Course Introduction

Funding the Fight:
Generating Logistics Readiness
Through AF Working Capital Funds
Course Objectives

Understand the concepts of how the AFWCF operates

Understand how the Air Force uses the AFWCF to finance sustainment activities in support of readiness

Familiarize you with the activities in the Maintenance and Supply divisions in the Consolidated Sustainment Activity Group. To include:

- How depot maintenance requirements are planned (and priced)
- How the secondary item requirements are planned (and priced)

Recommendations on how you can make your organization a better partner in influencing the cost of sustainment and improving readiness

Administration

- Building exits and bathrooms
- Food and drink policy
- Schedule
  - Course Intro
  - AFWCF Overview
  - Break
  - CSAG-Maintenance Overview
  - CSAG-Supply Overview
Think Like A Business Owner

You want to open a business to repair cars:

- List as many cost categories you will have to cover (5 minutes) (i.e. labor, parts, etc). Include the overhead categories needed to run the business.

- How would you determine how much to charge for an oil change? (5 minutes)

- How would determine how much to charge a customer that comes in with an “electrical problem”? (5 minutes)

- We will use your answers throughout the course discussion
## Your Recommended Cost

<table>
<thead>
<tr>
<th>Categories</th>
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<tbody>
<tr>
<td>Direct</td>
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<tr>
<td>Overhead</td>
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</table>

## Pricing for an Oil Change

### Factors for Consideration


Factors for Consideration
AFWCF Overview

Funding the Fight:
Generating Logistics Readiness
Through AF Working Capital Funds
Learning Objectives

- Understand the **general concepts** of a revolving fund
- Understand how the AFWCF is **structured and organized**
- Understand **key laws and policies** that influence the AFWCF

Test Your Knowledge (True or False)

- The Air Force Working Capital Fund is a funded appropriated account designed to support readiness
- The AFWCF is one of many revolving funds within the Defense Department
- ALCs must stop work during a FY changeover until a new budget or Continuing Resolution is enacted
- AFWCF operations allow the ALCs to lose money on an order
- The two main Activities in the AFWCF are: CSAG and DMAG
- Net Operating Results measures the difference between revenue and expenses for the AFWCF for a single Fiscal Year.
- Rate development for goods and services in the AFWCF begins nearly two years before the year of execution.
- Once the AFWCF establishes its prices for its appropriated customers they are normally locked during the year of execution.
Test Your Knowledge

- Maintenance typically receives full payment for an order when it is placed.
- AFWCF activities can use their cash to make investments to replace broken equipment, find efficiencies, modernize equipment, and perform any minor construction.
- Once an AFWCF order is received from an appropriated customer the appropriation becomes no year money and does not expire.
- Because AFWCF dollars never expire you can’t have an Anti-deficiency Act violation for the fund.
- The AFWCF is able to temporarily hold gains and losses to the fund each Fiscal Year.
- The Air Force pays the AFWCF for hours flown for the Flying Hour Program.

Terminology 101

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>AFWCF</td>
<td>Air Force Working Capital Fund</td>
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<tr>
<td>CAM</td>
<td>Centralized Asset Management</td>
</tr>
<tr>
<td>DWCF</td>
<td>Defense Working Capital Fund</td>
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<tr>
<td>FHP</td>
<td>Flying Hour Program</td>
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<tr>
<td>O&amp;M</td>
<td>Operation and Maintenance</td>
</tr>
<tr>
<td>RDTE</td>
<td>Research, Development, Test, and Evaluation</td>
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<tr>
<td>WCF</td>
<td>Working Capital Fund</td>
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<tr>
<td>WSS</td>
<td>Weapon System Sustainment</td>
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Why Care

AFWCF is about readiness
- It enables WSS and FHP

Professional logisticians understand AFMC operations
- AFWCF is foundational to AFMC operations

AFWCF is big $’s and lots of manpower, with significant political interest

Funds and Accounts

Basically there are two types of accounts within the federal government

Receipt Accounts
(set up to receive funds)

- General Fund
  - collections not earmarked for a certain purpose
- Special Fund
  - collections earmarked by law
- Trust Fund
  - collections generated by a trust fund

Expenditure Accounts
(set up to disburse funds)

- General Funds
- Clearing Accounts
- Consolidated Funds
- Management Funds
- Public Enterprise Revolving Funds
- Intra-governmental Revolving Funds
- Special Funds
- Others

This is where your Federal income taxes go.

This is where the AFWCF exists!
How Many Revolving Funds Are There?

Lots…

- Defense Production Guarantees Revolving Fund
- Homeowners Assistance Fund
- Family Housing Improvement Fund
- Defense Export Loan Guarantees Revolving Fund
- Reserve Mobilization Revolving Fund
- National Defense Stockpile Revolving Fund
- **Defense Working Capital Fund**
- Buildings Maintenance Revolving Fund
- Pentagon Reservation Maintenance Revolving Fund
- Defense Emergency Response Revolving Fund

But this is the one we’re going to discuss

Working Capital Funds

- An account or fund in which all income is derived from its operations and is available to finance the fund’s continuing operations without fiscal year limitation (no-year account)
- Revolving funds resource the services’ (USAF, USN, USA, DLA) maintenance operations, supply, distribution and other fee for service activities in exchange for customer appropriated funds
- Key concept: unlike appropriated funds, a revolving fund can temporarily holds gains and losses – this is one key to its flexibility
- Working Capital Funds are revolving funds that exist to finance the operations of government business units that are managed like a commercial business

The Fund is governed by the DoD Financial Management Regulation, DoD FMR 7000.14-R
WCFs provide tremendous flexibility
- WCFs use contract authority and spending authority (from customer orders) – which is like having the largest credit card on earth
- Tremendous flexibility to surge – don’t need prior Congressional approval
- Use of “working capital” can allow for multi year programs

WCFs are critical to readiness
- Have a basis in law; Title 10 requires in-house logistics capability
- Cannot go to war without them

WCFs present other advantages:
- Allows for partnering with private sector and give services an in-house expertise
- Provide rapid response to customer needs

**Why Working Capital Funds?**

**Defense WCF are a $107B Business**

= $62B  Walmart = $405B  Amazon = $68B  BAT = $43B

**WCF Operations at a Conceptual Level**

Cash Corpus

CASH IN

The AFWCF

Consists of:
$/Inventory/Services

Cash Corpus

CASH OUT

1. Order
2. AFWCF expends cash for cost of operations (labor, supplies, contracts, etc.,)
3. WCF provides products or services to customers
4. WCF billing to customer
5. Customer pays bills

Appropriated CUSTOMER

POM
Budget
Execution

Customer funding = basis for WCF Orders

Customer funding = basis for WCF Orders

Buyer (customer)
The AFWCF is a financial management structure used to promote full cost visibility and full cost recovery of support services rendered to the Air Force operating forces.

The AFWCF is managed by SAF/FMBOR, AFMC, AF/SG AFMOA, and Air Force Academy.
**AFWCF Activity Groups**

**Appropriated Funds by Congress**

- Warfighters need:
  - operationally ready
  - weapon systems
  - spare parts

**Customers**

- DoD Services
- Guard & Reserve
- Other DoD
- Non-DoD
- Non-Federal
- FMS

**Touch Points:**

- CSAG-MX to/from CSAG-Supply
- GSD to CSAG-MX
- TWCF to CSAG

**Governing Regulations**

- DoD FMR 7000.14-R
- Air Force Manual 65-604
- Air Force Instruction 65-601

**AFWCF is Manpower Intensive**

**AFWCF employs about 44,500 Personnel**

- Mostly civilian
- TWCF has ~18,600
- SMAG-R does not have AFWCF funded Manpower
- CSAG has ~25,900,
  - Some are engaged in Supply Management
  - Most of them are engaged in Depot Maintenance
  - AFWCF purchases both reimbursable labor (from appropriated funded personnel) and contractor labor

All manpower that supports AFWCF is reimbursable!
AFWCF Key Features

- Activity Groups operate like commercial businesses by selling goods and services
  - Customers determines requirements and justifies funding
  - Customers reimburses provider for products or services received
- Focus is on cost control and cash management
- Annual stabilized rates and prices protect customers and help them budget for readiness
- Operating and capital budgets keep organic industrial base viable
- AFWCF can temporarily holds gains and losses, but system is designed to break even over time
- Must maintain enough cash to be liquid

Must Have Full Cost Visibility and Full Cost Recovery

AFWCF vs. Commercial Business

Big difference:
- The mission is readiness so the motive is not profitability
- Must keep the organic industrial base warm
- Must abide by rules that no commercial business would

Like
- Customer-provider relationship
- AFWCF must be aware of operating costs involved and must recover those costs
- AFWCF must be responsive or it won’t be competitive
- In some cases, the customers can go elsewhere
- There’s no “guaranteed” business
- The “business” depends on the customer’s funds for operating cash

Not Like
- AFWCF is setting rates/prices 18-24 months ahead of the year they’ll be used or sold
- The prices and rates are locked during the year of execution
- AFWCF can be told to return profit
- The politics and the political oversight are much more intense than the commercial counterpart
- As the government’s organic base, AFWCF can/sometimes must operate at far less than full capability and capacity
AFWCF budget is included in the Air Force Program Objective Memorandum (POM), but outcome is not appropriated dollars, but authority to do business

AFWCF uses an internal operating budget that uses AFWCF cash to run the business based on projected workload

- It “feels” like an appropriated budget, but it is VERY different
- NO INCENTIVE TO SPEND IT ALL…whatever isn’t used in the execution of your business plan is available at the start of the next FY
- If the workload doesn’t show up in the year of execution then the internal operating budget must be adjusted

AFWCF is not a color of money

- When you get your appropriations it is for authorities not funding
- When you spend money to deliver parts of services you are spending AFWCF cash NOT your customers appropriation that you received for your order (it takes time for that revenue to be turned into AFWCF cash)

Obligations DO NOT EQUAL expenses

- Expenses are tracked separately (in your cost accounting system) from the obligations that you make with your AFWCF cash

Let’s Talk About Your Car Repair Business

- What were some of the costs you identified?
- How did you justify that cost?
AFWCF Must Recover ALL Costs

<table>
<thead>
<tr>
<th>Category</th>
<th>Labor</th>
<th>Material</th>
<th>Business Ops</th>
</tr>
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<tbody>
<tr>
<td>Direct</td>
<td>• Wrench turners</td>
<td>Material used in repair</td>
<td>• TDY</td>
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<tr>
<td></td>
<td>• Welders</td>
<td>• Consumables</td>
<td>• Contractor</td>
</tr>
<tr>
<td></td>
<td>• Mechanics</td>
<td>• DLRs</td>
<td>augmentees</td>
</tr>
<tr>
<td>Production Overhead</td>
<td>Production Floor</td>
<td>Misc Material</td>
<td>• Equipment maintenance</td>
</tr>
<tr>
<td>- Indirect -</td>
<td>• Supervisors</td>
<td>• Nuts, bolts, rivets</td>
<td>• Facilities maintenance</td>
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<tr>
<td></td>
<td>• Planners</td>
<td>• Small tools</td>
<td>• Depreciation</td>
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<tr>
<td></td>
<td>• Schedulers</td>
<td>• Shop Floor Supplies</td>
<td>• Utilities</td>
</tr>
<tr>
<td>G&amp;A Overhead</td>
<td>FM &amp; MXW Staffs</td>
<td>Supplies</td>
<td>• Equipment Maintenance</td>
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<tr>
<td>- Indirect -</td>
<td>• Budget</td>
<td></td>
<td>• D-Accounts</td>
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<tr>
<td></td>
<td>• Industrial</td>
<td></td>
<td>• Depreciation</td>
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<tr>
<td></td>
<td>Engineers</td>
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<td>• HQ Costs</td>
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<tr>
<td></td>
<td>• Workloaders</td>
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And we do this through a stabilized rate

Cost Recovery, Rates and Prices

RATES

- Rates are established on a fiscal year basis to recover the cost of operations within the AFWCF Activity Groups
  - Rates include labor, material, and all overhead costs needed to run the business and are based on your projected workload for the year
  - You submit your budget to get an approved rate
- Once established, rates are stabilized (held constant) for the applicable fiscal year
- The CSAG-S develops a Cost Recovery Rate
- The CSAG-M develops a Direct Labor Hour Rate
- Rates are used to build prices, and prices are influence appropriated customers readiness buying power

PRICES

- Customers are charged prices meant to recover the full cost of providing a product or service
- Prices include costs incurred for direct labor, material, indirect labor, and base operations related to AFWCF
- We conduct a pricing exercise to price the services we perform for each item based on the rate at each cost center
- We put the cost of acquiring and managing each item on the sales price of each item we sell (Supply)
- Stabilized prices include adjustments for prior year operating results (AOR recovery)
Two kinds of operating results:

- **Net operating result (NOR)**
  - Result of operations during the fiscal year which represents the net difference between expenses and financing
  - Sound like profit and loss to you?

- **Accumulated operating result (AOR)**
  - Net difference between expenses and financing sources since inception through the annual closing of account on 30 Sep
  - Are you kidding me? From inception? – Yep, a running total

**Formula:**

\[
\text{Revenue} - \text{Costs} = \text{Operating Results}(\text{AOR}/\text{NOR})
\]

- **Revenue**
  - Earned Income
  - Sales of Goods and Services
  - Cost Reimbursement
  - Sources
    - USAF/DoD Appns
    - Other DWCF Activities
    - Foreign Military Sales
    - Other

- **Costs**
  - Visibility Key to Decision Making
  - Minimize to Maintain Competitive Standing
  - Include Pay, Supplies, Equipment, Purchased Services, Depreciation, Real Property Maintenance, Inventory

- **Operating Results (AOR/NOR)**
  - Either Positive or Negative
  - Identifies Effectiveness of Pricing Policies When Comparing Planned Versus Actual

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**The AFWCF Involves Cash Management**

- While the AFWCF can temporarily hold gains and losses, it cannot run out of cash
  - Negative cash balance is an Anti-deficiency Act violation
  - Contrary to popular myth the AFWCF can have an ADA!
- Cash is used to pay operating costs and for capital investments
  - The AFWCF uses its cash to invest in its operations
- OSD requires AFWCF to keep a sufficient cash balance to meet requirements (more on what that means later in the course)
- Cash balances are managed by SAF/FMB in collaboration with AFMC
Key Statutes That Impact AFWCF

- Definition of Depot Maintenance 10 USC 2460
  Drives the 50/50 discussion
- Working Capital Funds- 10 USC 2208
  Establishes Working Capital Funds
- Manpower Mgmt 10 USC 2472
  Manpower must be based on workload not end strength
- Capital Investment 10 USC 2476
  Minimum of 6% investment in depots
- Essential Nucleus 10 USC 2535
  Counter balance to the Core Logistics Capability
- Core Logistics Capability - 10 USC 2464:
  “It is essential for the national defense that DoD maintain a GOGO”
- 50/50 Rule 10 USC 2466
  Not more than 50% of the workload in depot maintenance may be contracted (non-organic)

How Do You (as the customer) Impact the AFWCF?

- Establishing requirements
- Execution of requirements
- Containing costs
- Unplanned orders
Establishing Requirements

- Customer requirements are the basis for establishing rates and prices
  - Forecasting 2 years ahead of execution
- Rates are stabilized (held constant) for the applicable fiscal year
- Customers are charged prices that recover the full cost of providing a product or service
- Prices include costs incurred for direct labor, material, indirect labor, and base operations (incremental) related to WCF, including depreciation
- The AFWCF operates on a break even basis over time (not each year)

The accuracy of your requirements dictates the success of the AFWCF to deliver desired readiness and break even over time.

Execution of Requirements

- Shifts in requirements during the year of execution have an impact
  - “Let’s cancel that PDM to support our FHP”
- AFWCF activities build a detailed production plan to meet your requirements
  - A change in the plan is most likely going to increase costs, but not necessarily the price you are charged
- Fund holders outside of Centralized Asset Management (CAM) have the most flexibility in changing requirements in the year of execution

Stabilized rates/prices mean that current year changes in execution will impact the ability of the AFWCF to break even and could result in rate increases in future years.
### Containing Costs

- **CAM model= “you fly, we buy”**
  - Removed the incentive to keep flying hour costs down to generate funds for the unit
  - Removed the “cost per flying hour” as a metric of performance at the unit
- **You still need to be cost conscious**
  - Don’t use remove/replace as your primary means of troubleshooting (generates false demand signals to AFWCF to produce more parts)
  - Return carcasses as quickly as possible (keeps the AFWCF from buying new when repair is possible)
  - Are your MRSP kits over resourced?

Logistic sustainment costs eat up the lion’s share of the Air Force budget. Be cost conscious even when items seem “free” to you.

### Unplanned Orders

Valid customer orders are the basis for AFWCF activities, however:
- AFWCF is not a resource for “re-coloring” your money
  - Don’t ask for O&M work to be done with RDTE money
  - Don’t try to extend the life of an appropriation illegally
- Expect lots of questions for 4th quarter orders
  - Impact on 50/50
  - Impact on Carryover/Unbilled Balance

The AFWCF is designed to respond to emerging/unplanned requirements, but there are many considerations to accepting an unplanned order.
The AFWCF is a revolving fund that:

- Finances sustainment activities to support readiness
- Allows the ALCs to operate continuously and temporarily hold losses and gains
- Designed to break even over time

Financial performance is measured by:

- Operating results
- Cash balances

Several key laws influence AFWCF operations
Introduction to CSAG Maintenance Division

Funding the Fight: Generating Logistics Readiness Through AF Working Capital Funds
Terminology

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AFMC</td>
<td>Air Force Materiel Command</td>
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<td>AFSC</td>
<td>Air Force Sustainment Center</td>
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<td>ALC</td>
<td>Air Logistics Complex</td>
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<tr>
<td>ATE</td>
<td>Automatic Test Equipment</td>
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<tr>
<td>BES</td>
<td>Budget Estimate Submission</td>
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<tr>
<td>CSAG</td>
<td>Consolidated Sustainment Activity Group</td>
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<td>DPEM</td>
<td>Depot Purchased Equipment Maintenance</td>
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<td>FMS</td>
<td>Foreign Military Sales</td>
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<td>OC-ALC</td>
<td>Oklahoma City Air Logistics Complex</td>
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<td>OFP</td>
<td>Air Force Sustainment Center</td>
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<tr>
<td>OO-ALC</td>
<td>Ogden Air Logistics Complex</td>
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<tr>
<td>OMEI</td>
<td>Other Major End Items</td>
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<tr>
<td>O&amp;M</td>
<td>Operation &amp; Maintenance</td>
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<tr>
<td>PDM</td>
<td>Programmed Depot Maintenance</td>
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<tr>
<td>R2D2</td>
<td>Requirements Review, Depot Determination</td>
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<tr>
<td>SOR</td>
<td>Source of Repair</td>
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<tr>
<td>WLR</td>
<td>Work Load Review</td>
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<tr>
<td>WR-ALC</td>
<td>Warner Robins Air Logistics Complex</td>
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</tbody>
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Learning Objectives

Understand the mission of CSAG-M Operations

Understand the workload requirements processes for depot maintenance

Introduction to Centralized Asset Management

Rates and pricing
Appropriated Funds by Congress

- O&M
- Procurement
- RDT&E
- Other Funds
- CUSTOMERS
  - DoD Services
  - Guard & Reserve
  - Other DoD
  - Non-DoD
  - Non-Federal

Governing Regulations
- DoD FMR 7000.14-R
- Air Force Manual 65-604
- Air Force Instruction 65-601

Touch Points:
- CSAG-Mx to/from CSAG-Supply
- GSD to CSAG-Mx
- TWCF to CSAG

AFWCF is the financing mechanism behind Depot Maintenance

- 10 USC 2460 Definition: any action performed on material or software, (including inspection, repair, overhaul, or the modification or rebuild of end items, assemblies, subassemblies and parts) that requires extensive industrial facilities, specialized tools and support equipment or skilled personnel not available at lower levels of maintenance.
- Establishes a national policy to have an organic industrial base
- Defines other laws
Current Missions
CSAG Maintenance

- Support Air Force readiness requirement
- Provide the equipment, skills and repair services necessary to keep forces operating worldwide
- Economically repair, overhaul and modify aircraft, engines, missiles, components & software to meet customer demands
- Repair systems and spare parts for readiness in peace
- Repair systems and spare parts in wartime to sustain combat operations
- AFMCI 21-118 defines 20 different types of work done at the AFSC depots

CSAG-Maintenance Activities

- Warner Robins Air Logistics Complex
  - Robins AFB
- Oklahoma City Air Logistics Complex
  - Tinker AFB
- Ogden Air Logistics Complex
  - Hill AFB
- 525th EMXG
  - Kadena AB, Japan
- Aerospace Maintenance and Regeneration Group
  - Davis Monthan AFB

Plus: Commercial Partnerships throughout CONUS
Weapon System Sustainment

- A process for maintaining the readiness of our Weapon Systems and reprables
  - We have a formal process that defines the workload
  - AF Lifecycle Management Center (AFLCMC) is the process owner
- It starts with performance based outcomes driven by availability targets
- Coordinated by CAM office with the Program Offices and MAJCOMS
- Supported by the Requirements Review Depot Determination (R2D2) process
  - An AFSC/AFMC process

Weapon System Sustainment Process

- SPMs & MAJCOMs develop Performance Based Outcomes
- CAM coordinates the process; works with SPMs, MAJCOMS
- Funds Holders are:
  - CAM – Active duty
  - ANG
  - AFRC
  - SOF
- We must be available 85% of the time
- Real world changes?
- Standards to actuals?
- Quarterly health assessments

- Develop PBO (Collaborative)
- SPMs & Lead Commands define logistics requirements
- Apply Resource Constraints
- Link to PBOs
- Apply known $ constraints
- Understand funded vs. unfunded capabilities
- Develop WSS Health Assessment

- Define Requirements
- LRDP
- Costs out the unconstrained workload
  - DPSH
  - $
Logistics Requirements Determination Process:

- Developed for each DPEM Repair Group Category
  - Software, Aircraft, Missiles, Engines, OMEI, ABM, Storage
- Requirements documents to identify Depot Maintenance tasks needed to keep the fleet ready
  - Based on needs, not funding
  - Provides data to substantiate budget submission
  - Contains specific tasks with associated AFWCF labor hours
  - Evaluation of failure data, maintenance data, log support data, etc.
  - Yields maintenance tasks
  - Reviewed and validated by weapon system engineers

Identification of customer-funded orders
Opportunity for suppliers and customers to hone accuracy of orders based on history and other factors

Each ALC develops risk mitigation plan to address any risk elements associated with projected workload

All documents/files posted to Depot Maintenance Workload and Capability SharePoint site
  - Includes DPEM Factor Table
R2D2 Process
Phase 2 (Depot Determination)

- Each complex reviews the Phase 1 data and determines what can be accomplished
- Develops a production schedule
- Projects Manpower and Capability
- Used to establish rates/prices
- Final plan is reviewed/signed by ALC/CC and staffed through AFSC and signed by AFSC/CC and submitted to HQ AFMC

Rarely can (or will) the ALC submit all the R2 as part of the D2…overestimating workload puts AFWCF at risk!

Centralized Asset Management (CAM)

CAM is

- Centralized planning, programming, budgeting and execution (PPBE) for AF weapon system sustainment (WSS), Sustaining Engineering, Support Equipment, and Technical Order Support
- Standardized/streamlined sustainment requirements focused on fleet-based management

CAM purpose

- Ensure shrinking sustainment budgets target top AF priorities
- Reduce financial barriers and re-engineer processes to enable mission success and improve weapon system performance

CAM benefits

- Provides AF enterprise level optimization to maximize warfighting capability through performance based outcomes (PBOs)
CAM Programming and Execution Process

Requirements Mgt System (RMS)
- Historical flying hours & parts consumption
- Weapon system/subsystem changes
- SPOs, MAJCOMS

Programming/budgeting
- Spares Requirement Review Board (SRRB)
- Projected parts consumption/flying hour
- AF Cost Analysis Improvement Group (AFCAIG)
- Projected DLR usage combined with consumable and fuel usage projections to compute future year CPFH

AFCS Review & Funding Decision
- HQ AFMC
- SAF/OSD sets supply WCF
- CA/WA
- OOB

Funds Holders
- CAM (ACC, AETC, AFSPC, AMC (O&M), PACAF, and USAFE)
- AMC (TWCF)
- ANG
- AFSOC
- AFRC

Execution
- Fly program, order parts
- Parts order transactions
- HQ AFMC
- Monitor parts consumption and WCF financial results
- Reimburse WCF based on CPFH rates

Funds Holders
- CAM (ACC, AETC, AFSPC, AMC (O&M), PACAF, and USAFE)
- AMC (TWCF)
- ANG
- AFSOC
- AFRC

Why Price?
- To recover activities’ cost
  - by use of rates
- Customers need to develop a budget based on the price
- Common business practice

What do we price?
- Exchangeables
- Aircraft
- Engines
- And the rest of the RGCs!

The key is to have accurate workload projection
What Were Your Considerations for Pricing?

- The Oil Change

- The Electrical Problem

AFWCF Must Recover ALL Costs and Uses Rates to Make Sure to Break Even

<table>
<thead>
<tr>
<th></th>
<th>Labor</th>
<th>Material</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct</strong></td>
<td>• Provides a service directly to the customer.</td>
<td>• Material specifically required for the performance of depot maintenance.</td>
</tr>
<tr>
<td></td>
<td>• Can be accurately identified to a product.</td>
<td>• Directly attributable to an end item.</td>
</tr>
<tr>
<td></td>
<td>• Supported by official work requests.</td>
<td></td>
</tr>
<tr>
<td><strong>POH</strong></td>
<td>• The amount of time a direct employee is performing indirect work.</td>
<td>• Some supplies, nuts, bolts, &amp; small tools.</td>
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<tr>
<td></td>
<td>• Work performed by overhead support personnel that reside in production groups.</td>
<td>• Material associated with calibration or equipment maintenance.</td>
</tr>
<tr>
<td><strong>G&amp;A</strong></td>
<td>• For Overhead Manpower (Civilian &amp; Military) In Overhead/Staff Organizations (Both Regular &amp; OT Pay).</td>
<td>• Business operations that indirectly support the production process.</td>
</tr>
<tr>
<td></td>
<td>• Also Contains Dollars For Workers Compensation, OH Cash Awards &amp; VERA/VSSIP.</td>
<td>• Training, equipment maintenance, equipment rental, etc.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Material associated with supporting overhead staff.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Office equipment or storage for HAZMAT, office supplies.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Overhead expenses associated with overhead staff.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Payroll, training, help desk, hospital support, etc.</td>
</tr>
</tbody>
</table>
Much to Consider in Rate Development

*Workload ( Carry-in & Out)*  
Revenue

*Costs*  

*Cash Flow*

*Policy Changes*

*Prior Years performance (AOR)*

Changes!!??

Two years ahead of execution!!!!

A Difficult Juggling Act!

Much to Consider

---

AOR Recovery Determining the Revenue Rate

Cover Costs

Direct Labor rate  
+ Direct Material rate or Material Cost**  
+ Overhead rates  
= Expense rate

Break Even

Actual cost orders

 +/- AOR Recovery rate*  
= Revenue rate

Stabilized fixed cost orders
General Pricing Methodology

First we determine the cost of production:

\[
\text{Workload} \rightarrow \text{Hours for each function} \times \text{Each Resource Control Center (RCC) has approved rates(\$/Hr):} \\
\quad \text{• Direct labor \$} \\
\quad \text{• Direct Material \$} \\
\quad \text{• Direct Bus Ops \$} = \text{Total Direct Cost to produce}
\]

Then we add the overheads (POH and G&A):

\[
\text{Workload} \rightarrow \text{Hours for each function} \times \text{Each Resource Control Center (RCC) has assigned rates(\$/Hr):} \\
\quad \text{• POH \$} \\
\quad \text{• G&A \$} = \text{Total Overhead Cost}
\]

Then we add the direct production costs to the overhead costs to get the total price of the item:

\[
\text{Total direct cost to produce} + \text{Total overhead costs} = \text{Total price}
\]

And this is what we plan to bill our customers, once approved.

Summary

- Depot Maintenance is the Air Force’s organic capability to sustain:
  - Rapid global mobility, global precision attack, special operations, combat support, global integrated intelligence, and surveillance and reconnaissance
  - Codified in law
- There are multiple maintenance capabilities required
- Depot Maintenance Workload requirements are determined through the LRDP and R2D2 processes
- Centralized Asset Management ensures shrinking sustainment budgets target top AF priorities
- Rates and prices are developed to recover all costs associated with producing items in Depot Maintenance
Introduction to Supply
CSAG-Supply and SMAG-Retail

Funding the Fight:
Generating Logistics Readiness
Through AF Working Capital Funds
Learning Objectives

- Size, scope and functions
- Requirements determination
- Secondary Item Management
- Rates and prices
- Costs

Acronyms A-H

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACC</td>
<td>Air Combat Command</td>
</tr>
<tr>
<td>AFCAIG</td>
<td>Air Force Cost Analysis Improvement Group</td>
</tr>
<tr>
<td>AFSC</td>
<td>Air Force Sustainment Center</td>
</tr>
<tr>
<td>ANG</td>
<td>Air National Guard</td>
</tr>
<tr>
<td>BAA</td>
<td>Broad Agency Announcement</td>
</tr>
<tr>
<td>BOCR</td>
<td>Business Overhead Cost Recovery</td>
</tr>
<tr>
<td>BOP</td>
<td>Beginning of Period</td>
</tr>
<tr>
<td>CRF</td>
<td>Centralized Repair Facility</td>
</tr>
<tr>
<td>CPFH</td>
<td>Cost Per Flying Hour</td>
</tr>
<tr>
<td>CSAG</td>
<td>Consolidated Sustainment Activity Group</td>
</tr>
<tr>
<td>DLA</td>
<td>Defense Logistics Agency</td>
</tr>
<tr>
<td>DLR</td>
<td>Depot Level Reparable</td>
</tr>
<tr>
<td>DRMO</td>
<td>Defense Reutilization and Marketing Office</td>
</tr>
<tr>
<td>DSS</td>
<td>Distribution Standard System (DLA)</td>
</tr>
<tr>
<td>DWCF</td>
<td>Defense Working Capital Fund</td>
</tr>
<tr>
<td>FH</td>
<td>Flying Hour</td>
</tr>
<tr>
<td>FLR</td>
<td>Field Level Reparable</td>
</tr>
<tr>
<td>FMR</td>
<td>Financial Management Regulation</td>
</tr>
<tr>
<td>FMS</td>
<td>Foreign Military Sales</td>
</tr>
<tr>
<td>HAF</td>
<td>Headquarters Department of the Air Force</td>
</tr>
</tbody>
</table>
Acronyms I-Z

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISSL</td>
<td>Initial Spares Support List</td>
</tr>
<tr>
<td>LRS</td>
<td>Logistics Readiness Squadron</td>
</tr>
<tr>
<td>LRU</td>
<td>Line Replaceable Unit</td>
</tr>
<tr>
<td>MDD</td>
<td>Medical Dental Division</td>
</tr>
<tr>
<td>MXS</td>
<td>Maintenance Squadron</td>
</tr>
<tr>
<td>NMCS</td>
<td>Not Mission Capable Supply</td>
</tr>
<tr>
<td>O&amp;M</td>
<td>Operation and Maintenance</td>
</tr>
<tr>
<td>OSD</td>
<td>Office of the Secretary of Defense</td>
</tr>
<tr>
<td>PBR</td>
<td>President's Budget Request</td>
</tr>
<tr>
<td>POS</td>
<td>Peacetime Operating Spares</td>
</tr>
<tr>
<td>PPBE</td>
<td>Planning, Programming, Budgeting and Execution</td>
</tr>
<tr>
<td>RDT&amp;E</td>
<td>Research, Development, Test and Evaluation</td>
</tr>
<tr>
<td>RMS</td>
<td>Requirements Management System (D200)</td>
</tr>
<tr>
<td>RO</td>
<td>Requisition Objective</td>
</tr>
<tr>
<td>RSP</td>
<td>Readiness Spares Package</td>
</tr>
<tr>
<td>SBSS</td>
<td>Standardized Base Supply System</td>
</tr>
<tr>
<td>SMAG</td>
<td>Supply Management Activity Group</td>
</tr>
<tr>
<td>SPD</td>
<td>System Program Director</td>
</tr>
<tr>
<td>SRRB</td>
<td>SRRB – Spares Requirements Review Board</td>
</tr>
<tr>
<td>SRU</td>
<td>Shop Replaceable Unit</td>
</tr>
<tr>
<td>TWCF</td>
<td>Transportation Working Capital Fund</td>
</tr>
<tr>
<td>UCG</td>
<td>Unit Cost Goal</td>
</tr>
</tbody>
</table>

The Air Force Working Capital Fund

Appropriated Funds by Congress

- AFA (Air Force Academy)
- MDD (Medical Dental Division)
- GSD (General Support Division)
- SMAG-R (Supply Management Activity Group)
- CSAG-Mx (Maintenance Division)
- CSAG-Supply (Supply Division)
- CSAG (Consolidated Sustainment Activity Group)

Touch Points:
- CSAG-Mx to/from CSAG-Supply
- GSD to CSAG-Mx
- TWCF to CSAG

Warfighters need:
- operationally ready weapon systems
- spare parts

Governing Regulations
- DoD FMR 7000.14-R
- Air Force Manual 65-604
- Air Force Instruction 65-601

APPROPRIATIONS
- O&M
- Procurement
- RDT&E
- Other Funds

CUSTOMERS
- DoD Services
- Guard & Reserve
- Other DoD
- Non-DoD
- Non-Federal
- FMS
CSAG – Supply Mission

Manages reparable spares through the end-to-end supply chain to meet war readiness needs

- Serve as the wholesale supply manager for reparable spares providing spare parts when and where needed
- Determine spares requirements and how they will be sourced
- Provide requirements shortfalls to sources of manufacture and repair for purposes of capacity and capability planning
- Develop cost effective sourcing strategies
- Provision and catalog new items entering the AF inventory
- Manage and control reparable inventory from acquisition to disposal
- Redesign new items (reparable and consumable) when current configuration is no longer sustainable

FINANCIAL OPERATIONS

<table>
<thead>
<tr>
<th></th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>$5,651</td>
<td>$5,748</td>
<td>$4,976</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>5,127</td>
<td>5,469</td>
<td>5,516</td>
</tr>
<tr>
<td>Net Op Results (NOR)</td>
<td>524</td>
<td>279</td>
<td>(540)</td>
</tr>
<tr>
<td>Non-Rec Adjustments</td>
<td>(361)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Accumulated Operating Results (AOR)</td>
<td>384</td>
<td>663</td>
<td>124</td>
</tr>
<tr>
<td>Cash Balance</td>
<td>645</td>
<td>1,021</td>
<td>546</td>
</tr>
</tbody>
</table>

WORKLOAD VOLUME

<table>
<thead>
<tr>
<th></th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Issues</td>
<td>2,306,190</td>
<td>1,844,378</td>
<td>1,844,378</td>
</tr>
<tr>
<td>Number of Receipts</td>
<td>2,141,699</td>
<td>1,696,587</td>
<td>1,696,587</td>
</tr>
<tr>
<td>Number of Requisitions</td>
<td>484,995</td>
<td>470,693</td>
<td>470,693</td>
</tr>
<tr>
<td>Items Managed</td>
<td>74,570</td>
<td>74,570</td>
<td>74,570</td>
</tr>
</tbody>
</table>
SMAG-R determines requirements and manages AF consumable spares through the end-to-end supply chain

DIVISIONS

General Support Division
• Provides weapon system consumable spares procured from Defense Logistics Agency (DLA)
• Provides non-weapon system consumable Items procured from General Services Agency (GSA)

The Medical Dental Division
• Provides medical and dental supplies and equipment
• Includes a War Reserve Material (WRM) stockpile which is funded by direct case O&M dollars - $61.7M in FY15

Air Force Academy Division – Provides uniforms for cadets

Manage consumable spares through the end-to-end supply chain to meet war readiness needs

- Provide consumable spare parts when and where needed
- Determine spares requirements and how they will be sourced
- Provide spares requirements shortfalls to sources of manufacture for purposes of capacity and capability planning
- Develop cost effective sourcing strategies for new buys supporting both consumables and reparable items
- Provision and catalog new items entering the AF inventory
- Manage and control consumable inventory
- Serve as the receiving, storage, and issuing destination for all DoD inventory
- Serve as the retail supply manager for ALC/MXW
Peace Time Operating Requirements

Peace time operating requirements are demand based and support organizational, intermediate, and depot customers.

\[
\frac{\text{Past Usage}}{8 \text{ Quarters}} = 200 \\
\frac{\text{Past Activity}}{8 \text{ Quarters}} = 200,000 \\
\text{Usage Rates} = 0.001 \\
\text{Forecast Rate} \\
\text{Projected Usage Rates} = 0.001 \\
\times \text{Future Activity} = 100,000 \\
\text{Future Usage} = 100/Qtr or 1.1/Day
\]

Historical demands become the basis for future requirements

Requirements Shortages and Stratification

- Total world wide requirement for each item is the sum of initial, pipeline, safety level, and RSP requirements
- Requirement shortages are the total worldwide requirement for each item minus on hand stock
  - Requirement shortages are stratified by buy or repair
  - Requirement overages are stratified by “terminate” (cancelling a buy or repair action) or “dispose” (sending some quantity of the item to disposal which is above the allowed retention stock quantity)
- Requirement shortages serve as the basis for AFWCF Contract Authority
Daily Demands are captured

Historical demands applied against future program serves as basis for future POS requirements

An additional safety level of stock is added to account for variability in demand

Initial Spares and RSP Requirements are added

Total Reparable Spares Requirement

SRRB reviews and validates MAJCOM Flying Hr requirements

Updated prices are applied to each item

AFCAIG Review and validation (Flying hours)

Initial Spares + Peacetime Operating Spares + Wartime Spares = Total Spares Requirements

The supply chain management team computes inventory requirements and manages the velocity of items through the end-to-end supply chain

The goal is to move items at the planned velocity through the supply chain to meet Aircraft Availability requirements

The AF Supply Chain

Prime Vendors
Sub Contractors
Other Vendors

ICPs
Maintenance Donors

Retail Supply
Organizational Maintenance

Speed of flow drives cost and visibility of constraints are key to an efficient and effective supply chain
1. **Define weapons system availability targets** (HQ/AF) which are used to:
   - Build Peacetime Operating Stock (POS) variable safety level authorizations
   - Build Readiness Spare Packages (RSP) authorizations
   - Build repair and distribution prioritization in EXPRESS

2. **Demand Planning:** Determine Buy and Repair requirements for each NSN and set prices
   - Sum of pipeline, safety level, and RSP requirement minus on hand stock
   - Serves as basis for AFWCF Contract Authority and O&M budget for spares

3. **Supply Planning:** Pass capacity planning information to sources of supply and repair
   - Prepare for buy and repair capabilities—skills, equipment, parts

4. **Readiness Based Leveling:** Allocate the world-wide requirement to the supply chain points (retail and wholesale)
   - Establish the requisitioning objective (inventory levels) across all users based on most recent demand

5. **Allocate contract authority** to ALC Supply Groups (HQ AFMC)

6. **Execute actions to fill buy and repair requirement shortfalls**

7. **Identify and resolve supply chain constraints**
The purpose of the price setting process is to recover CSAG-Supply and SMAG Retail costs from its customers. Those costs include:

- Direct Costs
  - Repair Costs
  - Buy Costs
- Overhead Costs
  - Business Operations Cost
  - Condemnation Expenses

CSAG-Supply and SMAG Retail charges direct costs, then spreads overhead costs across all items based on projection of what customers will buy.

The intent of the pricing methodology is to neither lose money nor make a profit.

Out year adjustments are made to return profits or recover losses.

Pricing recovers cost!

---

**How Are Prices Built?**

CSAG-Supply “Final Prices”

1. **Negotiate Total Requirement**
   - SRRB (all customers)
   - Total Rqmt

2. **Adjust Total Requirement for Sales**
   - (AFSC/AFMC)
   - Sales

3. **Build Overhead Factors Based on Sales Projections**
   - AFMC/FM
   - Overhead

4. **Update LAC/LRC**
   - AFSC
   - Buy & Repair Costs

---

Iterative Pricing Applied (CSAG-MX Repairs)

Overhead Factors Applied

Build Prices

Item Pricing Systems (IPS) D200N

Prices Built
Six Costs & Four Prices

- Latest Acquisition Cost (LAC)
- Latest Repair Cost (LRC)
- Business Operations Cost Recovery (BOCR)@LAC
- Business Operations Cost Recovery (BOCR)@LRC
- Condemnation Expense Materiel Cost Recovery (CEMR)
- Carcass Cost (CC)

- Standard Price (SP)
- Exchange Price (EP)
- Unserviceable Asset Price (UAP)
- Mark-up Price (MUP)

CSAG-Supply Overhead Costs

<table>
<thead>
<tr>
<th>Item Description</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>($)</td>
<td>(%)</td>
<td>($)</td>
</tr>
<tr>
<td>1. Material Purchased</td>
<td>198,490</td>
<td>201,819</td>
<td>207,110</td>
</tr>
<tr>
<td>Repair Costs</td>
<td>3,350,895</td>
<td>3,632,985</td>
<td>3,573,454</td>
</tr>
<tr>
<td>2. Surcharge Elements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Military Personnel</td>
<td>10,988</td>
<td>7,988</td>
<td>8,108</td>
</tr>
<tr>
<td>b. Civilian Personnel</td>
<td>381,387</td>
<td>427,102</td>
<td>418,698</td>
</tr>
<tr>
<td>c. Travel of Personnel</td>
<td>9,305</td>
<td>4,896</td>
<td>4,994</td>
</tr>
<tr>
<td>d. Mail and Supplies</td>
<td>30,300</td>
<td>35,935</td>
<td>61,224</td>
</tr>
<tr>
<td>e. Equipment</td>
<td>35,122</td>
<td>43,676</td>
<td>35,499</td>
</tr>
<tr>
<td>f. Other WCP Purchases</td>
<td>260,940</td>
<td>277,225</td>
<td>283,000</td>
</tr>
<tr>
<td>g. Transportation of Things</td>
<td>85,940</td>
<td>90,451</td>
<td>92,169</td>
</tr>
<tr>
<td>h. Depreciation</td>
<td>55,852</td>
<td>37,398</td>
<td>39,945</td>
</tr>
<tr>
<td>i. Printing &amp; Reproduction</td>
<td>1,140</td>
<td>1,206</td>
<td>1,026</td>
</tr>
<tr>
<td>k. Advisory &amp; Assistance Serv</td>
<td>33,903</td>
<td>42,019</td>
<td>42,833</td>
</tr>
<tr>
<td>l. Rent, Comm, Utilities &amp; Misc</td>
<td>57,002</td>
<td>68,282</td>
<td>72,644</td>
</tr>
<tr>
<td>m. Other Purchased Services</td>
<td>446,500</td>
<td>492,593</td>
<td>554,762</td>
</tr>
<tr>
<td>Total Business Ops</td>
<td>1,412,619</td>
<td>1,507,796</td>
<td>1,611,562</td>
</tr>
<tr>
<td>n. Gasol/CM Recovery</td>
<td>-301,000</td>
<td>0,000</td>
<td>0,000</td>
</tr>
<tr>
<td>i. Bus. Ops Cost Recovery</td>
<td>1,001,619</td>
<td>1,507,790</td>
<td>1,611,562</td>
</tr>
<tr>
<td>m. Condemnation/Material Exp</td>
<td>589,920</td>
<td>605,457</td>
<td>621,331</td>
</tr>
<tr>
<td>n. Total Surcharge $</td>
<td>1,641,539</td>
<td>2,113,252</td>
<td>2,232,893</td>
</tr>
<tr>
<td>3. Net Sales at Std/Exch</td>
<td>5,168,694</td>
<td>5,948,056</td>
<td>6,013,457</td>
</tr>
</tbody>
</table>
AFSC is transforming supply chain processes to achieve “art of the possible” results through:

- Improved demand forecast accuracy
- Reduced lead times in administrative and production processes
- Improved customer relationship management
- Strategic commodity sourcing
- Improved parts obsolescence management and alternative parts utilization
- Right-Sizing Readiness Spares Packages (RSPs)
- Establishment of Depot Supply Chain Management Teams (DSCM)
- Workforce development for supply chain managers

Response to the Challenges
“The AFSC Way”

CAM model = “you fly, we buy”
- CAM reimburses AFWCF based on the hours flown, not the parts consumed.
- Flying hour budgets moved from units to CAM
- Removed the “cost per flying hour” as a metric of performance at the unit

You still need to be cost conscious
- Don’t use remove/replace as your primary means of troubleshooting (generates false demand signals to AFWCF to produce more parts)
- Return carcasses as quickly as possible (keeps the AFWCF from buying new when repair is possible)
- Are your MRSP kits over resourced?

Logistic sustainment costs eat up the lion’s share of the Air Force budget. Be cost conscious even when items seem “free” to you.
• CSAG-Supply manages reparable spares through the end-to-end supply chain to meet war readiness needs

• SMAG-R determines requirements and manages AF consumable spares through the end-to-end supply chain

• Total worldwide requirement for each item is the sum of initial, pipeline, safety level, and RSP requirements

• The supply chain management team computes inventory requirements and manages the velocity of items through the end-to-end supply chain

• There are six costs and four prices associated with CSAG-Supply pricing.
Course Conclusion

Funding the Fight:
Generating Logistics Readiness
Through AF Working Capital Funds
Course Objectives

Understand the concepts of how the AFWCF operates

Understand how the Air Force uses the AFWCF to finance sustainment activities in support of readiness

Familiarize you with the activities in the Maintenance and Supply divisions in the Consolidated Sustainment Activity Group. To include:
  - How depot maintenance requirements are planned (and priced)
  - How the secondary item requirements are planned (and priced)

Recommendations on how you can make your organization a better partner in influencing the cost of sustainment and improving readiness

Things to Remember

AFWCF is not a color of money. It is the cash earned from delivering orders to customers

AFWCF is used by AFMC to finance weapon system sustainment activities and supply chain activities in support of the flying hour program

The AFWCF earns it revenue through customer orders, not an appropriation

Anyone looking to spend AFWCF dollars should be doing it to support CSAG or SMAG-R activities in the delivery of customer orders

Everyone has an impact on the cost of readiness…professional logisticians are always looking for ways to cut or avoid costs
4-day and 2-day courses are regularly taught at the ALCs, HQ AFMC, and the National Capitol Region.

First priority goes to AFWCF employees or those in staff positions supporting AFWCF activities.

Contact the FM training managers at those locations or the AFSC training lead.

Mr. Ivan D. Yelverton
AFSC/FZRE
ivan.yelverton@us.af.mil