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Air Force Working Capital Fund MX & Supply Overview/Discussion

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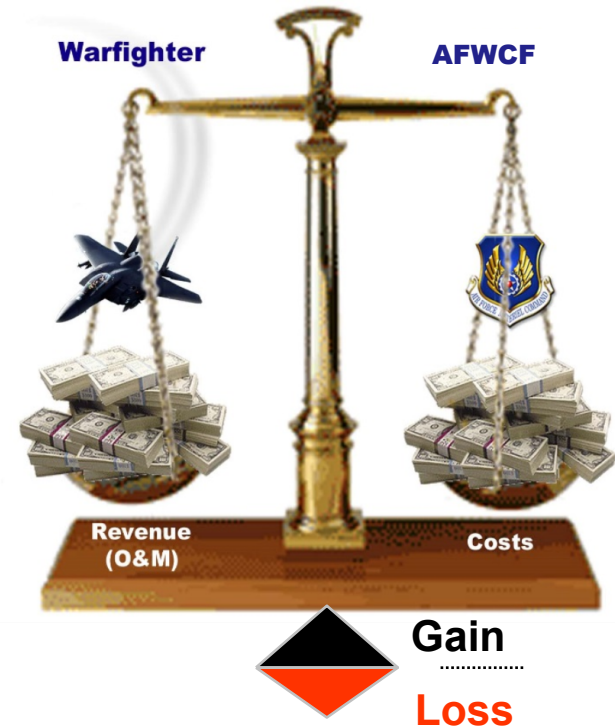
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Agenda

- WCF Concepts
- AFWCF Activity Groups
- Impact/Customers
- Discussion



**Stabilized Rates
(Set in Advance)**

**Time
Lag**

**Cost Control
(Execution Year)**



Defense Working Capital Funds Business Concepts

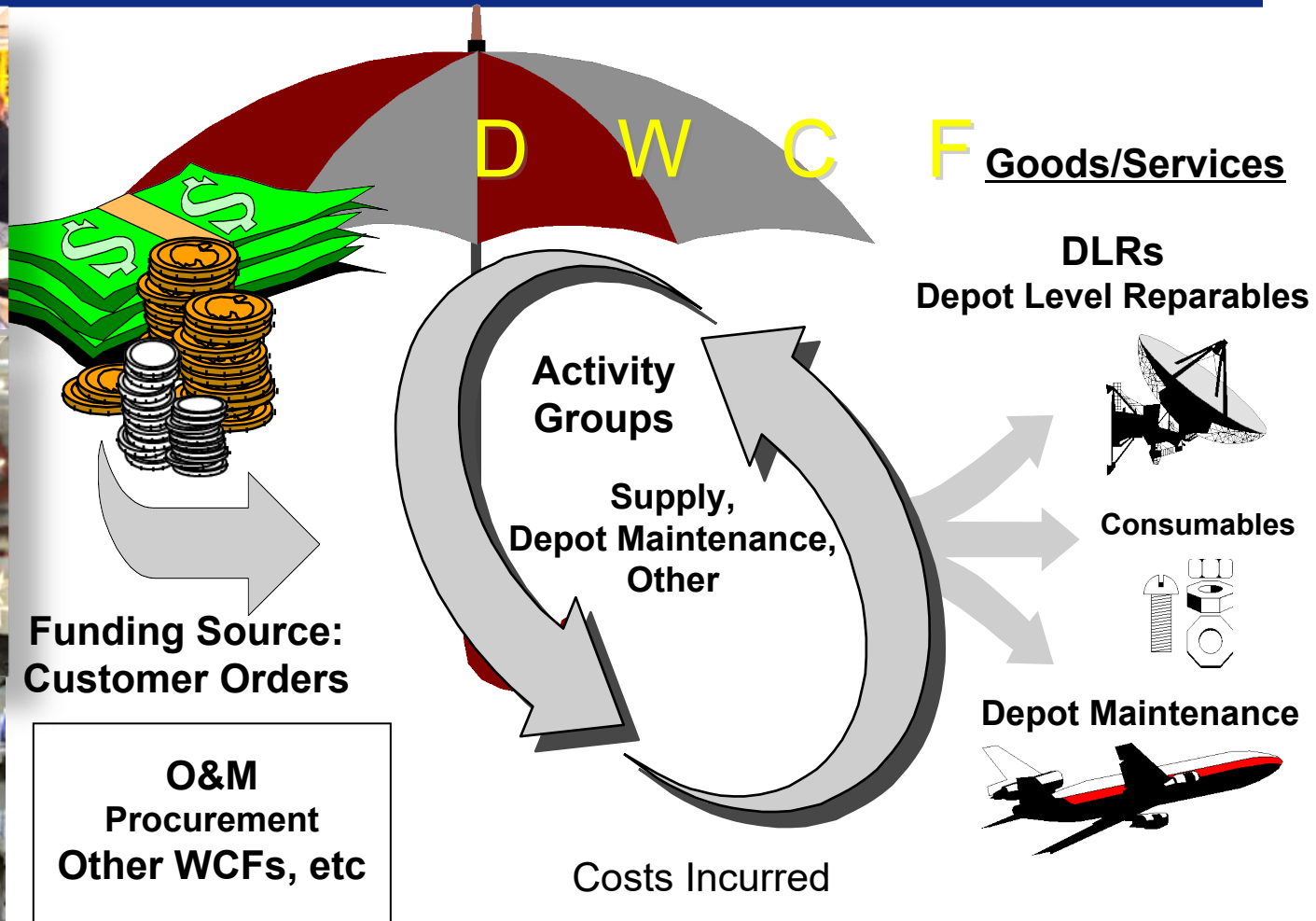
Activities financed by working capital funds...

- **Operate “like” a business and earn revenue**
 - **Establishes customer-provider relationships**
 - **Identify and recover total costs**
 - **Maintain cash liquidity**
 - **Temporarily hold gains and losses**
- **Designed to break even over time**
- **Stabilized rates protect customers**



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Defense Working Capital Funds Business Concept



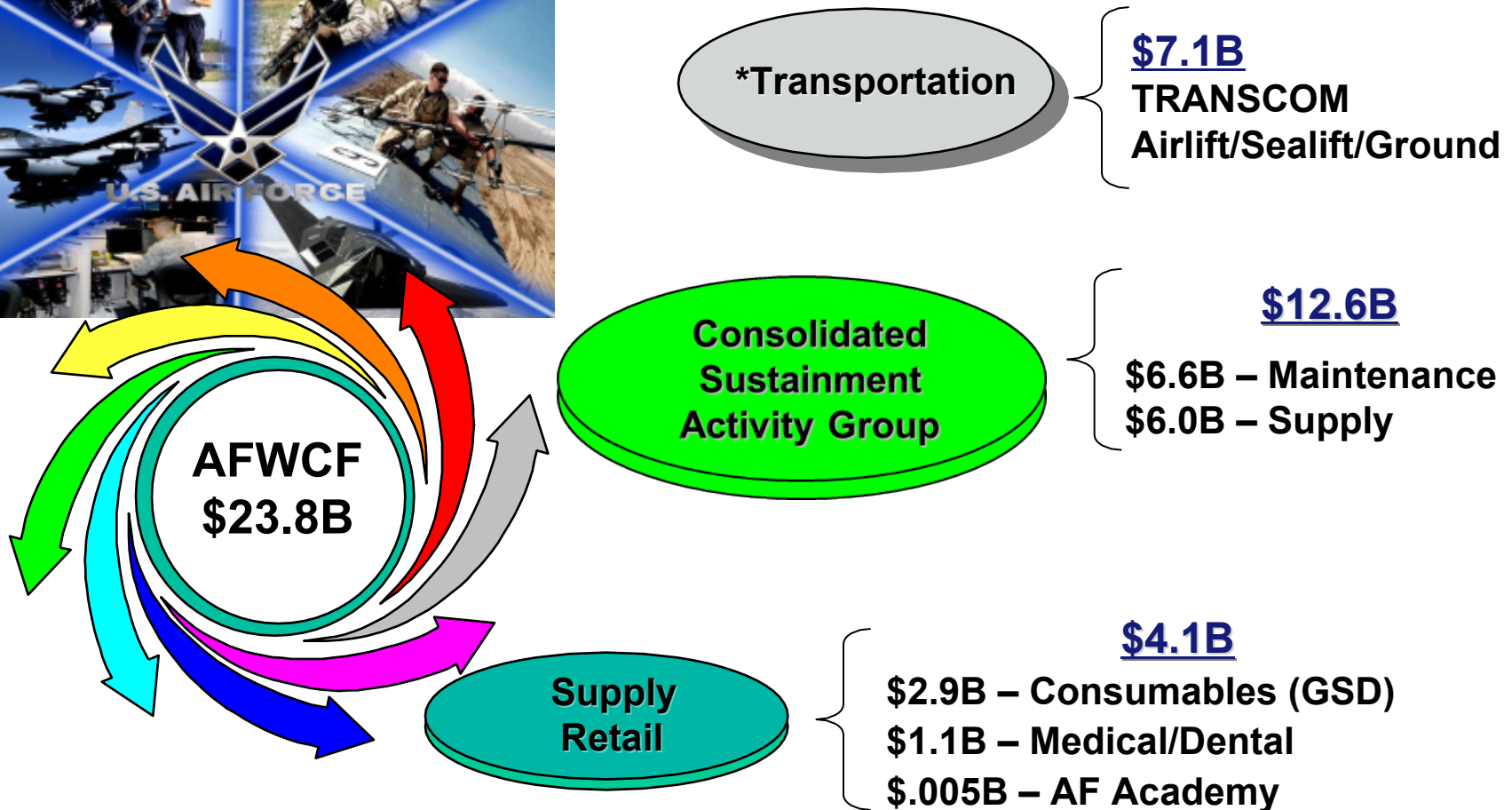
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Air Force Working Capital Funds

Activity Groups FY 2017



Data Source: FY19 PB, FY17 Column (Revenue)

Numbers may not add due to rounding

*Transportation WCF managed separately by USTRANSCOM



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Defense Working Capital Funds

Who Can Impact the Fund?

HAF/OSD

- Policy
- Funding Decisions



Congress

- Limitations
- Oversight

Current Events

- OCO, Humanitarian Relief

MAJCOMS

- Deferred Inductions
- Changing Profiles



Depots

- Production Costs
- Surge Production



Supply Chain Managers

- Strategic Sourcing
- Diminishing Mfg Sources

System Program Directors



- Engineering Changes

Safety Issues

- Accident Investigations
- FAA Requirements

**Air Force
WCF**

Multiple Stakeholders in a Dynamic Environment



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Customers

AFWCF

AF O&M

AFRC

ANG

AFSOC

Navy

Army

Marines

TWCF

**Private/Public
Partners**

FMS

**Def Health
Program**

Other DOD

AF Procurement (Acft)

AF RDT&E

**Non Federal
Agencies**

**Other Federal
Agencies**



~85% AF Customers



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Discussion/Questions



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Frequently Asked Questions

- **How can I get some of those working capital funds?**
 - **Are you currently working within a WCF?**
 - **If not, does your activity/mission DIRECTLY impact/benefit the WCF?**
 - **Does it benefit/impact any appropriated fund?**



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Frequently Asked Questions

- **Why can't the AFWCF fund this SECAF initiative?**
 - **Who benefits from the initiative?**
 - **Impacts to future rates**
 - **How is Cash?**



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Frequently Asked Questions

- **Why can't the Supply Chain react faster?**
 - Requirements planning
 - Vendors (contract or organic)



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Frequently Asked Questions

- **I planned the same number of PDM/Overhauls, why does it cost more than last year?**
 - **Material**
 - **Labor Hours**
 - **Prior Year profit or loss**



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Frequently Asked Questions

- **Who should pay for the equipment for that depot task?**
 - **Depot Activation vs Legacy platforms vs Partnerships**
 - **Impacts to depot rates**



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Frequently Asked Questions

- **I obligated 98% of the funds in my portfolio, how can that be a bad thing for the WCF?**
 - **CAM**
 - **Engine example**
 - **Carryover – When you send \$s is as important as What you send**
 - **50/50**



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Frequently Asked Questions

- **I am not in a WCF, so how can I impact my future rates/prices?**



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Back-up



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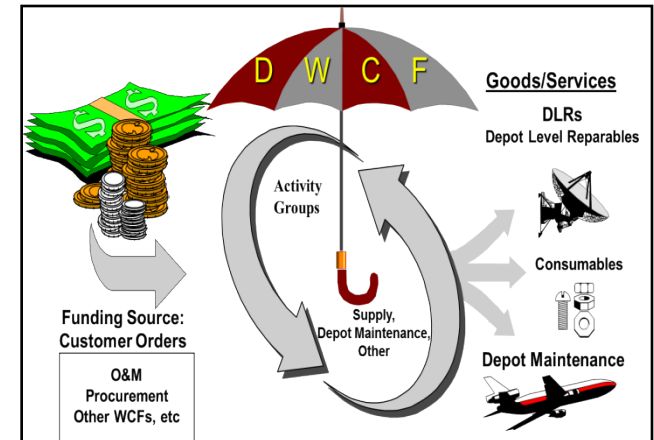
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Defense Working Capital Funds

Cash

Cash - How much is enough?

- Adequate balances required for Fund flexibility
 - Short term fluctuations in demand
 - Execution year price, activity or usage changes
- DoD Financial Management Regulation directs:
 - Positive cash balance throughout execution year *and*
 - Adequate ending balance to support continuing operations in subsequent year
- Too little jeopardizes customer stability; too much means lost opportunity
- Change on Horizon...Treasury Department implementing daily cash reports FY2017/2018...creates significant cash management challenge





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Air Force Working Capital Funds

Cash Challenges

- **Cannot control demand**
 - Demand is dependent upon customers
 - Must remain prepared for surges
 - Cost control critical
- **DWCF adapts slowly to economic shifts**
 - Cannot change rates during fiscal year easily
 - Cannot control personnel costs quickly
 - Repairable inventory delivers approximately 18 months after order
- **Accountable for Total AFWCF cash balance (AF 'Blue' activities & TWCF)**
 - TWCF managed separately by USTRANSCOM
- **Maintain sufficient cash balances under daily reporting environment**
 - Historical month-to-month variability manageable
 - Day-to-day volatility significantly more challenging
 - Volatility mitigation actions under investigation; seeking way(s) to avoid requirement for larger balance

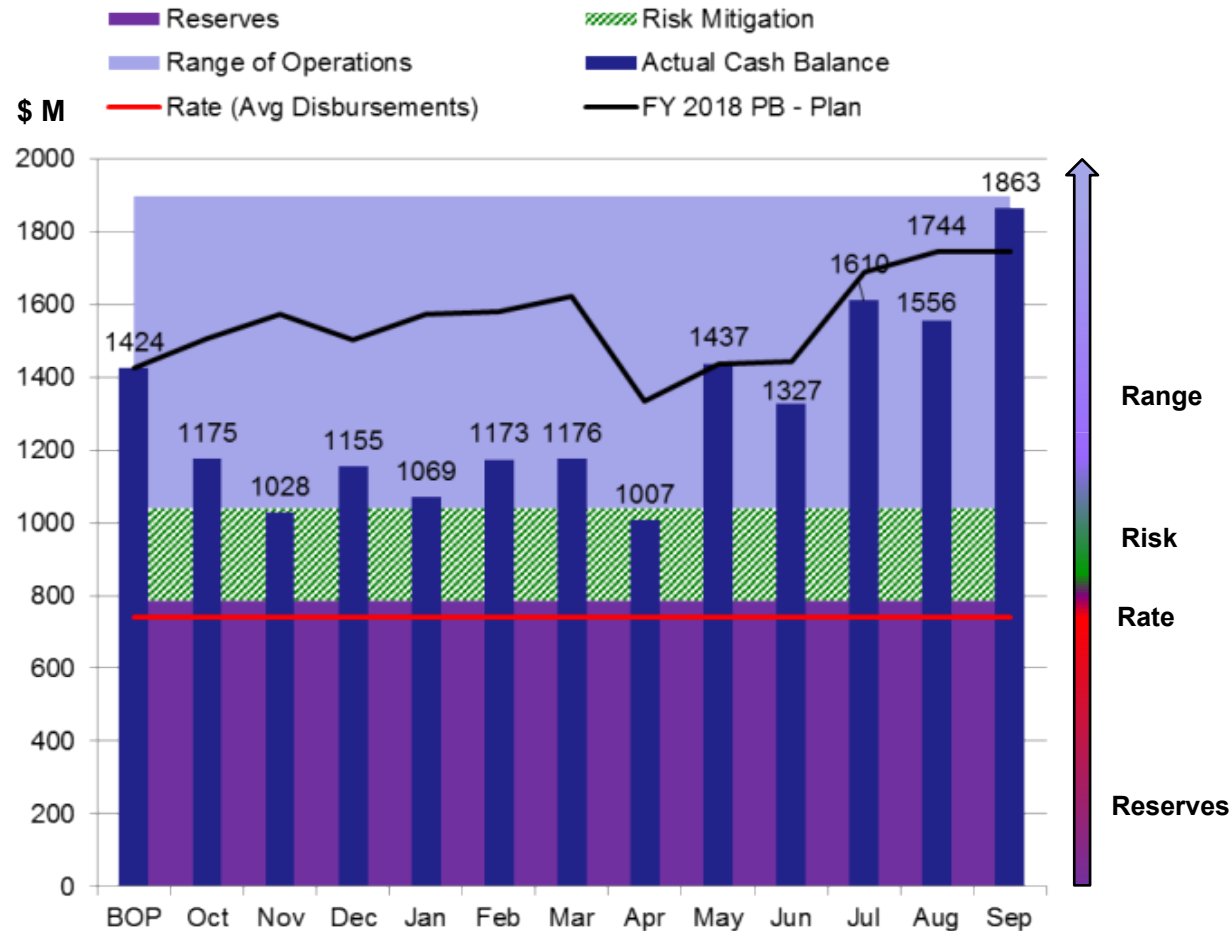




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FY17 AFWCF 'AF Blue' EOM September 17

- AF Blue currently \$120M above plan;
 - Outstanding September FHP Bills: \$5M
- Blue Lower/Upper target ranges: \$1,264M & \$1,867M
- Range (Blue shaded area) basis: expected cash level & 4 years of historical data
- Rate of Disbursements computation:
 - Actuals: 22 collection cycles; \$742M disbursed on avg. between collection cycles (Red line)
 - Risk Mitigation \$254M (Green shaded area)
 - Seasonal volatility & external factors (i.e., late customer payments, omnibus source, Congressional marks)
- Reserves: (Purple shaded area)
 - Returning PY gains to customers \$744M FY18/FY19
 - Reserves for Unliquidated Appropriation \$46M



FY 2017 Plan Source: Oct-Mar FY 2018 BES; Apr-Sep FY 2018 PB
Range, Rate, Risk and Reserves; OSD New Policy for Computing Cash Requirements

Cash 9.4 days; \$120M above plan



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TWCF Business Operations/Concept

- **WCF conceptually set rates where Expenses = Revenue, Cost neutral**
- **TWCF is a Hybrid Working Capital Fund**
 - **Rates are set to remain competitive with private industry; providing the same capabilities or services**
 - **Disconnect between established rate charged to customers and actual expenses incurred by TWCF is off-set by Airlift Readiness Account**



- **DoD Financial Management Regulation Volume 2B Chapter 9, Airlift Readiness Account (ARA) provides the following guidelines:**
 - The United States Transportation Command (USTRANSCOM) must maintain sufficient airlift capability to respond to transportation requirements for a wide variety of mobilization conditions
 - **To the extent customer revenue is insufficient** to support the costs of maintaining this capability, **the Air Force shall provide appropriated funds**
 - USTRANSCOM will record this funding as an order and as revenue in its financial reports. **This requirement exists in both peacetime and contingency environments**