian Personnel Compensation & Benefits</i>	301.4	303.5	310.8
<i>Travel & Transportation of Personnel</i>	4.5	3.6	3.8
<i>Materiel & Supplies (For Internal Operations)</i>	0.7	1.1	1.0
<i>Equipment</i>	0.7	1.1	1.1
<i>Other Purchases from Revolving Funds</i>	302.5	327.8	331.0
<i>Transportation of Things</i>	146.1	134.3	113.1
<i>Depreciation - Capital</i>	6.4	41.6	34.4
<i>Printing and Reproduction</i>	0.2	0.1	0.2
<i>Advisory and Assistance Services</i>	52.1	21.2	21.4
<i>Rent, Communication, Utilities & Misc. Charges</i>	5.9	10.0	10.1
<i>Other Purchased Services</i>	359.5	274.4	260.7
Total Expenses	9,400.3	9,032.9	8,045.4
Operating Result	1,920.1	1,055.8	(55.7)
<i>Less Recovery of Prior Year Pricing Discrepancies</i>	(191.5)	0.0	0.0
<i>Other Changes Affecting NOR:</i>			
<i>Less Direct Funding</i>	(1,317.5)	(545.4)	(38.5)
Net Operating Result	411.0	510.4	(94.2)
<i>Prior Year AOR</i>	452.6	(56.4)	454.0
<i>Less Retained Earnings</i>	(920.0)		
Accumulated Operating Result	(56.4)	454.0	359.8

**EXHIBIT FUND 14
REVENUE AND EXPENSES**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Supply Management**

**Source of New Orders and Revenue
(\$ in Millions)**

	FY 2008	FY 2009	FY 2010
1. New Orders			
a. Orders from DOD Components			
<i>Department of Army Total</i>			
<i>Operation and Maintenance, Army ¹</i>	10,052.6	8,201.4	6,985.4
<i>Operation and Maintenance, ARNG</i>	651.7	720.7	620.9
<i>Operation and Maintenance, AR</i>	41.8	39.2	33.5
Subtotal, Operation and Maintenance	10,746.2	8,961.4	7,639.7
<i>Industrial Operations Business</i>	923.5	902.0	885.7
<i>Procurement Appropriations</i>	189.8	1,328.6	1,312.6
<i>RDT&E</i>	6.5	10.7	8.5
<i>All Other Army</i>	45.9	99.9	84.5
Subtotal, Department of Army	11,911.9	11,302.6	9,931.1
<i>Department of Navy</i>	60.2	113.3	103.2
<i>Department of Air Force</i>	107.4	186.1	172.0
<i>US Marine Corps</i>	101.2	165.0	144.8
<i>Other Department of Defense</i>	46.1	80.6	71.7
Subtotal, Other DOD Services	314.9	545.0	491.7
Total DOD	12,226.8	11,847.5	10,422.8
b. Other Orders			
<i>Supply Support Agreements</i>	83.7	90.6	82.6
<i>Foreign Military Sales</i>	158.4	165.2	151.0
<i>Military Assistance Programs</i>	5.1	3.4	4.0
<i>Other Federal Agencies</i>	3.0	6.1	5.7
<i>All Other</i>	0.0	1.0	2.2
Subtotal, Other Orders	250.3	266.3	245.4
Total New Orders	12,477.1	12,113.8	10,668.2
2. Carry-In Orders (Back Orders From Prior Years)	1,563.3	1,764.2	1,824.3
3. Total Gross Orders	14,040.4	13,878.0	12,492.5
4. Less Carry out	1,764.2	1,824.3	1,597.4
5. Gross Sales	12,276.2	12,053.7	10,895.1
6. Less Credit and Allowances	2,273.3	2,510.4	2,943.9
7. Net Sales	10,002.9	9,543.3	7,951.2

^{1/} Amounts include Supplemental funded demands (FY 2008 \$4,070.9M; FY 2009 \$4,946.2M; FY 2010 \$2,782.6M)

**EXHIBIT FUND 11
SOURCE OF NEW ORDERS AND REVENUE**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Supply Management**

**Supply Management Summary
(\$ in Millions)**

	Net Customer Orders	Net Sales	Obligation Targets		Total
			Operating	MOB	
Non Army Managed Items (NAMI)					
<i>FY 2008</i>	1,723.0	1,613.6	1,462.7	0.0	1,462.7
<i>FY 2009</i>	1,566.6	1,467.0	1,458.2	0.0	1,458.2
<i>FY 2010</i>	1,099.7	1,108.1	1,097.0	0.0	1,097.0
Army Managed Items (AMI)					
<i>Aviation</i>					
<i>FY 2008</i>	3,406.2	3,330.9	2,783.3	132.1	2,915.4
<i>FY 2009</i>	2,812.5	2,742.6	2,533.8	65.7	2,599.5
<i>FY 2010</i>	2,219.8	2,323.3	1,999.1	1.6	2,000.7
<i>Communications-Electronics</i>					
<i>FY 2008</i>	1,563.9	1,480.9	1,651.2	57.4	1,708.6
<i>FY 2009</i>	1,385.3	1,413.2	1,224.2	49.8	1,274.0
<i>FY 2010</i>	1,139.2	1,168.5	945.2	3.1	948.3
<i>Missiles</i>					
<i>FY 2008</i>	289.2	235.4	223.1	43.4	266.6
<i>FY 2009</i>	213.9	221.1	126.7	26.1	152.8
<i>FY 2010</i>	247.6	278.5	192.0	1.0	193.0
<i>Tank and Automotive</i>					
<i>FY 2008</i>	3,221.3	3,341.9	3,089.6	373.2	3,462.8
<i>FY 2009</i>	3,624.1	3,698.3	3,040.7	192.9	3,233.6
<i>FY 2010</i>	3,017.1	3,071.8	2,627.3	5.6	2,632.9
Total AMI					
FY 2008	8,480.6	8,389.1	7,747.2	606.1	8,353.3
FY 2009	8,035.8	8,075.3	6,925.4	334.6	7,260.0
FY 2010	6,623.6	6,842.1	5,763.6	11.3	5,774.9
AMC Mobilization					
<i>FY 2008</i>	0.2	0.2	2.0	451.8	453.7
<i>FY 2009</i>	1.0	1.0	1.0	210.8	211.8
<i>FY 2010</i>	1.0	1.0	1.0	27.2	28.2
Total Hardware					
FY 2008	10,203.8	10,002.9	9,211.9	1,057.9	10,269.8
FY 2009	9,603.4	9,543.3	8,384.6	545.4	8,930.0
FY 2010	7,724.3	7,951.2	6,861.6	38.5	6,900.1

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Supply Management**

**Supply Management Summary
(\$ in Millions)**

	Net Customer Orders	Net Sales	Obligation Targets		Total
			Operating	MOB	
<i>Cost of Operations (LOGOPS)</i>					
<i>FY 2008</i>			1,174.8	0.0	1,174.8
<i>FY 2009</i>			1,078.3	0.0	1,078.3
<i>FY 2010</i>			1,054.3	0.0	1,054.3
<i>Variability Target</i>					
<i>FY 2008</i>			0.0	0.0	0.0
<i>FY 2009</i>			1,662.2	0.0	1,662.2
<i>FY 2010</i>			1,431.2	0.0	1,431.2
<i>Enterprise Software Initiative</i>					
<i>FY 2008</i>			6.3	0.0	6.3
<i>FY 2009</i>			64.0	0.0	64.0
<i>FY 2010</i>			64.0	0.0	64.0
Total Operating Obligation Authority					
FY 2008	10,203.8	10,002.9	10,393.0	1,057.9	11,450.9
FY 2009	9,603.4	9,543.3	11,189.1	545.4	11,734.5
FY 2010	7,724.3	7,951.2	9,411.1	38.5	9,449.6
<i>Capital Obligation Authority</i>					
<i>FY 2008</i>			88.8	0.0	88.8
<i>FY 2009</i>			63.7	0.0	63.7
<i>FY 2010</i>			58.8	0.0	58.8
Total Obligation Authority					
FY 2008	10,203.8	10,002.9	10,481.8	1,057.9	11,539.7
FY 2009	9,603.4	9,543.3	11,252.7	545.4	11,798.1
FY 2010	7,724.3	7,951.2	9,469.9	38.5	9,508.4
Budget Authority					
<i>War Reserve Authority</i>					
<i>FY 2008</i>			0.0	1,062.9	1,062.9
<i>FY 2009</i>			0.0	545.4	545.4
<i>FY 2010</i>			0.0	61.5	61.5
<i>Inventory Augmentation</i>					
<i>FY 2008</i>			254.6	0.0	254.6
<i>FY 2009</i>			0.0	0.0	0.0
<i>FY 2010</i>			0.0	0.0	0.0
Total Budget Authority					
FY 2008			254.6	1,062.9	1,317.5
FY 2009			0.0	545.4	545.4
FY 2010			0.0	61.5	61.5

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Supply Management**

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

	FY 2008		FY 2009		FY 2010	
	Obligations	NMCSR ¹	Obligations	NMCSR ¹	Obligations	NMCSR ¹
<i>AH-64, Apache</i>	590.3	5.4%	497.0	≤ 25.0%	444.9	≤ 25.0%
<i>CH-47D, Chinook</i>	417.0	6.4%	565.3	≤ 25.0%	416.1	≤ 25.0%
<i>UH-60, Black Hawk</i>	1,414.3	3.9%	1,264.3	≤ 25.0%	1,041.7	≤ 25.0%
<i>OH-58D, Kiowa Warrior</i>	328.0	2.6%	176.0	≤ 25.0%	101.0	≤ 25.0%
<i>Other Aviation</i>	280.6	2.0%	208.1	≤ 25.0%	183.0	≤ 25.0%
<i>MLRS</i>	2.4	3.1%	4.8	≤ 10.0%	4.3	≤ 10.0%
<i>Patriot</i>	114.2	2.0%	64.5	≤ 10.0%	68.4	≤ 10.0%
<i>Other Missile</i>	44.2	2.0%	9.3	≤ 10.0%	34.4	≤ 10.0%
<i>Firefinder</i>	130.6	2.0%	266.9	≤ 10.0%	176.6	≤ 10.0%
<i>Night Vision Goggles</i>	271.6	0.0%	126.6	≤ 10.0%	127.0	≤ 10.0%
<i>SINCGARS</i>	177.5	0.0%	133.3	≤ 10.0%	163.0	≤ 10.0%
<i>Other Communication-Electronics</i>	894.9	3.0%	538.4	≤ 10.0%	326.6	≤ 10.0%
<i>FMTV</i>	4.8	2.8%	13.2	≤ 10.0%	15.2	≤ 10.0%
<i>HEMTT</i>	18.7	3.0%	41.5	≤ 10.0%	53.3	≤ 10.0%
<i>HMMWV</i>	26.6	1.7%	223.8	≤ 10.0%	293.4	≤ 10.0%
<i>M109A6, Paladin</i>	27.5	1.8%	16.4	≤ 10.0%	31.1	≤ 10.0%
<i>M198, Towed Howitzer</i>	13.9	2.1%	4.2	≤ 10.0%	3.8	≤ 10.0%
<i>M1A1, Abrams Tank</i>	722.3	2.6%	646.1	≤ 10.0%	419.4	≤ 10.0%
<i>M1A2, Abrams Tank (SEP)</i>	29.6	3.1%	128.7	≤ 10.0%	109.8	≤ 10.0%
<i>M2/M3, Bradley Fighting Vehicle</i>	428.7	1.3%	445.2	≤ 10.0%	255.1	≤ 10.0%
<i>Stryker</i>	6.4	0.6%	17.6	≤ 10.0%	21.0	≤ 10.0%
<i>Other Tank-Automotive</i>	1,803.1	2.0%	1,534.2	≤ 10.0%	1,474.4	≤ 10.0%
Subtotal	7,747.2		6,925.4		5,763.6	
<i>NAMI</i>	1,462.7		1,458.2		1,097.0	
<i>AMC-MOB</i>	2.0		1.0		1.0	
TOTAL	9,211.9		8,384.6		6,861.6	

^{1/} NMCS - Non Mission Capable Supply Rate represents the percent of time a weapon system is not mission capable due to lack of critical spare parts. FY 2008 is actual data. FY 2009 and FY 2010 are Army's goal.

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Supply Management**

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

	FY 2008			
	Total	Mobilization	Operating	Other
1. Inventory Beginning of Period (BOP)	32,764.8	2,065.2	16,793.8	13,905.8
2. BOP Inventory Adjustments				
a. Reclassification	(0.1)	(114.4)	3,033.2	(2,918.9)
b. Price Change Amount	(351.2)	(24.1)	(176.6)	(150.5)
c. Adjusted Inventory BOP (1+2A+2B)	32,413.5	1,926.7	19,650.5	10,836.3
3. Receipts	7,151.4	80.9	7,070.5	-
4. Sales	12,276.2	-	12,276.2	-
5. Inventory Adjustments				
a. Capitalization	(442.8)	21.5	102.1	(566.3)
b. Returns from Customers	1,418.2	-	966.0	452.2
c. Returns from Customers w/o Credit	8,157.4	-	1,511.5	6,645.9
d. Returns to Suppliers	2,203.6	-	2,454.4	(250.8)
e. Transfers to DRMS	(3,608.7)	-	-	(3,608.7)
f. Issues/Receipts w/o Adjustments	(73.3)	-	-	(73.3)
g. Other	(1,449.9)	-	(384.1)	(1,065.8)
h. Exchange Price Inventory Adjustments	-	-	-	-
i. Total	6,204.4	21.5	4,649.9	1,533.1
6. Inventory End of Period (EOP)	33,493.2	2,029.1	19,094.7	12,369.4
7. Inventory EOP, Revalued (LAC Discounted)	27,677.2	1,808.9	15,866.5	10,001.8
a. Economic Retention (MEMO)	4,739.8			4,739.8
b. Contingency Retention (MEMO)	2,566.7			2,566.7
c. Potential Transfer to DRMS (MEMO)	2,695.3			2,695.3
8. On Order EOP at Cost	7,081.8	944.3	6,137.5	-

9. NARRATIVE:

LCMC Communication-Electronics and Soldier Support Team inventory is valued at Moving Average Cost (MAC). All other inventory is valued at Standard Price. Column "Other" includes inventory that stratifies beyond budget year, economic and contingency retention stock, and inventory excess to requirement objective.

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Supply Management**

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

	FY 2009			
	Total	Mobilization	Operating	Other
1. Inventory Beginning of Period (BOP)	33,493.2	2,029.1	19,094.7	12,369.4
2. BOP Inventory Adjustments				
a. Reclassification	-	(38.3)	1,507.2	(1,468.9)
b. Price Change Amount	(255.7)	(14.2)	(111.4)	(130.1)
c. Adjusted Inventory BOP (1+2A+2B)	33,237.5	1,976.6	20,490.5	10,770.4
3. Receipts	6,777.4	624.7	6,152.7	-
4. Sales	12,053.7	-	12,053.7	-
5. Inventory Adjustments				
a. Capitalization	(259.4)	-	9.7	(269.1)
b. Returns from Customers	3,107.5	-	2,498.4	609.1
c. Returns from Customers w/o Credit	7,634.4	-	841.5	6,792.9
d. Returns to Suppliers	(192.6)	-	-	(192.6)
e. Transfers to DRMS	(3,324.3)	-	-	(3,324.3)
f. Issues/Receipts w/o Adjustments	(314.9)	-	-	(314.9)
g. Other	(2,653.4)	-	(1,084.7)	(1,568.7)
h. Exchange Price Inventory Adjustments	-	-	-	-
i. Total	3,997.3	-	2,264.9	1,732.4
6. Inventory End of Period (EOP)	31,958.5	2,601.3	16,854.4	12,502.8
7. Inventory EOP, Revalued (LAC Discounted)	26,557.3	2,260.4	10,907.2	13,389.7
a. Economic Retention (MEMO)	6,836.9			6,836.9
b. Contingency Retention (MEMO)	4,207.6			4,207.6
c. Potential Transfer to DRMS (MEMO)	2,345.2			2,345.2
8. On Order EOP at Cost	7,263.1	653.6	6,609.5	-

9. NARRATIVE:

LCMC Communication-Electronics and Soldier Support Team inventory is valued at Moving Average Cost (MAC). All other inventory is valued at Standard Price. Column "Other" includes inventory that stratifies beyond budget year, economic and contingency retention stock, and inventory excess to requirement objective.

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Supply Management**

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

	FY 2010			
	Total	Mobilization	Operating	Other
1. Inventory Beginning of Period (BOP)	31,958.5	2,601.3	16,854.4	12,502.8
2. BOP Inventory Adjustments				
a. Reclassification	-	229.6	1,785.2	(2,014.8)
b. Price Change Amount	418.7	42.8	163.8	212.1
c. Adjusted Inventory BOP (1+2A+2B)	32,377.2	2,873.7	18,803.4	10,700.1
3. Receipts	6,293.5	499.3	5,794.2	-
4. Sales	10,895.1	-	10,895.1	-
5. Inventory Adjustments				
a. Capitalization	-	-	-	-
b. Returns from Customers	3,248.2	-	2,610.6	637.6
c. Returns from Customers w/o Credit	6,287.4	-	885.5	5,401.9
d. Returns to Suppliers	(195.6)	-	-	(195.6)
e. Transfers to DRMS	(3,259.6)	-	-	(3,259.6)
f. Issues/Receipts w/o Adjustments	(36.9)	-	-	(36.9)
g. Other	(2,184.3)	-	(495.4)	(1,688.9)
h. Exchange Price Inventory Adjustments	-	-	-	-
i. Total	3,859.2	-	3,000.7	858.5
6. Inventory End of Period (EOP)	31,634.8	3,373.0	16,703.2	11,558.6
7. Inventory EOP, Revalued (LAC Discounted)	26,755.8	2,673.4	11,068.0	13,014.4
a. Economic Retention (MEMO)	6,741.0			6,741.0
b. Contingency Retention (MEMO)	4,023.0			4,023.0
c. Potential Transfer to DRMS (MEMO)	2,250.4			2,250.4
8. On Order EOP at Cost	6,862.5	231.3	6,631.2	-

9. NARRATIVE:

LCMC Communication-Electronics and Soldier Support Team inventory is valued at Moving Average Cost (MAC). All other inventory is valued at Standard Price. Column "Other" includes inventory that stratifies beyond budget year, economic and contingency retention stock, and inventory excess to requirement objective.

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Supply Management**

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

FY 2008			
	Total	Protected	Other
1. Inventory Beginning of Period (BOP)	2,065.2	2,065.2	0.0
2. Price Change	(24.1)	(24.1)	0.0
3. Reclassification	(114.4)	(114.4)	0.0
4. Inventory Changes			
a. Receipts at Standard Price	80.9	80.9	0.0
(1) Purchases	80.9	80.9	0.0
(2) Returns from customers	0.0	0.0	0.0
b. Issues at Standard Price	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 at Standard Price	21.5	21.5	0.0
(1) Capitalizations	21.5	21.5	0.0
(2) Gains and losses	0.0	0.0	0.0
(3) Other	0.0	0.0	0.0
5. Inventory End of Period (EOP)	2,029.1	2,029.1	0.0
6. Stockpile Costs			
a. Storage	1.6		
b. Manage	4.5		
c. Maintenance/Other	0.0		
Total	6.1		
7. WRM Budget Request			
a. Additional WRM	1,062.9		
b. Replenishment WRM	2.2		
c. Repair WRM	0.0		
d. Assemble/Disassemble	0.0		
e. Other	0.0		
Total	1,065.1		

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Supply Management**

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

FY 2009			
	Total	Protected	Other
1. Inventory Beginning of Period (BOP)	2,029.1	2,029.1	0.0
2. Price Change	(14.2)	(14.2)	0.0
3. Reclassification	(38.3)	(38.3)	0.0
4. Inventory Changes			
a. Receipts at Standard Price	624.7	624.7	0.0
(1) Purchases	624.7	624.7	0.0
(2) Returns from customers	0.0	0.0	0.0
b. Issues at Standard Price	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 at Standard Price	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 End of Period (EOP)	2,601.3	2,601.3	0.0
6. Stockpile Costs			
a. Storage	1.6		
b. Manage	4.3		
c. Maintenance/Other	0.0		
Total	5.9		
7. WRM Budget Request			
a. Additional WRM	545.4		
b. Replenishment WRM	1.0		
c. Repair WRM	0.0		
d. Assemble/Disassemble	0.0		
e. Other	0.0		
Total	546.4		

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Supply Management**

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

FY 2010			
	Total	Protected	Other
1. Inventory Beginning of Period (BOP)	2,601.3	2,601.3	0.0
2. Price Change	42.8	42.8	0.0
3. Reclassification	229.6	229.6	0.0
4. Inventory Changes			
a. Receipts at Standard Price	499.3	499.3	0.0
(1) Purchases	499.3	499.3	0.0
(2) Returns from customers	0.0	0.0	0.0
b. Issues at Standard Price	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 at Standard Price	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 End of Period (EOP)	3,373.0	3,373.0	0.0
6. Stockpile Costs			
a. Storage	1.7		
b. Manage	4.4		
c. Maintenance/Other	0.0		
Total	6.1		
7. WRM Budget Request			
a. Additional WRM	38.5		
b. Replenishment WRM	1.0		
c. Repair WRM	0.0		
d. Assemble/Disassemble	0.0		
e. Other	0.0		
Total	39.5		

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Supply Management
Customer Price Change
(\$ in Millions)**

(\$ in Millions)	FY 2008	FY 2009	FY 2010
1. Total AMI Materiel Cost	9,260.3	9,470.0	8,739.0
2. Less LAC Materiel Inflation Adjustment	204.1	202.8	171.1
3. Revised Gross Sales at Cost	9,056.2	9,267.2	8,568.0
4. Cost Recovery in Dollars	1,401.2	1,114.7	1,045.5
5. Change to Customers			
a. Previous Year's Cost Recovery Rate	12.7%	13.0%	11.8%
b. This year's Cost Recovery Dollars plus Inflation adjustment divided by Revised Gross Sales at Cost	17.3%	14.2%	14.2%
c. Percent Change to Customer	2.4%	0.7%	2.1%

**EXHIBIT SM 5b
CUSTOMER PRICE CHANGE**

Industrial Operations

Introduction

The Army Working Capital Fund Industrial Operations activity group is comprised of thirteen government-owned and operated installation activities, each with unique core competencies. Industrial Operations promotes business-like behavior by relying on revenue instead of direct appropriations to finance continuing operations. Customers purchase services from Industrial Operations activities. These services include, but are not limited to repairing and upgrading equipment, producing weapons and munitions, and storing and demilitarizing materiel. The goal for the Industrial Operations activity is to generate enough revenue to recover the full cost of operations while breaking even over the long term.

The key financial measures for Industrial Operations are the net operating result (NOR) and accumulated operating results (AOR). The NOR measures the activity's gain or loss within a single fiscal year, monitoring how well the activity performs compared to its budget. The AOR measures the activity's accumulated gains and losses since inception. Rates are set to break even by bringing the AOR to zero over the budget cycle. This strategy returns accumulated gains through reduced rates and recovers accumulated losses through increased rates.

The Industrial Operations activity relies heavily on customers funded by direct appropriations to support its operations. The rates are set to:

- Recover the activity's costs such as payroll, supplies, contracts, equipment, inventory, depreciation, and maintenance
- Maintain a sufficient cash corpus to cover seven to ten days of operating disbursements and six months of capital disbursements
- Break even over the long run

Rates and other budget assumptions are synchronized with the appropriated funding levels of Army customers. Reductions to the customers' appropriated funding requests not only impact the business by adversely affecting work loading decisions and projected staffing levels, but also affect Army and other customers' equipment readiness.

Mission:

- **Provide an organic industrial capability to conduct depot level repair and upgrade**
- **Produce munitions and large caliber weapons**
- **Store, maintain, and demilitarize materiel for the Department of Defense**





Functional Description

The Army Working Capital Fund Industrial Operations activity group includes five depots, three arsenals, two munitions production facilities, and three storage sites. This activity group performs the following mission functions:

- Provides depot level maintenance, repair, and modernization of weapon systems and component parts
- Manufactures, renovates, and demilitarizes materiel
- Produces munitions and large caliber weapons
- Performs a full range of ammunition maintenance services for DOD and U.S. allies
- Performs ammunition receipt, storage, and issue functions

In addition to the mission functions, ten of the thirteen activity groups provide installation base support for both internal operations and tenant activities. Corpus Christi Army Depot and Crane Army Ammunition Activity are tenants on Navy installations. Rock Island Arsenal receives installation base support from the Army Installation Management Command.

Industrial Operations activities collaborate with the private sector using formal Public-Private Partnership agreements to perform work or utilize facilities and equipment. Under authority granted by Title 10, United States Code, § 2474, these partnerships create opportunities for both the public and private sectors by capitalizing on the strengths and efficiencies of each. The benefits to the Army and its customers include: leveraging capacity; sustaining core maintenance capabilities; sharing of overhead costs; and enhancing technical expertise in the workforce. The benefits to private industry include: access to specialized facilities, equipment and processes; stimulating local economies; and expertise in new emerging technologies. Current partnership agreements include: The Boeing Company; General Dynamics Land Systems; Sikorsky Aircraft Corporation; and Honeywell International.



Mine Resistant Ambush Protected (MRAP) vehicle at Anniston Army Depot

The five “hard-iron” maintenance depots (Anniston, Corpus Christi, Letterkenny, Red River, and Tobyhanna), Pine Bluff Arsenal, and Sierra Army Depot are designated as Centers of Industrial and Technical Excellence (CITE) for the performance of core maintenance workload in support of DOD and foreign allies. The CITE designation provides authority under Title 10, United States Code, § 2474 to partner with and lease facilities to industry on programs relating to core maintenance and technical expertise.

In FY 2008, three Industrial Operations activities were awarded a total of six Shingo Awards for excellence in manufacturing: one silver and five bronze. The Bronze



Red River Army Depot employee repairs M1117 Armored Security Vehicle

Medallion is awarded to organizations that exhibit excellence in manufacturing by using a tool-based approach. The Silver Medallion is awarded to organizations that demonstrate excellence in manufacturing by using a systems level approach. Established in 1988, the Shingo Prize is administered by Utah State University and has been referred to as the “Nobel Prize for manufacturing” by *BusinessWeek* magazine (May 15, 2000). These awards recognize industry leaders who promote world-class business and manufacturing processes that enable on-time delivery and customer satisfaction.

Table IO-1 2008 Shingo Awards

Activity	Shingo Award	Production Line
Letterkenny Army Depot	Bronze	Biological Integrated Detection System
	Silver	HEMTT Production Team
Red River Army Depot	Bronze	Patriot Missile Team
	Bronze	Tactical Trailer Team
Tobyhanna Army Depot	Bronze	AN/ASM-189 Maintenance Electric Shop Van
	Bronze	AN/TYQ-23 Command and Control System

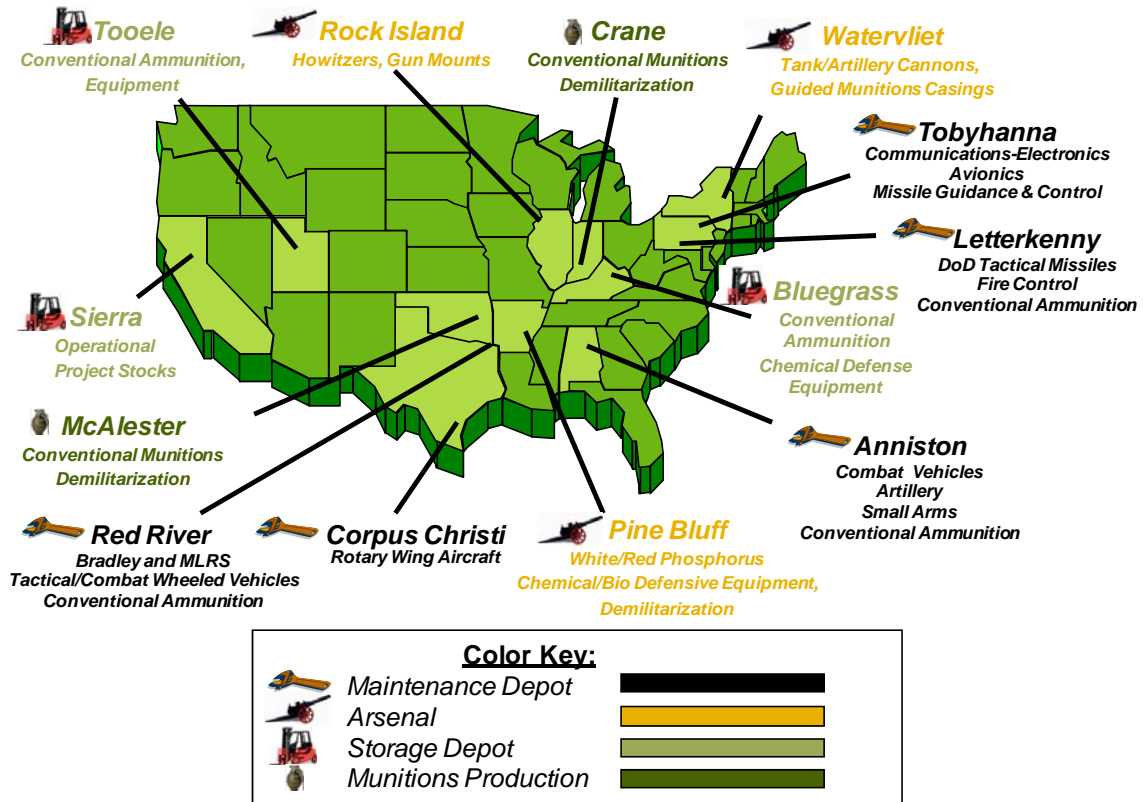
On-site examiners conducted Shingo Prize evaluations and scored the following areas:

- Cost improvement
- Partnering practices with suppliers and customers
- Quality and results
- Innovation and development
- Environmental practices
- Vision and strategy
- Leadership
- Empowerment
- Consistent improvement in each of these areas



Activity Group Composition

Figure IO-1 Industrial Operations Activity Group Composition



The U.S. Army Materiel Command (AMC) is headquartered at Ft. Belvoir, Virginia and serves as the management command for the Industrial Operations activity group. Installations or activities in this group fall under the direct command and control of the Life Cycle Management Commands, each aligned in accordance with the nature of its mission. AMC Headquarters will relocate to Redstone Arsenal in Huntsville, Alabama in FY 2011 under Base Realignment and Closure Act 2005. Following are the Industrial Operations installations and their major core mission functions.



Anniston Army Depot (ANAD)

Location: Anniston, Alabama

2008 Workforce: 4,407

Description: A vital part of the community since opening in 1942, the depot's annual economic impact is estimated to be about \$1.1 billion and indirectly supports over 18,000 jobs in the Anniston area. It 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, and the M728 and M88 combat vehicles. ANAD also has responsibility for the overhaul of the M113 Family of Vehicles, Stryker, M9 Armored Combat Earthmover, small arms, and the towed and self-propelled artillery. The depot performs maintenance on individual and crew-served weapons as well as land combat missiles and small arms, and is actively engaged in the Reset of equipment returning from operations in Iraq and Afghanistan. The depot currently stores a portion of the nation's chemical munitions stockpile until the stockpile is demilitarized. ANAD also provides installation support to attached organizations and assigned operating facilities.

Blue Grass Army Depot (BGAD)

Location: Richmond, Kentucky

2008 Workforce: 963

Description: BGAD is a Strategic Mobility Power Projection ammunition depot with the mission to receive, store, issue, renovate, modify, maintain, and demilitarize conventional munitions for all DOD services. Blue Grass stores and manages all Army Special Operations Forces ammunition. The depot is DOD's primary center for surveillance, receipt, storage, issue, testing, and minor repair of Individual Protection Chemical Defense Equipment. Additionally, BGAD maintains an Industrial Services capability providing receipt, storage, cutting, and fabrication of raw materials and metal parts for high visibility programs such as the Mine Resistant Ambush Protected family of vehicles. Anniston Munitions Center, located at Anniston Army Depot, is under the command and control of BGAD and serves as a multifunctional production facility; primary missile storage and maintenance depot; and as a storage and demilitarization depot for other conventional ammunition items. BGAD also provides installation support to attached organizations and assigned operating facilities.



Crane Army Ammunition Activity (CAAA)

Location: Crane, Indiana

2008 Workforce: 915

Description: CAAA a Tier I ammunition storage site which stores war reserve ammunition. Tier I facilities store ammunition for the first 30 days of war reserve and for training. 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, 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 excellence for the production of pyrotechnic devices including signal smoke, illuminating and infrared flares, and distress signals. Letterkenny Munitions Center (LEMC), located at Letterkenny Army Depot, is under the command and control of CAAA. LEMC stores, maintains, distributes, and demilitarizes conventional ammunition. Iowa, Mississippi, and Milan (Tennessee) Army Ammunition Plants are also under the command and control of CAAA.

Corpus Christi Army Depot (CCAD)

Location: Corpus Christi, Texas

2008 Workforce: 3,865

Description: The CCAD mission is to overhaul, repair, modify, retrofit, test and modernize helicopters and associated components for government agencies 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. Designated as the Center of Industrial and Technical Excellence for rotary wing aircraft, CCAD supports the Apache, Blackhawk, Apache, Chinook, Cobra, Kiowa, Iroquois, Pave Hawk, and Seahawk helicopters. CCAD is also actively engaged in the Reset of equipment returning from operations in Iraq and Afghanistan.

Letterkenny Army Depot (LEAD)

Location: Chambersburg, Pennsylvania

2008 Workforce: 1,529

Description: LEAD performs maintenance, modification, storage, and demilitarization operations on tactical missiles and ammunition. It has unique tactical missile repair capabilities supporting a variety of DOD missile systems



including the Patriot and its ground support and radar equipment. Letterkenny Army Depot (LEAD) is the designated Center of Industrial and Technical Excellence for air defense and tactical missile ground support equipment. In addition, it supports repair and maintenance programs on a multitude of generators and the Army's Recapitalization (RECAP) program for the High Mobility Multipurpose Wheeled Vehicle (HMMWV) family. LEAD is rebuilding HMMWVs that are returning from Southwest Asia and modifying them to support add-on armor. It is preparing (construction underway) for the reception of Patriot and Hawk missile certification when the Theater Readiness Monitoring Directorate transitions from RRAD as directed by BRAC 2005. LEAD also provides installation support to attached organizations and assigned operating facilities.

McAlester Army Ammunition Plant (MCAAP)

Location: McAlester, Oklahoma

2008 Workforce: 1,610

Description: 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. It serves both as a Tier I munitions storage and maintenance depot, as well as a production facility. Tier I ammunition facilities store ammunition for the first 30 days of war reserve and for training. The Red River Munitions Center (RRMC), located at Red River Army Depot, is under the command and control of MCAAP. RRMC stores, maintains, and distributes conventional ammunition. MCAAP also provides installation support to attached organizations and assigned operating facilities.

Pine Bluff Arsenal (PBA)

Location: Pine Bluff, Arkansas

2008 Workforce: 1,022

Description: With a local economic impact exceeding \$160 million annually, Pine Bluff Arsenal produces, renovates, and stores more than 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. Designated the Center of Industrial and Technical Excellence for Chemical and Biological Defense Equipment, 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. It provides 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 Domestic Preparedness Equipment Technical Assistance Program (for the Department of Homeland Security). Pine Bluff Arsenal also provides installation support to attached organizations and assigned operating facilities.

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

Location: Rock Island, Illinois

2008 Workforce: 1,619

Description: RIA-JMTC manufactures weapons, weapon components, and mobile maintenance systems. 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, Shop Equipment Contact Maintenance, as well as manufacturing artillery, gun mounts, recoil mechanisms, small arms, aircraft weapon sub-systems, and weapons simulators. In addition, it produces a host of spare and repair parts and demilitarizes containers.

Red River Army Depot (RRAD)

Location: Texarkana, Texas

2008 Workforce: 3,868

Description: RRAD's mission is to conduct ground combat, air defense and tactical systems maintenance, missile certification, and related support services worldwide for the Army, DOD components, and allied nations. Systems supported include the Bradley Fighting Vehicle System (BFVS), Multiple Launch Rocket System (MLRS), Small Emplacement Excavator (SEE), five-ton dump truck, Heavy Expanded Mobility Tactical Truck, 25-ton crane, track and road wheels, High Mobility Multipurpose Wheeled Vehicle (HMMWV), M800 and M900 series trucks, and various configurations of trailers. In addition, it has been named as the depot source of repair for the Mine Resistant Ambushed Protected (MRAP) vehicle. RRAD is designated as the Center of Industrial and Technical Excellence for tactical and wheeled vehicles, BFVS, MLRS Chassis, SEE, and rubber products necessary for depot maintenance missions. As part of the BRAC 2005 decision, the Theater Readiness Monitoring Directorate missile certification for the Patriot and Hawk missiles will move to Letterkenny Army Depot. RRAD continuously restructures its facility to maximize both production capacity and flexibility to assume new programs. The depot has accommodated surge levels for repair and recapitalization of light and heavy tracked vehicles, road wheel and track, electronic systems, missile systems, towed and self-propelled artillery, tactical and wheeled vehicles, and support equipment. RRAD also provides installation support to attached organizations and assigned operating facilities.



Sierra Army Depot (SIAD)

Location: Herlong, California

2008 Workforce: 712

Description: SIAD provides a complete range of logistics support, as the Center of Industrial and Technical Excellence for Reverse Osmosis Water Purification Units as well as Operational Project Stocks, including receipt, storage, repair, shipping, maintenance, containerization and fabrication of assets. 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 is the redistribution point for containers of secondary items returning from Southwest Asia. It also provides installation support to attached organizations and assigned operating facilities.

Tooele Army Depot (TEAD)

Location: Tooele, Utah

2008 Workforce: 449

Description: TEAD serves as a life cycle engineering installation for the design, development, manufacturing and fielding of munitions systems and ammunition peculiar equipment throughout the world. As a Tier I ammunition depot, TEAD receives, stores, issues, renovates, modifies, maintains, and destroys conventional munitions for all of DOD. TEAD provides America's joint fighting forces with munitions and Ammunition Peculiar Equipment in support of military missions before, during, and after any contingency. It also provides installation support to attached organizations and assigned operating facilities.

Tobyhanna Army Depot (TYAD)

Location: Tobyhanna, Pennsylvania

2008 Workforce: 4,117

Description: TYAD is a full-service repair, overhaul, and fabrication facility for communications-electronics systems, equipment, and select missile guidance systems and it provides for the maintenance, issue, and disposal of assigned commodities of DOD and other customers. It is designated as the Center of Industrial and Technical Excellence for Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR), electronics, avionics, and missile guidance and control. TYAD is the Air Force Technology Repair Center for radio and satellite communication equipment, computers, air traffic control, surveillance, and range threat systems. TYAD is also actively engaged in the Reset of equipment returning from operations in Iraq and Afghanistan. It provides installation support to attached organizations and assigned operating facilities.



Watervliet Arsenal (WVA)

Location: Watervliet, New York

2008 Workforce: 591

Description: WVA produces armaments, mortars, recoilless rifles, howitzers and is recognized as the premier cannon-maker for the Army. 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. WVA also provides installation support to attached organizations and assigned operating facilities.

Budget Highlights

Assumptions

This submission reflects a business plan that supports equipment readiness requirements associated with heightened global commitments and operating tempo (OPTEMPO). Reset workload assumptions are built into the budget estimate in order to properly size the workforce and to define facility and material requirements. The projected Reset new orders for FY 2010 is 67 percent of the FY 2008 level. Other assumptions reflected in this budget support baseline requirements and the Army's recapitalization (RECAP) program. The Industrial Operations installations continue to operate at historically high levels of production in order to accommodate rapidly changing warfighter needs and remain poised to increase throughput to meet our customers changing demands. This submission reflects continued use of contract and temporary labor, as well as the use of overtime to accomplish the workload.

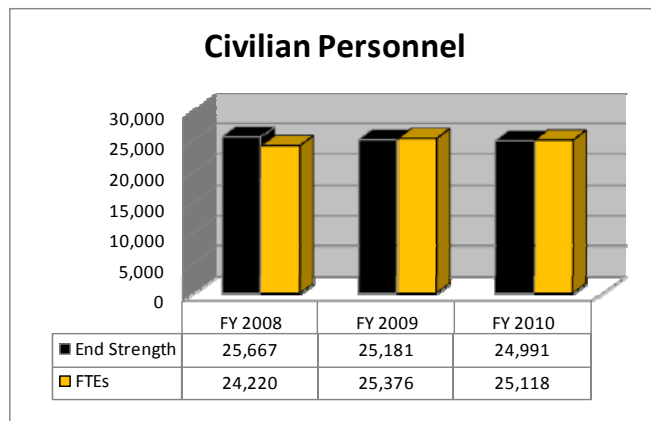
Personnel

Civilian end-strength and full time equivalents (FTEs) support workload production estimates in this budget. The civilian workforce is decreasing less than one percent in FY 2010 based on workload estimates.

The Industrial Operations installations are still pursuing workforce revitalization initiatives through local co-ops with colleges and trade schools. Several installations have instituted the Student Career Experience Program . The Student Career Experience

Program (SCEP) is a three-tiered co-op program beginning with junior and senior high school students, which typically results in a job as part of the permanent

Chart IO-1 Civilian Personnel

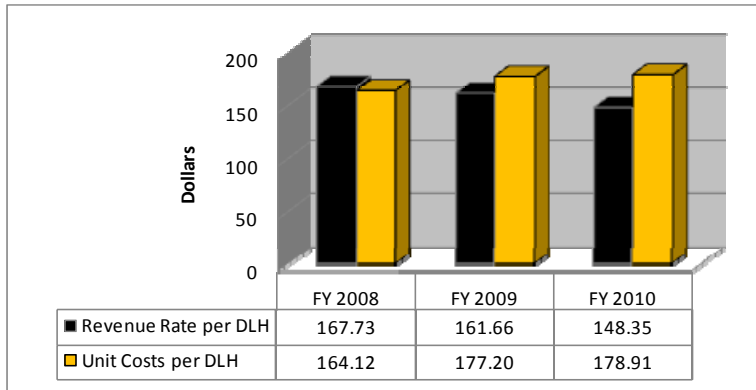


workforce; there are approximately 350 students enrolled in the SCEP from both technical and four-year colleges. Various intern and apprentice programs are also ongoing. Due to the specialized nature of the work, skill level requirements and training can take upward of two to three years before an employee is considered a journeyman, able to perform specific tasks without supervision. In addition to civilian personnel, the Industrial Operations activities employ a total of 26 military personnel.

Direct Labor Hour Rate

The composite rate is an aggregate hourly rate as of a point in time for stabilized workload. It is comprised of direct labor and material costs, overhead costs (mission indirect and non-mission indirect costs) and accumulated operating

Chart IO-2 Direct Labor Hour Rate



results (AOR)

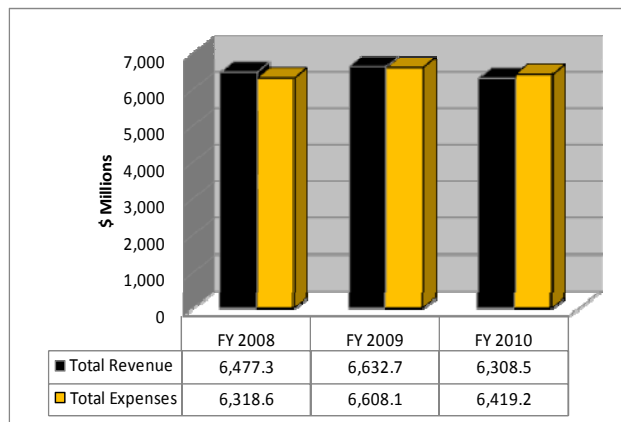
adjustments that are designed to return gains or recover losses. The composite rate is influenced by several factors: 1) commodity mix of the workload planned (labor intensive, material intensive or both); 2) the amount of gains to be returned or

losses to be recovered over the budgeted years; 3) the amount of stabilized direct labor hours available to return gains or recover losses; 4) the number of total direct labor hours available to distribute overhead cost (stabilized and non-stabilized workload). Decreasing prices directly affect the revenue projected for the budget years. Due to prior year AOR gains, this submission displays a decreasing revenue rate.

Revenue and Expenses

The Industrial Operations revenue amount represents earnings from various customer appropriations. Total expenses include material, labor, storage, and other direct or indirect costs associated with the products or services being provided. FY 2010 displays a downward trend in total revenue due primarily to a significant decrease in the revenue rate. This represents the intent to return prior year gains to

Chart IO-3 Revenue and Expenses



our customers. FY 2010 expenses decrease proportionally with revenue and associated workload estimates.

Operating Result

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 Industrial Operations activity group carries a sizeable AOR into FY 2010. The FY 2010 negative NOR values reflect the return of gains to the customer. This budget reflects in aggregate the return of \$110.8 million of operating gains in FY 2010, which provides a decrease in the rate for FY 2010. The Army is retaining \$114.4 million of positive AOR to offset cash transfers. In the next budget cycle, the Army will evaluate its cash position and rates to determine the amount of AOR to return.

Table IO-2 Operating Result

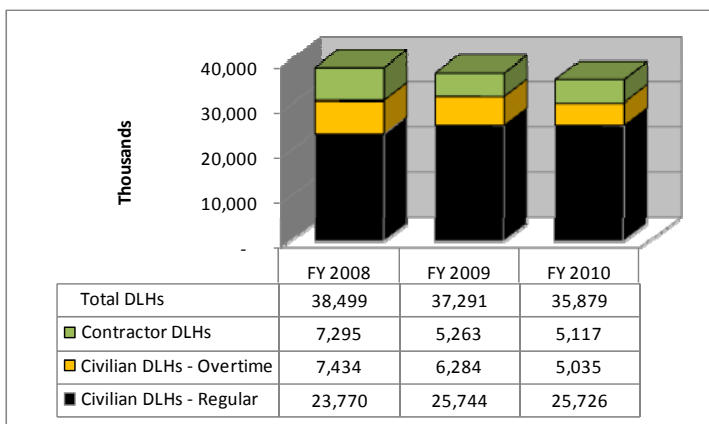
(\$ Millions)	FY 2008	FY 2009	FY 2010
Net Operating Result	158.8	24.6	(110.8)
Retained Earnings			(114.4)
Accumulated Operating Results	481.5	506.1	280.9

Direct Labor Hour (DLH)

Total direct labor hours (DLHs) represent the total number of hours required to complete the Industrial Operations direct mission workload. FY 2010 total DLHs are decreasing in proportion with anticipated workload completions. Industrial Operations activities are prepared to increase overtime and contractor field team DLHs to

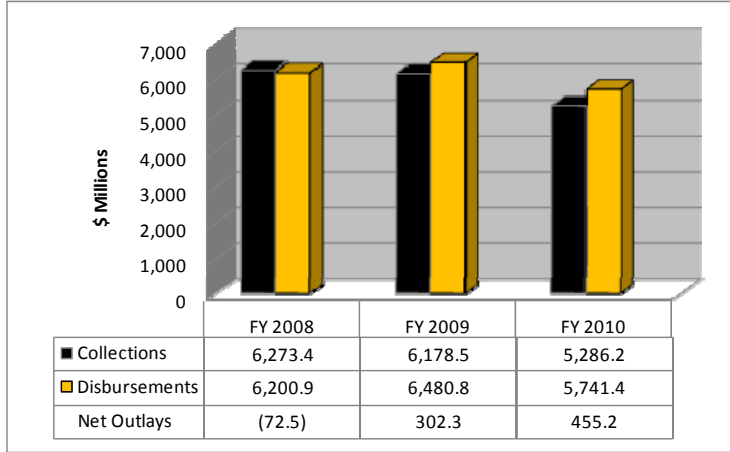
augment the regular hours performed by the civilian workforce should requirements for additional work occur in the year of execution.

Chart IO-4 Direct Labor Hours



Cash Management

Chart IO-5 Cash Management



Cash is managed at the corporate level. There is no cash surcharge for Industrial Operations, but this budget includes an advanced billing to Army customers.

Collections are projected based on revenue and changes in accounts receivable. Disbursements are projected based on monthly operating

expenses, changes in accounts payable, and Capital Investment Program obligations.

New Orders

The decrease in new orders in FY 2010 is attributable to a decrease in projected Reset workload and the reduction in the rate. The rate change impacts new order value and revenue earned, but does not affect the number of hours worked or expenses incurred.

This budget estimate includes workload associated with base program requirements and the anticipated Reset workload funded in the Overseas Contingency Operations request. The Reset program ensures Army equipment is restored to a level of combat capability commensurate with a unit's future mission. The Reset program must continue throughout the current conflict and an additional three years afterward. Industrial Operations (IO) installations adjust workload projections based on discussions and delivery schedule requirements provided by its customers. New order estimates are displayed in table IO-3.

Table IO-3 New Orders

(\$ Millions)	FY 2008	FY 2009	FY 2010
IO New Order Estimates for Reset	2,512.2	2,166.5	1,672.8
Total IO New Order Estimates	6,990.6	5,928.4	5,715.1



Carryover

Carryover, or unfilled orders, is the dollar value of work that has been ordered and funded by customers but not completed by the industrial activities by the end of the fiscal year.

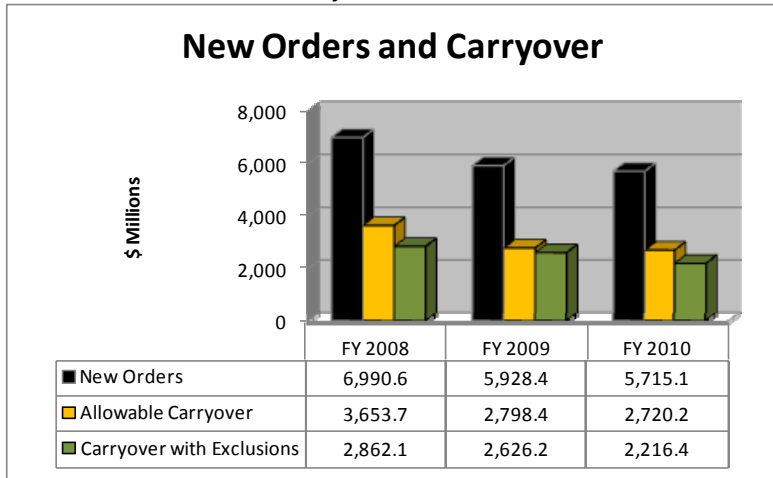
Carryover leads to better planning, better decision making, and cost efficiencies. It prevents halts to production lines

and ensures the activities have work to provide a smooth transition between fiscal years. The amounts depicted in the funded and allowable carryover calculation exclude estimates for:

- Aviation crash and battle damaged aircraft
- Late receipt of supplemental procurement orders and 4th quarter non-Army customer orders
- Public-Private Partnership between Anniston Army Depot and General Dynamics for M1 tanks

New to the allowable carryover calculation is the approval of adding the second year procurement outlay rate for Ordnance installations. This approval aligns with expected completion rates by recognizing that multiyear appropriations often fund manufacturing or recapitalization of equipment requiring longer lead times and higher standards of repair¹. Based on new order projections and estimated workload completions, the FY 2010 budgeted carryover amount is below the allowable carryover amount as displayed on exhibit Fund 11a, Carryover Reconciliation.

Chart IO-6 New Orders and Carryover



¹ GAO Draft Report, *Army Working Capital Fund: Actions Needed to Improve Budgeting for Carryover at Army Ordnance Activities*, GAO-09-415, April 2009.



Performance Measurements

Performance measurements and goals for the Industrial Operations activity group include the Net Operating Result, Accumulated Operating Results, and the Productive Yield. The FY 2008 actual results and the projections for FY 2009 and FY 2010 are shown on table IO-4.

Table IO-4 Performance Measurements

Measurements/Goal (\$ Millions)	FY 2008	FY 2009	FY 2010
Net Operating Result	158.8	24.6	(110.8)
Accumulated Operating Results	481.5	506.1	280.9
Productive Yield (Goal 1,615)	1,604	1,618	1,616

The customer rates in this budget return prior year gains, and also preserve accumulated operating results (AOR) to lessen the impacts to the cash position and future rates. The Army will evaluate its cash position and future rates to determine the amount of AOR to return in the future. 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 goal is 1,615 productive labor hours per employee. In this submission, the Industrial Operations activity projections will slightly exceed the goal for FY 2010.

Business Process Improvements

Industrial Operations is entering the fifth year of Lean Six Sigma implementation. Lean Six Sigma is a philosophy used in manufacturing that seeks to streamline processes while reducing variations in the production process. Business process improvement efforts use commercial best practices to reduce costs, optimize production capability, and improve quality in support of customer requirements. The customer ultimately garners the benefits of these efficiencies through reduced turn-around times, decreased material and labor costs, and increased throughput. Industrial Operations has achieved efficiencies in its major production lines and is now focused on other smaller production lines and logistical support areas.



AH-64 Apache helicopter at Corpus Christi Army Depot

Successful 2008 lean events resulting in increased throughput and a reduction in turn-around times include:

- Tobyhanna Army Depot increased first pass for in-process inspection of the AN/TRC-170 multichannel radio terminal Line Replaceable Unit by nine percent which reduced non-value added time by 72 minutes per day
- Tobyhanna Army Depot manual cycle time for the AN/TRC-190 multichannel radio terminal Reset line improved by 31 percent
- Anniston Army Depot's M88A1 transmission improvement project increased first pass yield from 78 to 93 percent
- Propellant Sampling production improved from 3,100 rounds to 14,000 rounds per day

Appropriations

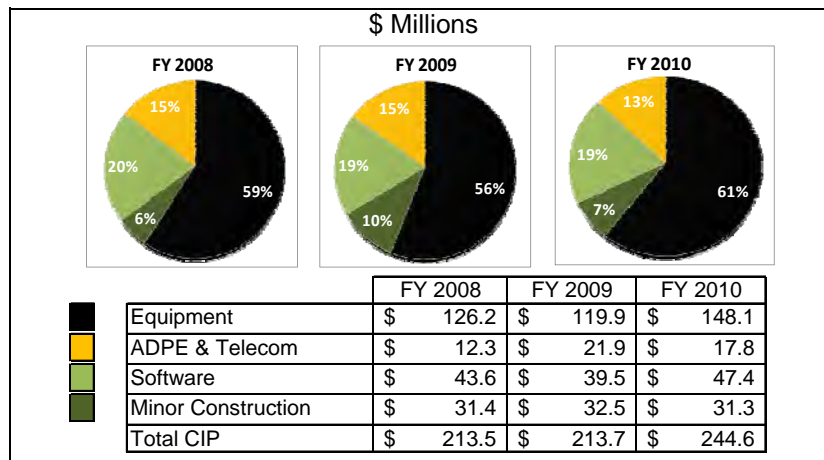
The Industrial Operations activity group received a \$6.9 million appropriation for fuel price increases in FY 2008. This budget submission reflects no appropriation for FY 2009 or FY 2010.

Capital Budget

The Army Working Capital Fund capitalizes and depreciates any item with an acquisition cost equal to or greater than \$250,000 (\$100,000 for Military

Construction) and having a useful life of two years or more. The categories in the Capital Investment Program (CIP) include: Equipment; Automated Data Processing Equipment (ADPE) and Telecommunications; Minor Construction; and Software.

Chart IO-7 Capital Budget



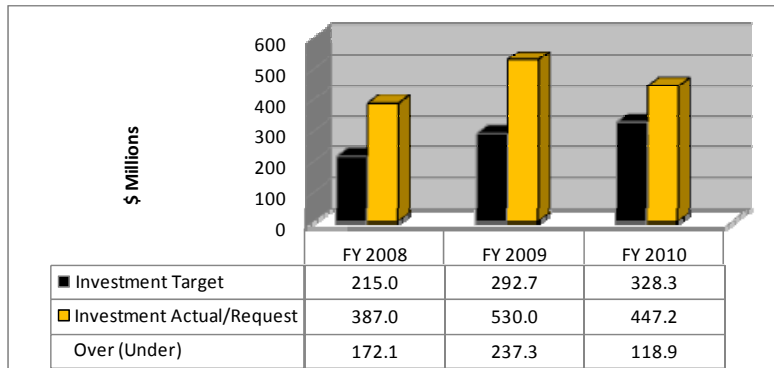
Industrial equipment is worn from extensive use caused by increased production levels for workload associated with Reset and needs replacement or repair. The FY 2010 CIP budget estimate includes one-time increases for Corpus Christi Army Depot equipment purchases for the Dynamic Component Rebuild Facility funded by the Military Construction Appropriation. A detailed listing of all approved and requested capital projects are provided in the capital budget section of this submission along with supporting justification.



Minimum Capital Investment for Certain Depots and Arsenal

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 six percent starting in FY 2009. The National Defense Authorization Act for FY 2009 added three Arsenal (Rock Island, Pine Bluff, and Watervliet) to this

Chart IO-8 Minimum Capital Investment



requirement. Budgeted amounts include capital investments as well as purchases of non-capital equipment maintenance and repair of facilities, equipment paid for by other appropriations, productivity investments, and Military Construction

(MILCON) projects. The total invested through FY 2010 is greater than the required minimums due to needed infrastructure investment and additional equipment necessary to accomplish the increase in workload. There are no MILCON projects budgeted for these installations in FY 2010.



**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations**

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

	FY 2008	FY 2009	FY 2010
Revenue			
Gross Sales:	6,470.5	6,632.7	6,308.6
Operations	6,424.4	6,567.1	6,230.4
Surcharges			
Depreciation excluding Major Construction	46.0	65.6	78.2
Major Construction Depreciation			
Other Income (DWCF IMC)	6.9		
Refunds/Discounts (-)			
Total Income:	6,477.3	6,632.7	6,308.5
Expenses			
Salaries and Wages:	2,025.1	2,197.6	2,220.9
Military Personnel Compensation & Benefits	3.0	3.0	3.2
Civilian Personnel Compensation & Benefits	2,022.1	2,194.6	2,217.7
Travel & Transportation of Personnel	43.2	45.5	42.7
Materials & Supplies (For Internal Operations)	2,745.0	2,786.8	2,646.3
Equipment	111.6	124.7	111.1
Other Purchases from Revolving Funds	125.5	122.8	118.1
Transportation of Things	28.6	20.8	18.0
Depreciation - Capital	46.0	65.6	78.2
Printing and Reproduction	2.3	2.1	2.0
Advisory and Assistance Services	123.7	134.4	131.1
Rent, Communication, Utilities, & Misc. Charges	104.2	110.1	114.1
Other Purchased Services	963.4	997.8	936.8
Total Expenses:	6,318.6	6,608.1	6,419.2
Revenue less costs incurred before extraordinary items	158.8	24.6	(110.8)
Net Operating Result	158.8	24.6	(110.8)
Recoverable AOR			
a. AOR Beginning of Year (Unadjusted)	324.7	481.5	506.1
b. +/- Prior Year Adjustments	(2.0)		
c. Equals AOR BOY (Adjusted)	322.7	481.5	506.1
d. +/- Net Operating Results	158.8	24.6	(110.8)
e. - Non-recoverable Amount (current year only)			
f. - CIP Non-recoverable Amount			
g. - Retained Earnings			(114.4)
h. Equals Recoverable AOR EOP	481.5	506.1	280.9

**EXHIBIT FUND 14
REVENUE AND EXPENSES**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations**

**Source of New Orders and Revenue
(\$ in Millions)**

	FY 2008	FY 2009	FY 2010
1. New Orders			
a. Orders from DoD Components:			
Department of Army			
Operations & Maintenance, Army	2,564.4	2,472.3	2,337.8
Operations & Maintenance, ARNG	73.4	52.8	71.3
Operations & Maintenance, AR	77.5	52.7	62.4
Subtotal, O&M:	2,715.3	2,577.7	2,471.5
Aircraft Procurement	50.6	59.0	66.7
Missile Procurement	22.0	1.5	2.6
Weapons & Tracked Combat Vehicles	390.4	202.4	198.0
Procurement of Ammunition	140.6	117.4	103.4
Other Procurement	978.8	517.0	601.6
Subtotal, Procurement:	1,582.4	897.3	972.3
RDTE	83.6	44.4	33.5
BRAC	37.2	32.8	31.8
Family Housing	3.0	1.6	1.4
Military Construction	1.5	0.0	0.0
Chem Agents & Munitions Dest, Army	18.7	36.4	36.6
Other	1.8	0.0	0.0
Subtotal, Other Army:	145.8	115.4	103.3
Subtotal, Department of Army: ¹	4,443.6	3,590.4	3,547.2
Department of Air Force O&M	105.6	84.7	96.1
Department of Air Force Investment	35.2	42.9	19.7
Department of Navy O&M	11.6	47.7	42.3
Department of Navy Investment	44.9	9.7	11.7
US Marines O&M	223.3	336.8	256.0
US Marines Investment	63.3	16.4	30.7
Department of Defense O&M	0.3	0.1	0.1
Department of Defense Investment			
Subtotal, Other DoD Services:	484.1	538.3	456.6
Other DoD Agencies	117.3	35.7	41.1
Subtotal, DoD Agencies:	117.3	35.7	41.1

¹ Note: New Orders include estimates for Reset workload- FY08 \$2,512.2, FY09 \$2,166.5, FY10 \$1,672.8

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations**

**Source of New Orders and Revenue
(\$ in Millions)**

	FY 2008	FY 2009	FY 2010
b. DWCF:			
Industrial Operations, Army	48.2	39.7	40.0
Supply Management, Army	1,432.4	1,374.2	1,317.2
Supply Management, Air Force	62.1	51.5	51.3
Supply Management, Navy	53.5	64.4	57.5
Supply Management, Marine Corps	7.4	0.0	0.0
DECA	0.1	0.1	0.1
DFAS	0.4	0.5	0.4
DISA	1.7	1.9	1.9
DLA	45.5	31.2	35.1
TRANSCOM	0.1	0.0	0.0
Other	14.9	6.4	6.4
Subtotal, DWCF:	1,666.2	1,569.8	1,510.0
c. Total DoD	6,711.1	5,734.2	5,554.9
d. Other Orders:			
Other Federal Agencies	4.0	6.2	5.7
Foreign Military Sales	125.5	46.1	11.7
Trust Fund			
Nonappropriated	27.8	105.1	112.4
Non-Federal Agencies	122.2	36.8	30.5
Subtotal, Other Orders:	279.5	194.2	160.3
Total New Orders:	6,990.6	5,928.4	5,715.1
2. Carry-in Orders	3,379.6	3,899.7	3,195.5
3. Total Gross Orders	10,370.2	9,828.2	8,910.6
4. Revenue (-)	6,470.5	6,632.7	6,308.6
5. End of Year Work-inProcess (-)			
6. FMS, BRAC, Other Federal, and Non-Federal orders (-)	268.3	228.6	211.8
Crash Damage	145.4	66.2	60.0
4th Quarter Other Service Workload	96.4	0.0	0.0
Public Private Partnership for M1 Tanks	345.6	274.5	113.9
Other (Proc Supp)	181.9	0.0	0.0
7. Funded Carry-over	2,862.1	2,626.2	2,216.4
8. Allowable Carry-over	3,653.7	2,798.4	2,720.2
9. Over/Under Allowable Carry-over	(791.6)	(172.3)	(503.9)
Memo:			
Depots- Allowable Carry-over	2,631.9	2,236.7	2,195.2
Over/ Under Allowable Carry-over	(570.2)	(137.7)	(406.6)
Ordnance- Allowable Carry-over	1,021.8	561.8	525.1
Over/ Under Allowable Carry-over	(221.4)	(34.6)	(97.3)

**EXHIBIT FUND 11
SOURCE OF NEW ORDERS AND REVENUE**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations**

**Carryover Reconciliation
(\$ in Millions)**

	FY 2008	FY 2009	FY 2010
1. Net Carry-In	3,379.6	3,899.7	3,195.5
2. Revenue	6,470.5	6,632.7	6,308.6
3. New Orders	6,990.6	5,928.4	5,715.1
4. Exclusions:			
FMS	125.5	46.1	11.7
BRAC	37.2	32.8	31.8
Other Federal Depts & Agencies	4.0	6.2	5.7
Non-Federal and Others	150.0	141.9	142.9
Crash Damage	46.1	80.0	80.0
4th Quarter Other Service Workload	96.4	0.0	0.0
Public Private Partnerships for M1 tanks	245.2	112.3	15.4
Other (Proc Supp)	181.9		
5. Orders for Carryover Calculation	6,104.4	5,509.1	5,427.7
6. Weighted Composite Outlay Rate	44%	53%	53%
7. Carryover Rate	56%	47%	47%
8. 2nd Year Procurement Outlay Rates			
A. Aircraft Procurement	61%	61%	61%
B. Missile Procurement	56%	56%	56%
C. Weapons & Tracked Combat Vehicles	56%	56%	56%
D. Procurement of Ammunition	60%	60%	60%
E. Other Procurement	70%	70%	70%
9. 2nd year Procurement Carryover Rates			
A. Aircraft Procurement	39%	39%	39%
B. Missile Procurement	44%	44%	44%
C. Weapons & Tracked Combat Vehicles	44%	44%	44%
D. Procurement of Ammunition	40%	40%	40%
E. Other Procurement	30%	30%	30%
10. Allowable Carryover	3,430.1	2,575.7	2,573.3
Prior Year Proc. Carryover	223.6	222.7	146.9
Total Allowable Carryover	3,653.7	2,798.4	2,720.2
11. Balance of Customer Orders at Year End	3,899.7	3,195.5	2,602.0
12. Work-in-progress			
13. Exclusions:			
FMS	113.9	91.5	73.3
BRAC	75.9	58.9	54.5
Other Federal Depts & Agencies	1.4	1.4	1.4
Non-Federal and Others	77.1	76.8	82.6
Crash Damage	145.4	66.2	60.0
4th Quarter Other Service Workload	96.4	0.0	0.0
Public Private Partnership for M1 Tanks	345.6	274.5	113.9
Other (Proc Supp)	181.9	0.0	0.0
14. Calculated Actual Carryover	2,862.1	2,626.2	2,216.4

**EXHIBIT FUND 11a
CARRYOVER RECONCILIATION**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations**

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

	<u>Expenses</u>
FY 2008 Actuals	6,318.6
FY 2009 Estimate in President's Budget	6,094.4
Pricing Adjustments	(13.6)
FY 2009 Pay	
-Civilian Personnel	15.3
-Military Personnel	
Inflation Change	(18.8)
FY 2009 Fuel Inflation Change	(10.1)
Program Changes	527.3
Labor	331.7
Materials and Supplies	163.0
Equipment	16.2
Other Purchased Services	16.4
FY 2009 Current Estimate	6,608.1
Pricing Adjustments	108.0
FY 2010 Pay	53.9
Productivity Initiatives and Other Efficiencies	53.8
-Military Personnel	0.1
Materials and Supplies	46.9
Other Purchased Services	28.0
Fuel Inflation Change	1.2
Inflation Change	(22.0)
Program Changes	(296.9)
Labor	(30.6)
Materials and Supplies	(178.0)
Equipment	(15.1)
Depreciation	12.6
Other Purchased Services	(85.8)
FY 2010 Budget Estimate	6,419.2

**EXHIBIT FUND 2
CHANGES IN THE COST OF OPERATIONS**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations**

**Material Inventory Data
(\$ in Millions)**

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 (+)	2,577.0		2,577.0	
B. Purchase of long lead items in advance of customer orders (+)	113.5		113.5	
C. Other Purchases (list) (+)	18.8		18.8	
D. Total Purchases	2,709.3		2,709.3	
<u>Material Inventory Adjustments</u>				
A. Material Used in Maintenance (and billed/charged to customer orders) (-)	2,745.0		2,745.0	
B. Disposals, theft, losses due to damages (-)	2.5		2.5	
C. Other reductions (list) (-)	1.4		1.4	
D. Total inventory adjustments	2,748.9		2,748.9	
Material Inventory EOP	366.5		366.5	
FY 2009				
	<u>Total</u>	<u>Mobilization</u>	<u>Operating</u>	<u>Other</u>
Material Inventory BOP	366.5		366.5	
<u>Purchases</u>				
A. Purchases to Support Customer Orders (+)	2,570.0		2,570.0	
B. Purchase of long lead items in advance of customer orders (+)	214.7		214.7	
C. Other Purchases (list) (+)	12.4		12.4	
D. Total Purchases	2,797.0		2,797.0	
<u>Material Inventory Adjustments</u>				
A. Material Used in Maintenance (and billed/charged to customer orders) (-)	2,786.8		2,786.8	
B. Disposals, theft, losses due to damages (-)	19.6		19.6	
C. Other reductions (list) (-)	1.5		1.5	
D. Total inventory adjustments	2,807.9		2,807.9	
Material Inventory EOP	355.6		355.6	
FY 2010				
	<u>Total</u>	<u>Mobilization</u>	<u>Operating</u>	<u>Other</u>
Material Inventory BOP	355.6		355.6	
<u>Purchases</u>				
A. Purchases to Support Customer Orders (+)	2,509.2		2,509.2	
B. Purchase of long lead items in advance of customer orders (+)	142.8		142.8	
C. Other Purchases (list) (+)	11.4		11.4	
D. Total Purchases	2,663.4		2,663.4	
<u>Material Inventory Adjustments</u>				
A. Material Used in Maintenance (and billed/charged to customer orders) (-)	2,646.3		2,646.3	
B. Disposals, theft, losses due to damages (-)	18.5		18.5	
C. Other reductions (list) (-)	1.5		1.5	
D. Total inventory adjustments	2,666.3		2,666.3	
Material Inventory EOP	352.7		352.7	

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Capital Budget

Introduction

The primary goal of the Capital Investment Program (CIP) within the AWCF is to establish a capability for reinvestment in the infrastructure of business areas in order to facilitate mid and long term cost reductions. The objective is to improve product and service quality and timeliness, reduce costs, and foster comparable and competitive business operations. The CIP provides the framework for planning, coordinating, and controlling AWCF resources and expenditures to obtain capital assets. Included in the capital budget are the following types of assets: automated data processing equipment (ADPE); non-ADPE equipment; automated data processing software, whether internally or externally developed; and minor construction.

The following exhibits justify the purchase of assets that equal or exceed capitalization thresholds and have a useful life of two or more years. Except for minor construction projects, the Capital Budget includes items purchased by a revolving fund with a unit cost that is greater than or equal to \$250,000. The capitalization threshold for Minor Construction is \$100,000. Once approved, the budget permits an AWCF Activity to use contract authority to purchase capital assets.



After months of classroom study in mechanical engineering, more than 75 cadets from the United States Military Academy at West Point visited the U.S. Army Watervliet Arsenal to see and experience military manufacturing. In this photo, cadets are at the beginning of cannon manufacturing where preform tubes are first forged.

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Supply Management
Capital Investment Summary**

<i>(\$ in Millions)</i>		FY 2008		FY 2009		FY 2010	
Line No.	Description	Quantity	Total Cost	Quantity	Total Cost	Quantity	Total Cost
	Automated Data Processing						
04-3	<i>Terminal Servers</i>	1	0.611	1	0.611	1	0.611
	ADP TOTAL	1	0.611	1	0.611	1	0.611
	SOFTWARE						
00-2	<i>Logistics Modernization Program (LMP)</i>	1	80.640	1	57.400	1	58.188
04-7	<i>Exchange Pricing (EP)</i>	1	7.554	1	5.669		0.000
	SOFTWARE TOTAL	1	88.194	1	63.069	1	58.188
	Activity TOTAL	2	88.805	2	63.680	2	58.799
	<i>Total Capital Outlays</i>		36.173		53.874		29.959
	<i>Total Depreciation Expense</i>		6.423		41.600		34.387

**EXHIBIT FUND-9a
CAPITAL INVESTMENT SUMMARY**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Supply Management
Capital Purchase Justification**

ADPE & TELECOMMUNICATIONS EQUIPMENT										
<i>(\$ in Thousands)</i>										
Line No	Item Description	Activity Identification								
04-3	Terminal Servers	CECOM LCMC								
		FY 2008			FY 2009			FY 2010		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	
Terminal Servers	1	610.968	610.968	1	610.968	610.968	1	610.968	610.968	
Total	1		610.968	1		610.968	1		610.968	

Narrative Justification

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

b. ANTICIPATED BENEFITS: The establishment of a Terminal Environment is the most cost-effective method for satisfying the CECOM LCMC Acquisition Center's automation requirements. By creating a terminal server environment, the number of administrative support personnel will decrease. 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. The BRAC implementation will be eased due to the improved accessibility of files by terminal server users. Lastly, the Terminal Servers Initiative will promote a more collaborate environment between acquisition communities because electronic tools developed by one command can easily be shared among the various MSCs.

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

d. ECONOMIC ANALYSIS PERFORMED? Yes

Total cost of project: \$2,443.872 Net Present Value of Benefits: \$5,249.000 Benefit to Investment Ratio: 2.800 Payback Period: 1.91

**EXHIBIT FUND 9b
CAPITAL PURCHASE JUSTIFICATION**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Supply Management
Capital Purchase Justification**

SOFTWARE							
(\$ in Thousands)							
Line No	Item Description			Activity Identification			
00-2	<i>Logistics Modernization Program (LMP)</i>			<i>PEO EIS</i>			
	FY 2008			FY 2009		FY 2010	
Element of Cost	Quantity	Total Cost	Quantity	Total Cost	Quantity	Total Cost	
<i>Core LMP</i>	1	80,640.000	1	57,400.000	1	58,188.000	
Total	1	80,640.000	1	57,400.000	1	58,188.000	

Narrative Justification

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: The current Army legacy logistics systems (i.e. the Commodity Command Supply System (CCSS) and the Standard Depot System (SDS)) are based on 35 year old technology and antiquated business processes. Legacy system processes are characterized by a lack of flexibility, antiquated supply chain practices, limited asset visibility, and lack of planning and analysis tools resulting in extended cycle times and reliance on high inventory levels. The Army has not achieved compliance with the Chief Financial Officer Act (CFO) of 1990 for annual financial reports due to severe limitations in AMC's legacy financial and logistics systems.

b. ANTICIPATED BENEFITS: LMP will correct the above-noted deficiencies and enable the Army to take advantage of commercial expertise, experience and investments in supply chain process improvements, and Information Technology (IT). The LMP solution employs and leverages an integrated commercial Enterprise Resource Planning (ERP) package provided by SAP America. Army benefits from the LMP solution include: comprehensive solution with enhanced functionality; improved and streamlined processes; real-time processing and availability of information from a single authoritative integrated database; integrated processes and information throughout entire lifecycle; unqualified financial reporting; real-time alerts; and exception message reporting. Full deployment of LMP will enable achievement of CFO, Business Enterprise Architecture (BEA), and Federal Financial Management Improvement Act (FFMIA) compliance. The funding also supports externally driven requirements from organizations such as the Government Accountability Office (GAO) and Business Transformation Agency (BTA). LMP will provide a national logistics strategic view of depot workload planning, cost, and execution. This funding supports LMP supply management requirements, which represents 70% of the Core LMP Army Working Capital Fund (AWCF) CIP requirement. Total Core LMP AWCF CIP required is: FY08 - \$115.2M, FY09 - \$82.0M, FY10 - \$83.1M, FY11 - \$18.0M.

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: Army reliance upon outdated/outmoded legacy systems, processes, and technology will continue with ever increasing risk of catastrophic system failure as supportability becomes increasingly difficult and complex. Continued dependence on unreliable data and data sources, implementation of manual workarounds, and our ongoing use of proprietary software will continue to hinder Army's ability to provide the agile, modern, and integrated logistics support capability and environment required to meet today's Warfighter mission.

d. ECONOMIC ANALYSIS PERFORMED: In FY05, a Business Case Analysis was completed for LMP. In January 2008 an updated Economic Analysis was completed.

Total Cost of the Project: \$432.0 million Net Present Value of Benefits: \$1,154.8 million Benefit to Investment Ratio: 2.673 Payback Period: 12.0

**EXHIBIT FUND 9b
CAPITAL PURCHASE JUSTIFICATION**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Supply Management
Capital Budget Execution**

		Approved Project Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/Deficiency	Explanation
<u>AUTOMATED DATA PROCESSING</u>								
FY 2008		Terminal Servers	0.611		0.611	0.611		Obligated
		<u>SOFTWARE</u>	88.194		88.194	88.194		
FY 2008		Exchange Pricing	7.554		7.554	7.554		Obligated
FY 2008		Logistics Modernization Program	80.640		80.640	80.640		Obligated
FY 2008		TOTAL	88.805		88.805	88.805		
		Approved Project Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/Deficiency	Explanation
<u>AUTOMATED DATA PROCESSING</u>								
FY 2009		Terminal Servers	0.611		0.611	0.611		
		<u>SOFTWARE</u>	68.162		68.162	63.069	(5.093)	
FY 2009		Exchange Pricing	10.762		10.762	5.669	(5.093)	Decrease in requirement
FY 2009		Logistics Modernization Program	57.400		57.400	57.400		
FY 2009		TOTAL	68.773		68.773	63.680	(5.093)	
		Approved Project Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/Deficiency	Explanation
<u>AUTOMATED DATA PROCESSING</u>								
FY 2010		Terminal Servers	0.611		0.611	0.611		
		<u>SOFTWARE</u>						
FY 2010		Logistics Modernization Program				58.188		

**EXHIBIT FUND 9c
CAPITAL BUDGET EXECUTION**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations**

Capital Investment Summary

Line No.	Description	FY 2008		FY 2009		FY 2010	
		Quantity	Total Cost	Quantity	Total Cost	Quantity	Total Cost
05-13	EQUIPMENT CAPABILITIES						
	- Replacement	20	90.350	71	67.209	42	54.278
	- Productivity	22	33.595	39	47.319	23	87.895
	- New Mission	2	1.969	7	3.038	5	5.541
	- Environmental	2	0.313	2	2.296	1	0.390
	EQUIPMENT TOTAL	46	126.227	119	119.862	71	148.104
	ADPE & Telecommunications Equipment Capabilities						
04-26	Miscellaneous ADPE	3	1.097	7	4.94	4	1.472
06-46	Automatic Identification Technology (AIT)	0	11.191	3	16.910	3	16.300
	ADPE & TELECOMMUNICATIONS EQUIPMENT TOTAL	3	12.288	10	21.850	7	17.772
	SOFTWARE DEVELOPMENT						
09-04	Document Management System			1	0.732		
99-08	Army Workload Performance System (AWPS)	1	3.500	1	5.564	1	4.865
09-03	Automated Storage Retrieval System (ASRS)		0.500	1	0.495		
07-35	Environmental Safety and Occupational Health Program	0	0.420	1	2.500	1	2.500
00-02	Logistics Modernization Program (LMP)						
	Core LMP	1	35.107	1	24.600	1	24.938
	Children						
	Integration of Automatic Technology (AIT) with LMP		0.000	0	0.000	1	4.400
	Industrial Base Modernization	1	4.064	2	5.600	2	9.000
	Expanded AMMO Functionality in LMP					1	1.706
	SOFTWARE TOTAL	3	43.591	7	39.491	7	47.409
	MINOR CONSTRUCTION CAPABILITIES						
05-26	Various Minor Construction \$100K <\$750K	28	31.385	68	32.544	54	31.346
	MINOR CONSTRUCTION TOTAL	28	31.385	68	32.544	54	31.346
	ACTIVITY GROUP TOTAL	80	213.491	204	213.747	139	244.631
	Total Capital Outlays		128.736		184.601		210.432
	Total Depreciation Expense		46.000		65.561		78.155

**EXHIBIT FUND 9a
CAPITAL INVESTMENT SUMMARY**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations**

Capital Purchase Justification

EQUIPMENT									
(\$ in Thousands)									
Line No	Item Description		Activity Identification						
05-13	Equipment		Industrial Operations						
	FY 2008			FY 2009			FY 2010		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
<i>Replacement</i>	20		90,350.000	71		67,209.000	42		54,278.000
<i>Productivity</i>	22		33,595.000	39		47,319.000	23		87,895.000
<i>New Mission</i>	2		1,969.000	7		3,038.000	5		5,541.000
<i>Environmental</i>	2		313.000	2		2,296.000	1		390.000
Total	46	0	126,227.000	119	0	119,862.000	71	0	148,104.000

Narrative Justification

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: This represents equipment purchases costing more than \$250K, which will improve the installation's efficiency through replacement, modification or addition of production and maintenance capability and compliance with mission requirements. Equipment supports organic maintenance, overhaul, rebuild, reclamation, conversion, renovation, modification and repair programs.

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

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

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

Total Cost of the Project: \$490,844.000 Net Present Value of Benefits: N/A Benefits to Investment Ratio: N/A Payback Period: N/A

**EXHIBIT FUND 9b
CAPITAL PURCHASE JUSTIFICATION**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations**

Capital Purchase Justification

AUTOMATED DATA PROCESSING EQUIPMENT (ADPE) AND TELECOMMUNICATIONS										
<i>(\$ in Thousands)</i>										
Line No	Item Description	Activity Identification		FY 2008			FY 2009			FY 2010
04-26	Miscellaneous ADPE < \$1M	Industrial Operations								
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	
Miscellaneous ADPE < \$1M	3		1,097.000	7		4,940.000	4		1,472.000	
Total	3		0 1,097.000	7	0	4,940.000	4	0	1,472.000	

Narrative Justification

- a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: These miscellaneous information management projects replace old/obsolete and unreliable equipment with state-of-the-art equipment.
- b. ANTICIPATED BENEFITS: Replacement of obsolete equipment will improve processing speeds, increase productivity and reduce maintenance costs. Projects allow sites to conform to Army standards and improve communications with other Army sites. New technology will improve security and lessen the threat of access by unauthorized sources.
- c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: Systems and equipment will continue to be unreliable, 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.
- d. ECONOMIC ANALYSIS PERFORMED? Economic Analyses have been performed on individual projects when required and are available upon request. Total Cost of the Project: \$8,904.000 Net Present Value of Benefits: N/A Benefit to Investment Ratio: N/A Payback Period: N/A

**EXHIBIT FUND 9b
CAPITAL PURCHASE JUSTIFICATION**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations**

Capital Purchase Justification

AUTOMATED DATA PROCESSING EQUIPMENT (ADPE) AND TELECOMMUNICATIONS										
<i>(\$ in Thousands)</i>										
Line No	Item Description	Activity Identification								
06-46	<i>Automatic Identification Technology (AIT)</i>	<i>Industrial Operations</i>								
		FY 2008			FY 2009			FY 2010		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	
<i>Contract</i>	0		11,191.000		1	6,800.000	6,800.000	1	5,700.000	5,700.000
<i>Hardware</i>	0				1	4,354.000	4,354.000	1	7,000.000	7,000.000
<i>Software</i>	0							1	600.000	600.000
<i>IUID</i>	0				1	5,756.000	5,756.000		3,000.000	3,000.000
Total	0		11,191.000	11,191.000	3	16,910.000	16,910.000	3	16,300.000	16,300.000

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 depot 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, AMC installations 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 material movement essential to delivering a modernized and efficient business solution to the shop floor. Presently AMC depots/arsenals/plants/activities/centers do not have the capability to read RFID and interface with the Wide Area Work Flow (WAWF). They are unable to electronically accept vendor pallets and cases and report receipt to the WAWF.

b. ANTICIPATED BENEFITS: The AIT implementation contract will provide hardware acquisition, installation, test, and configuration as an industrial base expansion of the initial implementation at Corpus Christi and Tobyhanna Army Depots. This will establish a state-of-the-art AIT capability to automatically capture the source data required to fully use the potential of the Single Army Logistics Enterprise (SALE). The FY09 funds will continue the AIT program implementation contract with AIT installation at Anniston Army Depot and at Watervliet Arsenal. FY09 funds will also provide IUID hardware and software for the 13 AMC AWCF-funded industrial base organizations. This IUID capability is required to meet OSD mandates to mark tangible property. IUID hardware acquired will include parts marking equipment, verification devices, management software, and other capabilities. FY10 funding will provide for finalization of the AIT efforts at Watervliet Arsenal, and for Pine Bluff Arsenal and Rock Island Arsenal to support AIT in the manufacturing environment.

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 and IUID are directed by OSD; therefore, an EA is not required for AIT and IUID implementation at AMC Industrial facilities. Reference policy memorandum, Acting DUSD (AT&L), 2 Oct 03.

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

**EXHIBIT FUND 9b
CAPITAL PURCHASE JUSTIFICATION**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations**

Capital Purchase Justification

SOFTWARE										
(\$ in Thousands)										
Line No	Item Description	Activity Identification								
99-08	Army Workload and Performance System (AWPS)	Industrial Operations								
		FY 2008			FY 2009			FY 2010		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	
Army Workload and Performance System (AWPS)	1	3500.000	3,500.000	1	5,564.000	5,564.000	1	4,865.000	4,865.000	
Total	1	3500.000	3,500.000	1	5,564.000	5,564.000	1	4,865.000	4,865.000	

Narrative Justification

- a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: Development requirements will continue in FY 2009 with Department of the Army/ Army Materiel Command report requirements; replacement equipment; deployment of AWPS-Logistics Modernization Program (LMP) to LMP deployment sites anticipated for FY09/10/11. General Accountability Office concluded in February 1997 that the Army cannot identify and prioritize its institutional workload. The materiel 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 LCMCs in managing complex workload and employment strategies in the Industrial Operations business area. Production and resource controllers at MSC/AMC can isolate key scheduling and cost problems at the product level, and evaluate the dollar and manpower impact of various workload changes through the sophisticated "what if" capability. Funding supports Program management and continued implementation of the AWPS/Logistics Modernization Program (LMP) Interface at LMP deployment sites.
- 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 at AMC LMP deployment sites and core workload and manpower functionality for the Army will cease to exist.
- d. ECONOMIC ANALYSIS PERFORMED? No, exempt. GAO 03-21 Dated 30 Oct 02, references the House Committee on National Security direction to Army to develop AWPS. Total Cost of the Project: \$58,669.000 Net Present Value of Benefits: N/A Benefit to Investment Ratio: N/A Payback Period: N/A

**EXHIBIT FUND 9b
CAPITAL PURCHASE JUSTIFICATION**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations**

Capital Purchase Justification

SOFTWARE										
(\$ in Thousands)										
Line No	Item Description	Activity Identification								
07-35	Environmental, Safety, and Occupational Health Program	Industrial Operations								
		FY 2008			FY 2009			FY 2010		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	
Accident Incident Management (AIM) Reference Library	0	420.000	420.000	1	2,500.000	2,500.000	1	2,500.000	2,500.000	
Total	0	420.000	420.000	1	2,500.000	2,500.000	1	2,500.000	2,500.000	

Narrative Justification

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

b. ANTICIPATED BENEFITS: ESOHP-AIM is a cross functional area that provides a safety incident management system that may be driven by regulation, permit, or command policy. It includes identification, response and investigation phases of an operational incident or near-miss. The incident is identified by type (explosive, fire, chemical release, medical etc.), the specific resources 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 and criteria for contact, option for automatic contact), tools to analyze event (analyze contaminants, dispersion modeling, material and personnel resource allocation/depletion, etc), 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 NSN). This data set could preclude unsafe storing and handling of materials that may result in explosive or reactive fashion if not handled/mixed properly and save life and limb in the process. This initiative will help achieve SecDef goal to reduce lost workdays by 50% and support AMC CG's #1 priority - Safety. SALE-AIM provides a critical component to production and capacity planning for AMC Depot maintenance and munitions production.

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

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

Total Cost of the Project: \$5,420,000 Net Present Value of Benefits: N/A Benefit to Investment Ratio: N/A Payback Period: N/A

**EXHIBIT FUND 9b
CAPITAL PURCHASE JUSTIFICATION**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations**

Capital Purchase Justification

SOFTWARE												
(\$ in Thousands)												
Line No	Item Description	Activity Identification			FY 2008			FY 2009			FY 2010	
00-02	Logistics Modernization Program	Industrial Operations										
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Core Logistics Modernization Program (LMP)	1	35,107.000	35,107.000	1	24,600.000	24,600.000	1	24,938.000	24,938.000	1	24,938.000	24,938.000
Total	1	35,107.000	35,107.000	1	24,600.000	24,600.000	1	24,938.000	24,938.000	1	24,938.000	24,938.000

Narrative Justification

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: The current Army legacy logistics systems (i.e. the Commodity Command Supply System (CCSS) and the Standard Depot System (SDS)) are based on 35 year old technology and antiquated business processes. Legacy system processes are characterized by a lack of flexibility, antiquated supply chain practices, limited asset visibility and lack of planning and analysis tools resulting in extended cycle times and reliance on mass quantities of inventory at all levels. The Army has not achieved compliance with the Chief Financial Officer Act (CFO) of 1990 for annual financial reports due to severe limitations in AMC's legacy financial and logistics systems. The legacy systems are incapable of supporting the Army's Transformation requirements or the DoD Business Systems Transition Plan.

b. ANTICIPATED BENEFITS: LMP will correct the above-noted deficiencies and enable the Army to take advantage of commercial expertise, experience and investments in supply chain process improvements and Information Technology (IT). The LMP solution employs and leverages an integrated commercial Enterprise Resource Planning (ERP) package provided by SAP America. Army benefits from the LMP solution include: comprehensive solution with enhanced functionality, improved and streamlined processes, real-time processing and availability of information from a single authoritative integrated database, integrated processes and information throughout entire lifecycle, unqualified financial reporting, real-time alerts and exception message reporting. Full deployment of LMP will enable achievement of CFO, Business Enterprise Architecture (BEA), and Federal Financial Management Improvement Act (FFMIA) compliance. Funding is essential to enhance initial deployment operations, deploy SAP software upgrades, and to develop and incorporate unique functional capabilities required for AMCOM Life Cycle Management Command, TACOM Life Cycle Management Command, Army Sustainment Command (ASC), Joint Munitions Command (JMC) and associated depots, arsenals and other industrial base activities, and address externally driven requirements from organizations such as the Government Accountability Office (GAO) and Business Transformation Agency (BTA). LMP will provide a national logistics strategic view of depot workload planning, cost and execution. This funding supports LMP supply management requirements, which represents 70% of the Core LMP Army Working Capital Fund (AWCF) CIP requirement. Total Core LMP AWCF CIP required is: FY08 - \$115.2M, FY09 - \$82.0M, FY10 - \$83.1M.

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENTS: Army reliance upon outdated/outmoded legacy systems, processes and technology will continue with ever increasing risk of catastrophic system failure as supportability becomes increasingly difficult and complex. Given our inability to achieve Army Transformation goals, DoD Business Systems Transformation planning or leverage of modern business processes, the results will be reflected in increasingly inefficient use of resources. Continued dependence on unreliable data and data sources, implementation of manual workarounds and our ongoing use of proprietary software will continue to hinder Army's ability to provide the agile, modern and integrated logistics support capability and environment required to meet today's Warfighter mission.

d. ECONOMIC ANALYSIS PERFORMED: In FY05, a Business Case Analysis was completed for LMP. In Jan 08 an updated Economic Analysis was completed. Total Cost of the Project: \$432,000.000 Net Present Value of Benefits: \$1,154.800 Benefit to Investment Ratio: 2.673 Payback Period: 12.0

**EXHIBIT FUND 9b
CAPITAL PURCHASE JUSTIFICATION**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations**

Capital Purchase Justification

SOFTWARE													
(\$ in Thousands)													
Line No	Item Description	Activity Identification			FY 2008			FY 2009			FY 2010		
00-02	<i>Integration of Automatic Technoloty (AIT) with Logistics Modernization Program</i>	<i>Industrial Operations</i>											
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost				
<i>Integration of Automatic Technology (AIT) with Logistics Modernization Program (LMP)</i>	1		4,400.000			4,400.000			4,400.000				
Total	0		0.000	0		0.000	1		4,400.000				

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 capabilities do not interface to LMP or shop floor control systems or inventory/accountability systems. These deficiencies require expending many unnecessary man-hours to manually key in data to multiple systems. The limited AIT capabilities will not support the Army's Transformation goals/initiatives or the DoD Business Systems Transition Plan. Depots and Arsenals are unable to capitalize on labor/production reporting and materiel movement essential to delivering a modernized and efficient business solution to the shop floor. Depots and Arsenals are unable to electronically accept vendor pallets and cases and report receipt via the LMP integrated National level supply chain solution .

b. ANTICIPATED BENEFITS: The integration of depot and arsenal AIT with LMP business processes enables end to end automated processes associated with depot and arsenal shop floor activities. Enables significant performance and functional gains in depot and arsenal inventory management. LMP AIT interfaces will comply with Inventory Management business process requirements. Improvements to the supply chain, maintenance, manufacturing, and remanufacturing business processes come from a combination of AIT enablers with the automated information systems (AIS) to track materiel-in-motion and provides real time data. AIT integration enables the mandates for item unique identification (IUID), active and passive radio frequency identification (RFID), and Wide Area Work Flow (WAWF). This funding supports AIT integration with LMP which is a critical Industrial Operations requirement. This funding does not include procurement of AIT hardware or the associated software applications.

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: Prohibits the Army from realizing many tangible (man-hours) and intangible (real time data) benefits inherent in integrating AIT and LMP. Non-compliance with OSD mandated AIT, RFID, WAWF and IUID policies. Results in significant manual data entry and the inefficient use of labor resources.

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

e. FULLY OPERATIONAL CAPABILITY DATE: FY10

Total Cost of the Project: \$7,400,000 Net Present Value of Benefits: N/A Benefit to Investment Ratio: N/A Payback Period: N/A

**EXHIBIT FUND 9b
CAPITAL PURCHASE JUSTIFICATION**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations**

Capital Purchase Justification

SOFTWARE										
<i>(\$ in Thousands)</i>										
Line No	Item Description	Activity Identification			FY 2009			FY 2010		
00-02	Industrial Base Modernization	Industrial Operations								
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	
<i>Manufacturing Execution System</i>	1	4064.000	4,064.000	1	5,000.000	5,000.000	1	7,500.000	7,500.000	
Software	0		0.000	1	600.000	600.000	1	1500	1,500.000	
Total	1	4064.000	4,064.000	2	5,600.000	5,600.000	2	9,000.000	9,000.000	

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 depots' and arsenals' 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. 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 the industrial base environment. Some of the capabilities may include but are not limited to work in progress, tool & equipment management, document management, production and capacity planning, labor and production reporting, inventory management, root cause analysis, etc.. The MES with shop floor maintenance repair and overhaul (MRO) capability provides functionality that includes 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. The primary selling point for MES is that 196 spaces can be taken in FY12 and out, and 63 additional spaces can be taken in FY13 and out. The BIR is based solely on these savings. MES is assumed to be operational until 2022. 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 which will adversely affect the depot rates and therefore the cost to the warfighter. IBM MES data feeds to legacy systems on the industrial base shop floor will eliminate inefficiency and ineffectiveness in performing the depot mission. 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: Without MES manpower savings cannot be achieved. 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 erroneous 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: Completed May 06 and updated April 09.
Total Cost of the Project: \$66,195.000 Net Present Value of Benefits: \$66,567.000 Benefit to Investment Ratio: 1.01 Payback Period: 10.95

**EXHIBIT FUND 9b
CAPITAL PURCHASE JUSTIFICATION**

**Army Working Capital Fund
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Industrial Operations**

Capital Purchase Justification

SOFTWARE										
<i>(\$ in Thousands)</i>										
Line No	Item Description	Activity Identification			FY 2009			FY 2010		
00-02	<i>Expanded AMMO Functionality in LMP</i>	<i>Industrial Operations</i>								
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	
<i>Expanded AMMO Functionality in LMP</i>	0	0.000	0.000	0	0.000	0.000	1	1,706.000	1,706.000	
Total	0	0.000	0.000	0	0.000	0.000	1	1,706.000	1,706.000	

Narrative Justification

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: The current Army legacy logistics systems (i.e. the Commodity Command Supply System (CCSS) and the Standard Depot System (SDS)) and other non-integrated legacy Ammunition systems will be subsumed by LMP (e.g. Munitions, Transportation Management System and the Munitions Total Management System - Field Module). These legacy Ammunition systems suffer from the additional complexities and added sustainment costs associated with unique software applications created by end users to address legacy system shortcomings. The legacy Ammunition systems are incapable of supporting the Army's Ammunition Modernization efforts. Requirements approved at LMP Business Process Council for incorporation in the ammunition deployment plan. Requirements are in addition to those aspects of modernization covered in core LMP fielding. Total investment supports the elimination of 36 systems supporting the legacy SDS/CCSS gaps in concert with core LMP precluding significant interface costs of approx \$3.6M per year. Thirteen AWCF facilities, 2.3M tons of munitions, \$6M per year in current sustainment, are supported by this investment. Supported avoidance by providing this investment is \$9.6M per year. Detailed data is available that reflects each system, current costs to sustain, origin requirement and SALE migration solution. Systems to be migrated support AIT, Transportation and total ammunition stockpile visibility for the AWCF depots. Requirement is in addition to the core SDS/CCSS functionality migration and is critical for major mission support, providing depot level AIT capabilities, munitions transportation execution for all Services, depot modular total ammunition stockpile visibility and updates, supporting the warfighter modernization.

b. ANTICIPATED BENEFITS: As part of the continuing efforts to modernize the Army ammunitions management, portfolio management and the technology investments both today and in the future, JMC has evaluated and determined other legacy Ammunition systems will be subsumed by LMP (e.g. Munitions, Transportation Management System and the Munitions Total Management System - Field Module). LMP will correct the above-noted deficiencies and enable the Army to take advantage of commercial expertise, experience and investments in ammunition supply chain process improvements and Information Technology (IT). The Army Materiel Command (AMC), the Joint Munitions Command (JMC) and other DoD organizations benefit from the re-engineered business processes and integrated logistics and financial services embedded in the LMP solution. LMP is an integral component of the Single Army Logistics Enterprise (SALE), representing the National level supply chain solution, enabling one authoritative end to end logistics system. Expanded AMMO functionality in LMP provides and the Army benefits by: reduced cycle times and out of stock rates, total visibility of orders from start to finish, worldwide visibility of assets in real time, multiple sales order processing and release capability, increased accuracy and higher visibility of maintenance actions, drill down capabilities to trace sales and purchase orders, greater materiel movement oversight, powerful anticipatory logistics planning tool, reduced stockage levels and logistics footprint, enhanced procurement of weapon systems and spares and services. This funding supports Industrial Operations Ammunition requirements.

c. IMPACT WITHOUT PROPOSED CAPITAL INVESTMENT: Continued reliance on non-integrated and aging Ammunition legacy systems' processes and technology. Heightened risk of catastrophic legacy system failure as supportability becomes increasingly difficult. Inability to achieve Army Ammunition Modernization goals. Inability to leverage modern business processes and the resultant inefficient use of resources. Continued reliance on unreliable data sources and manual workarounds. Continued reliance on unique software applications. These deficiencies preclude the Army from providing the agile, modern and integrated ammunition logistics support capability required to support today's warfighter.

d. ECONOMIC ANALYSIS PERFORMED: Yes, completed in Jan 07.

Total Cost of the Project: 27,000.057 Net Present Value of Benefits: 31,900.000 Benefit to Investment Ratio: 1.185 Payback Period: 2.0

**EXHIBIT FUND 9b
CAPITAL PURCHASE JUSTIFICATION**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations**

Capital Purchase Justification

MINOR CONSTRUCTION										
<i>(\$ in Thousands)</i>										
Line No	Item Description	Activity Identification								
05-26	Various Minor Construction <\$750K	Industrial Operations								
		FY 2008			FY 2009			FY 2010		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	
Minor Construction \$100K < \$750K	28		31,385.139	68		32,544.000	54		31,346.000	
Total	28	0.000	31,385.139	68	0.000	32,544.000	54	0.000	31,346.000	

Narrative Justification

a. CAPABILITY OF EXISTING EQUIPMENT AND SHORTCOMINGS: This represents various minor construction projects costing <\$500K, 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).

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.

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

d. ECONOMIC ANALYSIS PERFORMED? Economic Analyses have been performed on individual projects when required and are available upon request.
Total Cost of the Project: \$115,089.139 Net Present Value of Benefits: N/A Benefit to Investment Ratio: N/A Payback Period: N/A

**EXHIBIT FUND 9b
CAPITAL PURCHASE JUSTIFICATION**

Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations

Capital Budget Execution
(\$ in Millions)

FY	Approved Project Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/Deficiency	Explanation
EQUIPMENT							
EQUIPMENT-Replacement							
Various Capital Equipment-Replacement		91.499	(1.149)	90.350	90.350	-	
FY08	Robotic Thermal Spray (#1 and #2)	1.548		1.548	1.548	-	
FY08	Fuel Control Test Stands	6.900		6.900	6.900	-	
FY08	Fluid Cell Press (Farquaher)	8.400		8.400	8.400	-	
FY08	Scanner Test Station	0.474		0.474	0.474	-	
FY08	VXI ATE Test System	0.325		0.325	0.325	-	
FY08	Schlumberger Factron 720	1.100		1.100	1.100	-	
FY08	Bio Seeq Handheld PCR Detector	0.212		0.212	0.212	-	
FY08	Extended Flow Refrigerant Tester, B. 32-230	0.204		0.204	0.204	-	
FY08	Leak Test Ovens for WP Plant, B. 34-110	2.616		2.616	2.616	-	
FY08	Bulldozer D&R	0.547		0.547	0.547	-	
FY08	BGMC Bulldozer	0.390		0.390	0.390	-	
FY08	Replace Generator Test Stand	0.169		0.169	0.169	-	
FY08	Universal Cylindrical Grinder	0.372		0.372	0.372	-	
FY08	Heald # 74 Universal Cyc ID Grinder	0.623		0.623	0.623	-	
FY08	Tractor Wheeled Industrial (Tow Tractor) Bldg 400	0.704		0.704	0.704	-	
FY08	Rotary Forge Control System	0.999		0.999	0.999	-	
FY08	Rebuild,Retrofit Two CM 2-Spdl Vertical Hydrotels	0.519		0.519	0.519	-	
FY08	Various Capital Equipment	61.447	(1.149)	60.298	60.298	-	Reprogrammed to various minor construction
FY08	Downdraft Paintbooth	2.000		2.000	2.000	-	
FY08	Horizontal Boring Mill Replace Niles	1.950		1.950	1.950	-	

**EXHIBIT FUND 9c
CAPITAL BUDGET EXECUTION**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations**

**Capital Budget Execution
(\$ in Millions)**

FY	Approved Project Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/Deficiency	Explanation
EQUIPMENT-Productivity							
Various Capital Equipment-Productivity		33.595	0.000	33.595	33.595	-	
FY08	Stretch Wrap Forming Machine	0.153		0.153	0.153	-	
FY08	CARC Equipment Upgrade	0.194		0.194	0.194	-	
FY08	CNC Mill	0.253		0.253	0.253	-	
FY08	Metal Treatment Facility Upgrade	0.278		0.278	0.278	-	
FY08	Hgr. 46 Bridge Crane	0.350		0.350	0.350	-	
FY08	Stretch Wrap Press, Horizontal	0.358		0.358	0.358	-	
FY08	Large and Small Water Jet	0.575		0.575	0.575	-	
FY08	Apache Combo Checker Fixture	1.730		1.730	1.730	-	
FY08	Cylinder Disassembly Fixture	0.219		0.219	0.219	-	
FY08	Hydraulic Press Brake	0.246		0.246	0.246	-	
FY08	Hydraulic Shear	0.273		0.273	0.273	-	
FY08	Upgrade Wiring Harness Analyzers	0.399		0.399	0.399	-	
FY08	Rebuild, Retrofit Red Ring Grinder WV11290	0.425		0.425	0.425	-	
FY08	Devlieg Horizontal Boring Mill	0.484		0.484	0.484	-	
FY08	EDM Ram Bldg 145	0.486		0.486	0.486	-	
FY08	Rebuild, Retrofit Wohlenberg Lathe WV 12261	0.364		0.364	0.364	-	
FY08	Rebuild, Retrofit Wohlenberg Lathe WV12245 (1-carriage)	0.495		0.495	0.495	-	
FY08	Rebuild, Retrofit Wohlenberg Lathe WV12255 (2-carriage)	0.495		0.495	0.495	-	
FY08	Rebuild, Retrofit Cin OD Grinder WV12164	0.625		0.625	0.625	-	
FY08	Rebuild, Retrofit G & L Orion WV12688	0.650		0.650	0.650	-	
FY08	M119 A2 Recuperator/Buffer	8.150		8.150	8.150	-	
FY08	Various Capital Equipment	16.393		16.393	16.393	-	
EQUIPMENT - New Mission							
Various Capital Equipment-New Mission		1.969	0.000	1.969	1.969	-	
FY08	Unmanned Threat Emitter (UMTE)	0.683		0.683	0.683	-	
FY08	Bomb Heat Treating System	1.286		1.286	1.286	-	
EQUIPMENT-Environmental							
Various Capital Equipment-Environmental		0.313	0.000	0.313	0.313	-	
FY08	Vacuum Truck Bldg 18	0.294		0.294	0.294	-	
FY08	Rotor Blade Processing Facility	0.019		0.019	0.019	-	

**EXHIBIT FUND 9c
CAPITAL BUDGET EXECUTION**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations**

**Capital Budget Execution
(\$ in Millions)**

FY	Approved Project Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/Deficiency	Explanation
ADPE & TELECOMMUNICATIONS EQUIPMENT		14.344	(2.056)	12.288	12.288	-	
FY08	Automatic Identification Technology	12.200	(1.009)	11.191	11.191	-	Reprogrammed \$.547M to Software LMP
FY08	Integrated Wireless Network Infrastructure Implementation	0.710	(0.710)	0.000	0.000	-	
FY08	Miscellaneous ADPE	1.434	(0.337)	1.097	1.097	-	Reprogrammed \$1.509M to Equipment
SOFTWARE DEVELOPMENT		44.624	(1.033)	43.591	43.591		
FY08	Army Workload Performance System (AWPS)	3.500		3.500	3.500	-	
FY08	Logistics Modernization Program	34.560	0.547	35.107	35.107	-	Reprogrammed from ADPE Equipment
FY08	Industrial Base Modernization (MES-Depots)	4.064		4.064	4.064	-	
FY08	Environmental, Safety, and Occupational Health Program (ESOHP)	2.500	(2.080)	0.420	0.420	0.000	Reprogrammed \$2.080M to Minor Construction
FY08	Automated Storage and Retrieval System (ASRS)		0.500	0.500	0.500		Reprogrammed from Equipment

**EXHIBIT FUND 9c
CAPITAL BUDGET EXECUTION**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations**

**Capital Budget Execution
(\$ in Millions)**

FY	Approved Project Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/Deficiency	Explanation
MINOR CONSTRUCTION		27.042	4.343	31.385	31.385	-	
FY08	Grinding Machines	0.230		0.230	0.230	-	
FY08	Universal Batch Quench Furnace	0.659		0.659	0.659	-	
FY08	DPW Vehicle Maintenance Shop	0.745		0.745	0.745	-	
FY08	HVAC	0.647		0.647	0.647	-	
FY08	WP Phase IV Construction	0.210		0.210	0.210	-	
FY08	Humidity Control System, B. 34-250 - East Side	0.420		0.420	0.420	-	
FY08	Closed Loop Hyd Test Stand	0.423		0.423	0.423	-	
FY08	Upgrade Sewage Treatment Dry Beds	0.464		0.464	0.464	-	
FY08	Air Compressor Upgrade	0.598		0.598	0.598	-	
FY08	Admin Facility DRK	0.707		0.707	0.707	-	
FY08	Renovate/Expand 434	0.740		0.740	0.740	-	
FY08	Renovate Building 130	0.716		0.716	0.716	-	
FY08	Shower Change Room BI 400	0.725		0.725	0.725	-	
FY08	Warhead Disassembly Facility	0.730		0.730	0.730	-	
FY08	Construct Change Room- South Wash Rack	0.743		0.743	0.743	-	
FY08	Final Repair Facility	0.746		0.746	0.746	-	
FY08	Multi-Purpose Maintenance Facility	0.723		0.723	0.723	-	
FY08	Renovate Bldg 380 @ ADMC	0.725		0.725	0.725	-	
FY08	Fire Supression Bldg 160	0.356		0.356	0.356	-	
FY08	Inert Storage Bldg(s) @ A+BGMC	0.355		0.355	0.355	-	
FY08	Inert Storage Building 3700	0.393		0.393	0.393	-	
FY08	Munitions Milling Facility @ ADMC	0.725		0.725	0.725	-	
FY08	Water Treatment Bldg 3110	0.132		0.132	0.132	-	
FY08	Inert Storage Shed B @ ADMC	0.383		0.383	0.383	-	
FY08	Inert Storage Area - Shipping Ammo	0.405		0.405	0.405	-	
FY08	Ammo Ops Center	0.697		0.697	0.697	-	
FY08	Bldg. 233 Radar Test Site Exp.	0.700		0.700	0.700	-	
FY08	Various Minor Construction	11.944	4.343	16.287	13.059	(3.228)	Reprogrammed \$2.080M from minor construction and \$2.263M from Equipment
TOTAL		213.386	0.105	213.491	213.491	0.000	

**EXHIBIT FUND 9c
CAPITAL BUDGET EXECUTION**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations**

**Capital Budget Execution
(\$ in Millions)**

FY	Approved Project Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/Deficiency	Explanation
EQUIPMENT		119.862	0.000	119.862	119.862	-	
FY09	EQUIPMENT-Replacement Various Capital Equipment-Replacement	67.209		67.209 0.000	67.209 0.000	-	
FY09	EQUIPMENT-Productivity Various Capital Equipment-Productivity	47.319		47.319 0.000	47.319 0.000	-	
FY09	EQUIPMENT - New Mission Various Capital Equipment-New Mission	3.038		3.038 0.000	3.038 0.000	-	
FY09	EQUIPMENT-Environmental Various Capital Equipment-Environmental	2.296		2.296 0.000	2.296 0.000	-	
ADPE & TELECOMMUNICATIONS EQUIPMENT		24.985	0.000	24.985	21.850	3.135	
FY09	Miscellaneous ADPE < \$1M	4.940		4.940	4.940	-	
FY09	Automatic Identification Technology (AIT)	16.910		16.910	16.910	-	
FY09	Base Radio System	3.135		3.135 0.000	0.000	3.135	Project cancelled
SOFTWARE DEVELOPMENT		39.491		39.491	39.491	-	
FY09	Automated Storage and Retrieval System (ASRS)	0.495		0.495	0.495	-	
FY09	Document Mangement System	0.732		0.732	0.732	-	
FY09	Army Workload Performance System (AWPS)	5.564		5.564	5.564	-	
FY09	Logistics Modernization Program	24.600		24.600	24.600	-	
FY09	Integration of Automatic Technology (AIT) with LMP	0.000		0.000	0.000	-	
FY09	Industrial Base Modernization ERP	5.600		5.600	5.600	-	
FY09	Environmental, Safety, and Occupational Health Program (ESOHP)	2.500		2.500 0.000	2.500	-	
MINOR CONSTRUCTION		32.544		32.544	32.544	-	
FY09	Various Minor Construction <\$750K	32.544		32.544	32.544	-	
TOTAL		216.882	0.000	216.882	213.747	3.135	

**EXHIBIT FUND 9c
CAPITAL BUDGET EXECUTION**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations**

**Capital Budget Execution
(\$ in Millions)**

FY	Approved Project Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/Deficiency	Explanation
EQUIPMENT		0.000	0.000	0.000	148.104	148.104	No Prior Submission/Approval of Projects
FY10	EQUIPMENT-Replacement Various Capital Equipment-Replacement				54.278	54.278	
FY10	EQUIPMENT-Productivity Various Capital Equipment-Productivity				87.895	87.895	
FY10	EQUIPMENT - New Mission Various Capital Equipment-New Mission				5.541	5.541	
FY10	EQUIPMENT-Environmental Various Capital Equipment-Environmental				0.390	0.390	
ADPE & TELECOMMUNICATIONS EQUIPMENT		0.000	0.000		17.772	17.772	No Prior Submission/Approval of Projects
FY10	Miscellaneous ADPE < \$1M				1.472	1.472	
FY10	Automatic Identification Technology (AIT)				16.300	16.300	
SOFTWARE DEVELOPMENT		0.000	0.000		47.409	47.409	No Prior Submission/Approval of Projects
FY10	Army Workload and Performance System (AWPS)				4.865	4.865	
FY10	Logistics Modernization Program				24.938	24.938	
FY10	Integration of Automatic Technology (AIT) with LMP				4.400	4.400	
FY10	Industrial Base Modernization (IBM-MES Depots)				4.000	4.000	
FY10	Industrial Base Modernization (IBM-MES Arsenal)				5.000	5.000	
FY10	Expanded AMMO Functionality in LMP				1.706	1.706	
FY10	Environmental Safety and Occupational Health Program (ESOHP)				2.500	2.500	
MINOR CONSTRUCTION		0.000	0.000		31.346	31.346	No Prior Submission/Approval of Project
FY10	Various Minor Construction <\$750K				31.346	31.346	
TOTAL		0.000	0.000		244.631	244.631	

**EXHIBIT FUND 9c
CAPITAL BUDGET EXECUTION**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimates
Industrial Operations**

**Minimum Capital Investment for Certain Depots and Arsenals
(\$ in Millions)**

	Revenue			Budgeted Capital			Difference Positive numbers exceed required investment		
	3-Year Average			FY 2008	FY 2009	FY 2010	FY 2008	FY 2009	FY 2010
	FY 2008	FY 2009	FY 2010						
ANAD							5.0%	6.0%	6.0%
Revenue	997.531	1,135.076	1,236.142						
Capital Investment Program				21.957	65.720	35.596			
Facilities Sustainment, Restoration and Modernization				27.221	15.956	16.372			
Equipment (Fund 1a- 500 lines)				15.603	14.339	14.301			
Productivity Enhancements				0.703	1.095	0.980			
MILCON				26.100	45.000	0.000			
Actual/ Budgeted Investment				91.584	142.110	67.249			
Required Investment				49.877	68.105	74.169			
Over (+)/ Under (-) Investment							41.707	74.006	(6.920)
CCAD									
Revenue	1,058.769	1,185.220	1,342.353						
Capital Investment Program				28.003	22.759	87.696			
Facilities Sustainment, Restoration and Modernization				15.926	16.843	17.277			
Equipment (Fund 1a- 500 lines)				22.926	25.491	27.924			
Productivity Enhancements				0.000	0.000	0.000			
MILCON				1.315	39.000	0.000			
Actual/ Budgeted Investment				68.170	104.093	132.897			
Required Investment				52.938	71.113	80.541			
Over (+)/ Under (-) Investment							15.232	32.979	52.356
LEAD									
Revenue	423.870	472.469	506.215						
Capital Investment Program				9.645	5.313	7.092			
Facilities Sustainment, Restoration and Modernization				16.000	16.000	12.000			
Equipment (Fund 1a- 500 lines)				13.749	8.321	8.240			
Productivity Enhancements				0.000	0.000	0.000			
MILCON				0.000	0.000	0.000			
Actual/ Budgeted Investment				39.394	29.634	27.332			
Required Investment				21.194	28.348	30.373			
Over (+)/ Under (-) Investment							18.200	1.286	(3.040)

**EXHIBIT FUND 6
MINIMUM CAPITAL INVESTMENT FOR CERTAIN DEPOTS AND ARSENALS**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimate
Industrial Operations**

**Minimum Capital Investment for Certain Depots and Arsenals
(\$ in Millions)**

	Revenue			Budgeted Capital			Difference Positive numbers exceed required investment		
	3-Year Average			FY 2008	FY 2009	FY 2010	FY 2008	FY 2009	FY 2010
	FY 2008	FY 2009	FY 2010						
RRAD									
Revenue	685.527	778.639	878.074						
Capital Investment Program				28.812	26.174	16.859			
Facilities Sustainment, Restoration and Modernization				12.257	19.678	19.144			
Equipment (Fund 1a- 500 lines)				8.112	13.528	12.729			
Productivity Enhancements				0.521	0.206	0.000			
MILCON				11.145	6.900	0.000			
Actual/ Budgeted Investment				60.847	66.486	48.731			
Required Investment				34.276	46.718	52.684			
Over (+)/ Under (-) Investment							26.571	19.768	(3.953)
TYAD									
Revenue	604.118	710.624	823.544						
Capital Investment Program				3.412	20.932	23.155			
Facilities Sustainment, Restoration and Modernization				34.214	33.052	17.905			
Equipment (Fund 1a- 500 lines)				18.220	32.677	23.076			
Productivity Enhancements				0.959	0.881	0.884			
MILCON				0.000	15.000	0.000			
Actual/ Budgeted Investment				56.805	102.542	65.020			
Required Investment				30.206	42.637	49.413			
Over (+)/ Under (-) Investment							26.599	59.904	15.607
PBA									
Revenue	145.017	166.128	195.730						
Capital Investment Program				3.528	7.484	5.170			
Facilities Sustainment, Restoration and Modernization				5.830	5.377	7.223			
Equipment (Fund 1a- 500 lines)				4.948	4.712	3.123			
Productivity Enhancements				0.000	0.000	0.000			
MILCON				0.000	0.000	25.000			
Actual/ Budgeted Investment				14.306	17.573	40.516			
Required Investment				7.251	9.968	11.744			
Over (+)/ Under (-) Investment							7.055	7.605	28.772

**EXHIBIT FUND 6
MINIMUM CAPITAL INVESTMENT FOR CERTAIN DEPOTS AND ARSENALS**

**Army Working Capital Fund
Fiscal Year (FY) 2010 Budget Estimate
Industrial Operations**

**Minimum Capital Investment for Certain Depots and Arsenals
(\$ in Millions)**

	Revenue			Budgeted Capital			Difference Positive numbers exceed required investment		
	3-Year Average			FY 2008	FY 2009	FY 2010	FY 2008	FY 2009	FY 2010
	FY 2008	FY 2009	FY 2010						
RIA									
Revenue	272.990	316.347	367.232						
Capital Investment Program				10.834	9.817	15.305			
Facilities Sustainment, Restoration and Modernization				5.623	15.099	14.803			
Equipment (Fund 1a- 500 lines)				12.086	14.365	14.653			
Productivity Enhancements				0.000	0.000	0.000			
MILCON				0.000	0.000	0.000			
Actual/ Budgeted Investment				28.543	39.281	44.761			
Required Investment				13.650	18.981	22.034			
Over (+)/ Under (-) Investment							14.894	20.300	22.727
WVA									
Revenue	111.807	113.197	122.684						
Capital Investment Program				17.409	17.696	9.837			
Facilities Sustainment, Restoration and Modernization				9.846	10.092	10.488			
Equipment (Fund 1a- 500 lines)				0.141	0.458	0.350			
Productivity Enhancements				0.000	0.000	0.000			
MILCON				0.000	0.000	0.000			
Actual/ Budgeted Investment				27.396	28.246	20.675			
Required Investment				5.590	6.792	7.361			
Over (+)/ Under (-) Investment							21.806	21.454	13.314
TOTAL ARMY									
Revenue	4,299.629	4,877.701	5,471.974						
Capital Investment Program				123.600	175.895	200.710			
Facilities Sustainment, Restoration and Modernization				126.917	132.097	115.212			
Equipment (Fund 1a- 500 lines)				95.785	113.890	104.395			
Productivity Enhancements				2.183	2.182	1.864			
MILCON				38.560	105.900	25.000			
Actual/ Budgeted Investment				387.045	529.965	447.181			
Required Investment				214.981	292.662	328.318			
Over (+)/ Under (-) Investment							172.063	237.303	118.863
Investment percentage							9.0%	10.9%	8.2%

**EXHIBIT FUND 6
MINIMUM CAPITAL INVESTMENT FOR CERTAIN DEPOTS AND ARSENALS**

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Soldiers from Battery B, 3rd Battalion, 320th Field Artillery Regiment, 101st Airborne Division, pause at the end of a patrol near Wymot, Iraq

Warrior Ethos

I will always place the mission first.

I will never accept defeat.

I will never quit.

I will never leave a fallen comrade.

