

April 17, 2013

The Honorable Charles T. Hagel
Secretary of Defense
1000 Defense Pentagon
Washington, D.C., 20301-1000

Dear Secretary Hagel:

The intent of this letter is to seek your assistance in obtaining an exception to the proposed furloughs at working capital fund (WCF) installations across the Department of Defense (DoD) due to sequestration. The rationale and justification for this request for exemption from the proposed furloughs follows:

The WCF was intended not to be an annual appropriation but a business model that lives off sales (government and private) and concomitant revenue therefore being self-sustaining and independent of annual appropriations.

Statutory and prior precedent indicates that WCF activities are self-sustaining and all costs of operations are covered by contractually funded manufacturing orders already received. No annual appropriations are required or received to cover annual operating costs. For example, the U.S. Army Watervliet Arsenal (WVA) has sufficient contracted funded workload (\$160M) to cover all operating costs into FY14. Similarly, the Corpus Christi Army Depot (CCAD) has approximately \$250 million of contractually funded workload through the first quarter of FY14. There would be no savings to appropriated funds cost resulting from furlough of these employees – and no Anti-Deficiency Act violation will occur as a result of continued operation.

There is no logical business case for applying “across the board” furlough guidance to a working capital fund industrial activity. At Watervliet, the anticipated payroll cost savings achieved (\$3M) are more than offset by the \$11.5M loss of operating revenue (30K Direct Labor Hours at an average production cost of \$385/DLH including material and contracts) and have an overall negative financial impact of - \$8.5M as well as the mission impact to the Army. At CCAD, since outside contracts have already been negotiated, direct labor contractors will work even if government employees are furloughed and are not available to workload them. These are only two examples that illustrate the issue that affects WCF installations at every major component of DoD and installations with WCF components within the overall base structure.

WCF activities produce and maintain weapons, aircraft and other systems that are critical to protecting and serving warfighters currently deployed on the battlefield or who are getting ready to deploy. A furlough of any duration would cause a significant delay (as much as 20-40%) in the delivery of those systems which will negatively impact DoD readiness. Their delivery schedule is customer generated and contractually obligated. Unless these contracts are amended, missed deliveries (even though fully funded and on hand to execute) will cause product delays to program managers and negatively impact soldiers/marines in the field and in the air.

Furloughing these workers will do nothing to save revenue. The non-execution of funded customer orders as a result of the reduction of available direct labor hours due to furlough will significantly increase WCF carryover footprint. This problem may be further magnified by their inability to apply overtime where necessary to meet customer driven production schedules. Additionally, any pull back of funding will result in incurred costs for incomplete items as well as potential cancellation costs on those orders.

All funded workload pushed to future fiscal years as a result of the reduction of available direct labor hours will increase the cost to complete those orders and increase the cost to the customer. It will have a negative impact to the Return of Investment (ROI) of WCF dollars due to increased costs within the out years because of inflation and increased rates.

Your assistance is vital in assuring WCF installations can execute their contractual obligations and avoid the negative affect these furlough days would have on the morale of the hardworking and dedicated civilian workforce at DoD.

Thank you for taking your time to consider this issue. Please contact FMA's Director of Government Relations, Greg Stanford, at (703) 683-8700 or via email at gstanford@fedmanagers.org if you have any questions pertaining to this request.

Sincerely,



Patricia J. Niehaus
National President