DCN 7791

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

July 29, 2005
0032

MEMORANDUM FOR OSD BRAC Clearinghouse

SUBJECT: OSD-BRAC Clearinghouse Tasker C0702

1. The Supply and Storage Joint Cross Service Group (S&S JCSG) provides the following response to Mr. Cirillo's request (please see attachment 1) for an explanation of the methodology used to evaluate savings and to provide any back-up information and assumptions for the S&S JCSG recommendation "Depot Level Procurement Management Consolidation" (please see attachment 2 for a detailed explanation).

2. Virtually all of the net savings for this recommendation stem from two areas, "personnel" and "procurement avoidance".

- Personnel savings were primarily driven by the elimination of 217 civilian positions and are a result of a 10% efficiency assumption applied against positions transferred in place or moved.

  Net savings through 2011 are $5.2M, recurring savings (2012 and beyond) are $5.8M.

- Procurement avoidance savings were driven by three factors:

  - Inventory reduction
  - Cost to hold avoidance
  - Pricing savings

  Inventory reduction are one time savings taken when inventory requirements are reduced and inventory on hand can be sold without replacement.

  Cost to hold avoidance are recurring savings taken when inventory levels are reduced and the government no longer has to bear the cost of keeping it on the shelf.

  Pricing savings are recurring savings taken when the price for an item is reduced and future procurements for items are made at a lower cost.

  Net savings through 2011 are $494.3M, recurring savings (2012 and beyond) are $153.6M.

- The net savings figure of $1,889.6M was computed by accumulating net savings through 2025 and discounting using the standard COBRA discount factor of 2.8% to arrive at the net present value of the total savings stream.

3. Please contact us if you have any questions about any of our responses.

LOUIS J. NEELEY
Col, USAF
Executive Secretary,
Supply and Storage
Joint Cross-Service Group

Coordination:
S&S JCSG DLA Team Rep: _____
S&S JCSG Data Team Rep: _____

Attachments:
1. Letter from Mr. Cirillo, 26 July 2005
2. S&S JCSG paper "Calculation of Savings for Scenario 035RV3 as a Result of the Increased Use of Corporate Contracts," 28 July 2005

DEFENSE BASE CLOSURE AND REALIGNMENT COMMISSION
2521 SOUTH CLARK STREET, SUITE 600
ARLINGTON, VA 22202
TELEPHONE: 703-699-2950
FAX: 703-699-2735

DCN 7791

July 26, 2005
JCS #26

Chairman:
The Honorable Anthony J. Principi

Commissioners:
The Honorable James H. Bilbray
The Honorable Philip E. Coyle, III
Admiral Harold W. Gehman, Jr., USN (Ret.)
The Honorable James V. Hansen
General James T. Hill, USA (Ret.)
General Lloyd W. Newton, USAF (Ret.)
The Honorable Samuel K. Skinner
Brigadier General Sue Ellen Turner, USAF (Ret.)

Executive Director:
Charles Battaglia

Mr. Bob Meyer
Director
BRAC Clearinghouse
1401 Oak St.
Roslyn VA 22209

Dear Mr. Meyer:

I respectfully request a written response from the Department of Defense concerning the following request:

Recommendation S&S-7, regarding Depot Level Reparable Procurement Management Consolidation, estimates the net present value of the costs and savings to the Department over 20 years to be a savings of $1,889.6M. Please explain the methodology used to evaluate the savings and provide any back-up information and assumptions.

I would appreciate your response by July 29, 2005. Please provide a control number for this request and do not hesitate to contact me if I can provide further information concerning this request.

Yours sincerely,

Frank Cirillo
Director
Review & Analysis

To: DCN 5770-1 WSO BRAC Clea
Sillin, Nathaniel, CIV, WS(
Subject: JCS Clearinghouse Reque

Mills-S&S7
equest.doc (273 KB.

Tyler, Ronald, CIV, WSO-SSJCSG

From: Neeley, Louis, COL, WSO-S&S JCSG
Sent: Tuesday, July 26, 2005 2:59 PM
To: King, David, COL, WSO-S&S JCSG; Goodwin, Brian, CDR, WSO-S&S JCSG; Rivera, Wilfred, Capt, WSO-S&S JCSG; Tyler, Ronald, CIV, WSO-S&SJCSG; Williams, Robert, CTR, WSO-S&S JCSG; Meconnahey, Joseph, CIV, WSO-S&S JCSG; Coderre, David, CAPT, WSO-S&SJCSG
Subject: FW: OSD BRAC Clearinghouse Tasker C0702: JCS Clearinghouse Request #26

From: RSS dd - WSO BRAC Clearinghouse
Sent: Tuesday, July 26, 2005 2:58:59 PM
To: Tyler, Ronald, CIV, WSO-S&SJCSG; Adams, Eugene, MGySgt, WSO-S&SJCSG; Coderre, David, CAPT, WSO-S&SJCSG; Neeley, Louis, COL, WSO-S&S JCSG
Subject: OSD BRAC Clearinghouse Tasker C0702: JCS Clearinghouse Request #26
Auto forwarded by a Rule

Please provide a response to the inquiry below and return to OSD BRAC Clearinghouse NLT noon **Thursday, 28 July 2005**, with the designated signature authority, in PDF format.

When contacting the Clearinghouse, please refer to OSD BRAC Clearinghouse Tasker C0702.

Thank you for your cooperation and timeliness in this matter.

OSD BRAC Clearinghouse

-----Original Message-----
From: Dean, Ryan, CIV, WSO-BRAC
Sent: Tuesday, July 26, 2005 2:50 PM

Tyler, Ronald, CIV, WSO-S&SJCSG

From: Adams, Eugene, MGySgt, WSO-S&SJCSG

Sent: Thursday, July 28, 2005 4:55 PM

To: RSS dd - WSO BRAC Clearinghouse

Cc: Burleson, Robert, WSO-S&S JCSG; Coderre, David, CAPT, WSO-S&SJCSG; Goodwin, Brian, CDR, WSO-S&S JCSG; Meconnahey, Joseph, CIV, WSO-S&S JCSG; Neeley, Louis, COL, WSO-S&S JCSG; Tyler, Ronald, CIV, WSO-S&SJCSG

Subject: RE: Tasker C0702-Depot Level Reparable Procurement Management Consolidation Request for Extension

Thank You!

Respectfully Submitted,

MGySgt Eugene Adams
Supply & Storage Joint Cross Service Group (S&S JCSG)
1401 Wilson Blvd, Suite 502
DSN: 426-9401 EXT 292
COMM: (703) 696-9401
EMAIL:Eugene.adams@wso.whs.mil

-----Original Message-----
From: RSS dd - WSO BRAC Clearinghouse
Sent: Thursday, July 28, 2005 4:49 PM
To: Adams, Eugene, MGySgt, WSO-S&SJCSG
Subject: RE: Tasker C0702-Depot Level Reparable Procurement Management Consolidation Request for Extension

Your request for an extension is granted. Your reply to tasker #C0702 is now due Friday 29 July 2005

-----Original Message-----

From: Adams, Eugene, MGySgt, WSO-S&SJCSG
Sent: Thursday, July 28, 2005 4:29 PM
To: RSS dd - WSO BRAC Clearinghouse
Cc: Goodwin, Brian, CDR, WSO-S&S JCSG; Burleson, Robert, WSO-S&S JCSG; Neeley, Louis, COL, WSO-S&S JCSG; Tyler, Ronald, CIV, WSO-S&SJCSG; Meconnahey, Joseph, CIV, WSO-S&S JCSG; Coderre, David, CAPT, WSO-S&SJCSG
Subject: Tasker C0702-Depot Level Reparable Procurement Management Consolidation Request for Extension

To BRAC Clearinghouse,

The Supply and Storage Joint Cross-Service Group requests the suspense date for Tasker # C0702 be extended to COB July 2005. The signed request letter is listed in the above attachment.

Thanks

R/S

MGySgt Eugene Adams
Supply & Storage Joint Cross Service Group (S&S JCSG)
1401 Wilson Blvd, Suite 502
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Calculation of Savings for the S&S JCSG Scenario "DLR Procurement Management Consolidation" As a Result of the Increased Use of Corporate Contracts (PBAs)

28 July 2005

Introduction:

This paper is intended to explain the procedure used in the S&S JCSG's calculation of savings from the increased use of long term corporate contracts (a.k.a. Performance Based Agreements or PBAs) as a result of the consolidation suggested by the scenario "DLR Procurement Management Consolidation".

The basis for the S&S JCSG's PBA contract savings estimates are as follows:

1. Creates one contract agency vice five. As a result:

    a. Instead of as many as five separate PBA type contracts with the same company there will be one.

    b. The creation of a single contract agency eliminates duplicate effort and creates an economy of scale which will make it possible to grow the portion of the DOD's annual procurements done with a PBA faster.

2. DLA's buying power will more than double giving it a much greater leverage for establishing advantageous procurement contracts for the DOD than any one agency.

3. Incorporates the best practices (and people) from all the Services.

4. Allows for larger scope contracts (e.g. consumables <u>and</u> reparables).

As a result of these factors the S&S JCSG estimates that DLA will increase the percentage of buys done with PBA type contracts by 2% (i.e. over the amount currently being incorporated annually into PBA type procurement arrangements) from 2008 through 2011.

Savings from PBA contracts will come from three sources:

1. **Inventory reduction (one time savings):** DLA's experience with PBA's has shown that items incorporated into PBA type contracts achieve lower procurement lead-times (PLTs). Lowering the PLT lowers the amount of stock that must be held to service customer demands by lowering the lead-time demand and safety stock portions of the buy requirement. Another way PBAs save inventory is when as a result of a PBA the DOD stops stocking an item and supports customers with direct vendor delivery (DVD). When an item is supported with DVD the DOD no longer needs to hold any inventory and any

stock on the shelf at that time can be sold off without replacement. It should also be noted that even if there is no inventory on the shelf when the PLTs are lowered or the items goes to DVD support status the government can still claim a savings. In this instance the savings is in the form of a procurement avoidance instead of a sale without replenishment. In either case the effect is the same. This is a one time savings. DLA's experience shows that on average items procured with PBA type contracts experience a 12% reduction in PLT after the contract is in place. With regards to DVDs, a review of all requisitions submitted by the Services to DLA in the 12 months prior to February 2005 showed that DLA is currently supporting 14.5% of its customers with DVD and 85.5% from stock held in a DLA warehouse (Class IX items only). This data was extracted from the Logistics, Metrics Analysis and Reporting System (LMARS) by the S&S JCSG.

2. **Holding cost avoidance (from inventory no longer held):** Holding cost is the cost to the government to keep an item in stock. This cost is normally expressed as a percentage of the acquisition cost of the item. When the inventory requirement is reduced the government can also claim savings from the fact that it no longer has to keep a supply of that item on the shelf. This savings can be taken for as long as the requirement remains lowered. DOD 4140.1-R, Appendix 5, paragraph AP5.4 specifies the procedure DOD components must use when calculating the cost to hold inventory. DOD 4140.1-R specifies four components to holding cost:

    a. Investment charge (a.k.a. opportunity cost): DOD 4140.1-R, paragraph AP5.4.2 says to use the current rate for long term government securities. We went to the Department of the Treasury and obtained the current rate for 20 year securities which as of 2/22/05 was 4.75% .

    b. Losses due to obsolescence: DOD 4140.1-R, paragraph AP5.4.3 specifies that losses due to obsolescence should also be included in the calculation of holding cost. We calculated the losses due to obsolescence using data from the DOD Supply System Inventory Report dated 9/30/03 which is the most current report available. To determine the annual percentage of the inventory that is disposed of due to obsolescence we summed the value of the on hand inventory as of 30 September each year from 1982 to 2002 and divided it by the value of the excess inventory as of the same date for the same years. Since is it DOD policy that any inventory declared excess must be disposed of within 12 months we used this figure to represent losses due to obsolescence.

    c. Cost of storage: DOD 4140.1-R, paragraph AP5.2.4 states that unless actual storage costs are available that the cost of storage (annual) shall be computed at 1% of the acquisition cost.

    d. Inventory losses due to damage, theft and accounting errors are the last component of holding cost. DOD 4140.1-R paragraph AP5.4.2.3 states

that these cost must be based on actual experience. Since we did not have any data to indicate what these cost might be we omitted them from our calculation of holding cost.

The total holding cost for our analysis was 17.05% (investment charge of 4.75% + losses due to obsolescence 11.3% + cost of storage 1% = 17.05%)

3. **Lower prices for items procured:** DLA's experience with items incorporated into PBA type procurement contracts is that after the PBA is in place the item has on average a 1.3% lower price. This number was obtained by actually measuring the difference in the acquisition cost of the items DLA procures with PBA contracts from before the contract was in place until after. However, DLA did not factor inflation into the cost delta so we (i.e. the S&S JCSG) added 1.5% to account for a years worth of inflation to the 1.3% price reduction making the total price advantage for items incorporated into a PBA procurement contract 2.8%. The 1.5% inflation figure is less than the value allowed by OSD for COBRA cost analyses in BRAC 2005.

VR

Robert E. Burleson
S&S JCSG