Appendix B

THE BENEFITS OF STOCK FUNDING

The purpose of working capital funding is to create financial incentives to reduce support costs while maintaining readiness. During the FM PIT's process walks, however, members often heard a longing for the days before DLRs were stock funded. This appendix documents some of the benefits the Army has realized under stock funding of DLRs. Briefly, logistics customers have responded by reducing demands for DLRs, increasing return rates relative to demands, and seeking alternative sources of supply and repair.[1]

From the provider perspective, working capital funding has resulted in significant reductions in costs and civilian personnel. From fiscal year 1993 to fiscal year 1999, the logistics infrastructure costs of all DWCF activities—including the Defense Logistics Agency (DLA), DFAS, etc.—fell from $53.6 billion to $44.2 billion, a 30 percent reduction after accounting for inflation. Civilian personnel in DWCF activities fell from 290,000 to 184,000 over the same period, a 37 percent reduction. As part of these total personnel reductions, supply management personnel have been reduced by 39 percent and depot maintenance personnel have been reduced by 43 percent.[2]

Evidence of declining demands for reparables since 1992 can be seen in the Army's Operating and Support Management Information Sys-

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[1]See Brauner et al., *ISM-X Evaluation and Policy Implications,* for a discussion of alternative sources of supply and repair.

[2]Office of the Under Secretary of Defense (Comptroller), *A Plan to Improve the Management and Performance of the Department of Defense Working Capital Funds*, September 1997, pp. 18–19.

tem (OSMIS), which contains cost data on all the Army's major weapon systems. Analysis of these data for the Apache and Blackhawk helicopters, the M1 tank, and the Bradley Fighting Vehicle shows that since 1992, purchases from wholesale of Class IX reparable parts have declined both on a per-system basis (Figure B.1) and a per-flying-hour or per-vehicle-mile basis (Figure B.2).[3]

In Figure B.1, the left axis shows purchases from the wholesale system per helicopter (Apache or Blackhawk). Note that in 1992, purchases of Class IX reparable parts per Apache were approximately $751,000 and by 1998 they were down to $472,000. The Blackhawk did not see as dramatic a decline in purchases per system, but the cost of Blackhawk reparable parts per helicopter is also considerably less than for the Apache. In 1998, purchases of Blackhawk reparable

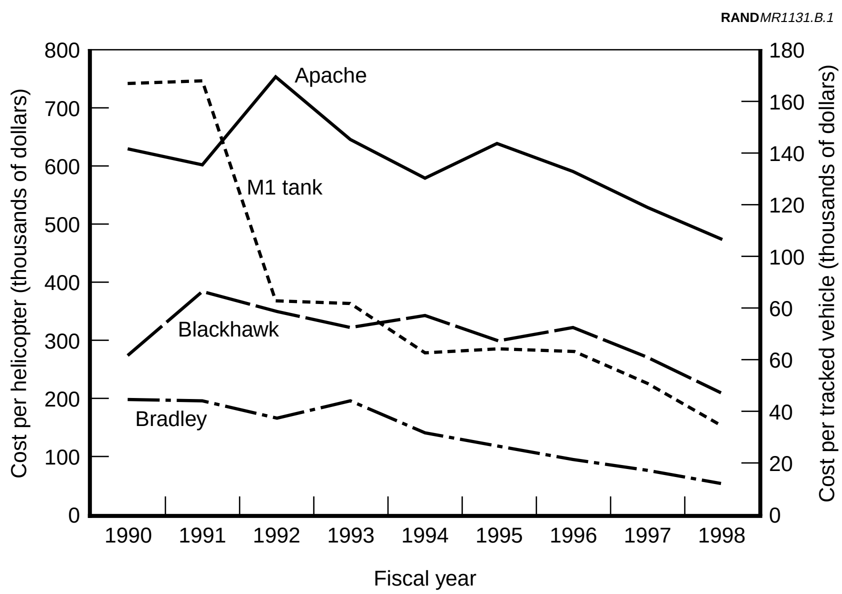

Figure B.1—Purchases of Class IX Reparables per System

[3]There were no other trends in the data, such as changes in flying hours per helicopter or miles per vehicle, that seemed likely to account for the reduction in demands for Class IX reparables.

parts were just over $200,000. Tracked vehicles in general require less-expensive Class IX reparable parts; thus, purchases per system should be lower, as Figure B.1 confirms. The right axis in Figure B.1 shows the cost per tracked vehicle (here, the M1 and Bradley). From 1992 to 1998, purchases of reparable parts per vehicle for the M1 tank declined from $82,000 to $35,000; those for the Bradley declined from $38,000 to $13,000.

These trends for both helicopters and tracked vehicles are confirmed by Figure B.2. The left axis in the figure shows purchases of Class IX reparable parts per flying hour for the Apache and Blackhawk helicopters. In 1992, purchases of Apache Class IX parts amounted to over $5,000 per flying hour; by 1998, they had declined to $2,900. Over the same period, Blackhawk reparable costs per flying hour declined from $2,200 to $1,200. Similarly, the right axis in Figure B.2 shows purchases of Class IX reparable parts per vehicle mile for the M1 tank and the Bradley. Purchases of reparable parts for the M1 declined from $135 per vehicle mile to $93; for the Bradley, they declined from $45 to $29 over the same six years.

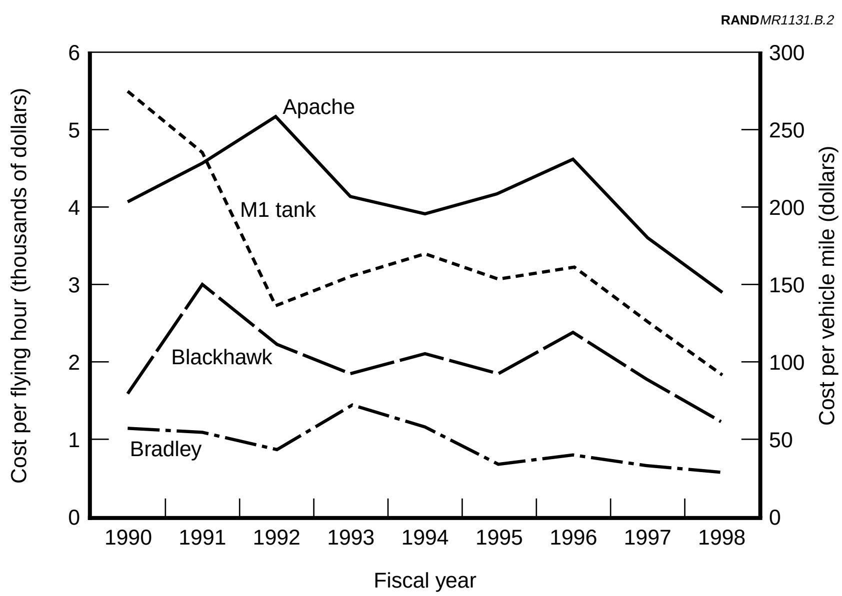

Figure B.2—Purchases of Class IX Reparables per Flying Hour/Vehicle Mile