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| 13. SUPPLEMENTARY NOTES This is an Applied Systems Design Project requirement for the IU-UNC LogMBA Program, a two-year joint MBA between Indiana University's Kelley School of Business and the University of North Carolina at Chapel Hill's Kenan-Flagler Business School.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                  |                                                        |                                          |                                                           |                                                              |
| 14. ABSTRACT<br><br>Military members and Department of Defense (DOD) civilians who are assigned to overseas locations are entitled to store a Privately Owned Vehicle (POV) at government expense for the length of that assignment. Frequently, these vehicles are stored for three years or longer at a significant cost to the government. Additionally, the contract storage costs over a three or four year overseas assignment usually exceed the Fair Market Value of the POV. This Applied Systems Design Project will develop an alternative process, or a POV <i>Incentive Option</i> , that will give DOD the option to offer a member Fair Market Value for a particular POV in lieu of the member receiving their financial storage entitlement (at present, up to \$310 per month, which equates to a maximum of \$11,160 in POV storage costs over a three-year overseas assignment). The significant entitlement expense, and the growth in storage costs, gives this project a compelling business case at the same time DOD is aggressively seeking billions of dollars in efficiencies. |                  |                                                        |                                          |                                                           |                                                              |
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**A COST REDUCTION ALTERNATIVE FOR THE  
DEPARTMENT OF DEFENSE GLOBAL PRIVATELY OWNED  
VEHICLE CONTRACT**

**DEREK M. OLIVER  
CLASS OF 2012**

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## **EXECUTIVE SUMMARY**

### **ISSUE**

Military members and Department of Defense (DOD) civilians who are assigned to overseas locations are entitled to store a Privately Owned Vehicle (POV) at government expense for the length of that assignment. Frequently, these vehicles are stored for three years or longer at a significant cost to the government. Additionally, the contract storage costs over a three or four year overseas assignment usually exceed the Fair Market Value of the POV. This Applied Project will develop an alternative process, or a POV *Incentive Option*, that will give DOD the option to offer a member Fair Market Value for a particular POV in lieu of the member receiving their financial storage entitlement (at present, up to \$310 per month, which equates to a maximum of \$11,160 in POV storage costs over a three-year overseas assignment). The significant entitlement expense, and the growth in storage costs, gives this project a compelling business case at the same time DOD is aggressively seeking billions of dollars in efficiencies.

### **METHODOLOGY**

The applied project flows from a relatively simple inquiry process that seeks to provide an alternative process that has the potential to reduce DOD vehicle storage costs. The basic questions are as follows:

- 1) Is it feasible to offer service members (who are relocating to overseas locations) Fair Market Value for their POVs, similar to the popular “Cash for Clunkers” program than was implemented by the Obama Administration?
- 2) If feasible, does a high level analysis indicate that DOD can realize a substantial cost reduction, while continuing to provide high quality service to members of the Armed Forces who are relocating overseas?
- 3) Finally, are there existing structures in place across the DOD, or within other Federal Agencies, that this type of initiative can leverage to keep execution costs to a minimum?

### **BUSINESS CASE**

The business case is compelling because the number of POVs in storage under the DOD Global POV Contract has increased for three consecutive Fiscal Years (FY) as follows:

- 1) FY 08: 4,202 vehicles stored
- 2) FY 09: 6,335 vehicles stored
- 3) FY 10: 8,827 vehicles stored

Additionally, during FY 08, the average cost to store a single POV for 12 months under the Global POV Contract was approximately \$2,856. By comparison, in FY10 the average cost to

store a single POV under the Global POV Contract was approximately \$3,132. Although these storage costs currently fall below the maximum annual allowance of \$3,720, more increases are expected in future years while DOD will be seeking dramatic cost cutting solutions. Thus, providing a more cost effective vehicle storage alternative will directly support the DOD mandate to reduce costs by \$178 billion dollars over the next five years.

## RESULTS

Ultimately, the *POV Incentive Option* model presents an opportunity for a 28% cost reduction after expenses in the Global POV Program. By adjusting the existing entitlement language within each Military Service, and fine-tuning the requirements of the Federal Acquisition Regulation-based Global POV Contract, service members would have the option to forgo their current storage entitlement, and accept Fair Market Value for their vehicle.

The initiative is not without some complications, though, since it spans multiple organizations, crosses into fiscal policy, and requires legal sufficiency. The United States Transportation Command's Defense Personal Property Program and Defense Personal Property System ***counseling process*** would require modification to inform service members of the new alternative, and provide requisite guidance for those who chose the option. The Defense Logistics Agency's Disposition Services would play a key role in accepting vehicles under the *POV Incentive Option* and using their existing property ***disposal process*** to either auction vehicles or sell them for salvage. And, finally, the Defense Finance and Accounting Service's ***payment process*** might require a minor modification to ensure that service members received Fair Market Value compensation in the same manner that monthly pay is disbursed.

The earliest opportunity for DOD to actually move in this direction is November 2013, when the new Global POV Contract becomes effective. As long as the Program Manager for the contract has the support of senior leaders, the new requirements for counseling, disposition and payment can be coordinated across the affected agencies well in advance. Once necessary modifications are made to the Performance Work Statement, DOD can subsequently release a Request For Proposal, and follow the traditional evaluation and selection process for interested contractors.

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## **I. PROJECT INTRODUCTION**

### **A. BACKGROUND**

Military members and Department of Defense (DOD) civilians who are assigned to overseas locations are entitled to store a Privately Owned Vehicle (POV) at government expense for the length of that assignment. Frequently, these vehicles are stored for three years or longer at a significant cost to the government. The contract storage costs over a three or four year overseas assignment usually exceed the Fair Market Value of the POV.

### **B. PURPOSE**

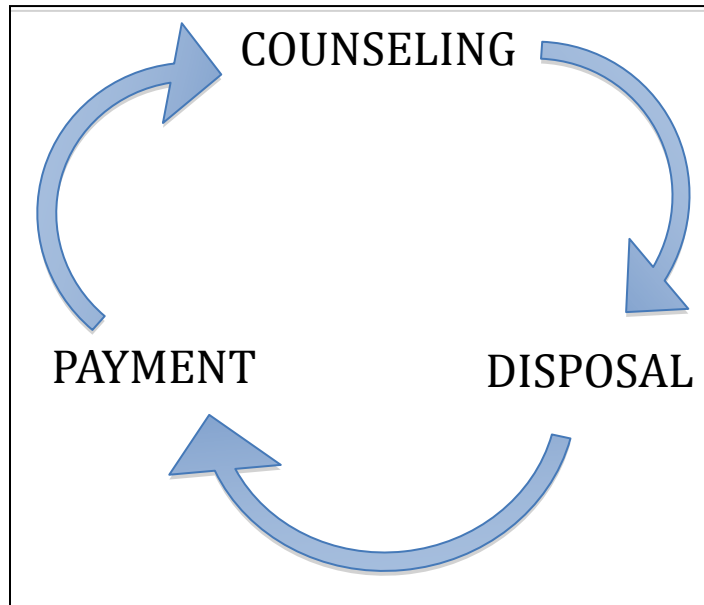
This Applied Project will offer an alternative to the existing vehicle process that will give DOD the option to offer a member Fair Market Value for a POV in lieu of the vehicle storage entitlement.

### **C. RESEARCH QUESTIONS**

The following questions provide the overall framework for the Applied Project:

- 1) Is it feasible to offer service members Fair Market Value for their POVs in lieu of a storage entitlement, similar to the popular “Cash for Clunkers” program than was implemented by the Obama Administration?
- 2) If feasible, does a high level analysis indicate that DOD can realize substantial cost avoidance, while continuing to provide high quality service to members of the Armed Forces who are relocating overseas?
- 3) Finally, are there existing structures in place within DOD, or other Federal Agencies that this type of initiative can leverage to keep execution costs to a minimum?

The following model (Figure 1.) provides a visual representation of the major processes that need modification to enable the *POV Incentive Option* for service members:



**Figure 1.**

## **II. GLOBAL POV PROGRAM OVERVIEW**

Vehicle storage for military members is governed by the Defense Transportation (DTR) Regulation, Part IV, Personal Property. DOD employs a private contractor to execute the full spectrum of storage operations under the Global POV Contract. The procedures identified in this overview will apply to military members (government civilian employees follow a slightly different process under the Joint Travel Regulation and certain situations).

The primary requirement for service members to store a vehicle is eligibility. A service member is eligible to store a single vehicle at a designated storage facility if any of the following apply.

- 1) The service member has received official orders for a Permanent Change of Station to an overseas location.
- 2) The service member is deployed for greater than 30 days to support a Contingency Operation.<sup>1</sup>

Once eligibility is determined, military members will receive counseling from their local Transportation Office on additional requirements such as types of prohibited POVs, Military Service (Army, Navy, Air Force, Marine Corps or Coast Guard) specific guidelines, and a list of service member responsibilities required to prepare the vehicle for processing and storage.

The private contractor that actually operates the multiple Vehicle Processing Centers (VPCs) where storage occurs, also has a detailed list of responsibilities identified in the DTR,

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<sup>1</sup> Defense Transportation Regulation, Part IV, Personal Property, Attachment K4, pp 3.

Part IV. Although this Applied Project is focused on adjustments to the storage component of the process, it is important to understand the full breadth of the Global POV Program—which includes much more than vehicle storage services.

The Global POV Program contractor is required to provide complete transportation and storage services for DOD sponsored shipments of POVs belonging to military service members and transportation of DOD-sponsored shipments of POVs. The contractor arranges for POV shipment between cities in the continental United States (CONUS) and overseas locations (OCONUS), between OCONUS, and within CONUS as directed by DOD. The contractor has all responsibility, liability and costs for receipt, delivery, processing, and transportation of the POV from beginning of the movement to the end.<sup>2</sup>

The contractor's full range of responsibilities include the following:

- 1) Operate multiple VPCs in CONUS and OCONUS to receive and deliver service member's POVs, prepare POVs for shipment, and ensure all necessary agriculture and customs clearances are accomplished.
- 2) Arrange for or provide ocean and inland transportation of the POVs between VPCs and other designated locations.
- 3) Provide information on the status and location of POV shipments as well as other program information.
- 4) Resolve POV loss and/or damage claims with customers, and with the Government.
- 5) Store POVs in accordance with DOD specifications.<sup>3</sup>

Internal to the overall process are many sub-processes that include counseling, documentation, and inspection (also know as “Handling-In” and “Handling Out”) when members turn in vehicles. Likewise, the contractor operates the reverse process when service members return from an overseas assignments and arrive at a VPC to pick-up their stored vehicle. A claims process is also available in the event that damage has occurred at some point along the way that was not the service member's responsibility. The contractor is liable for up to \$20,000 and can actually settle onsite for up to \$10,000. Vehicles are typically placed into storage no later than 14 days after turn-in, vehicles are stored indoors, and vehicles are stored consistent with any manufacturer's recommendations.<sup>4</sup>

### **III. DEFENSE PERSONAL PROPERTY PROGRAM AND SYSTEM (COUNSELING)**

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<sup>2</sup> Ibid.

<sup>3</sup> Global POV Contract Performance Work Statement.

<sup>4</sup> Ibid.

With a basic understanding of the scope of the Global POV Program, the relocation counseling process is now important to understand. First, as indicated earlier, issuance of Permanent Change of Station orders is the trigger to service members that relocation is imminent. To streamline the moving process, the United States Transportation Command (USTRANSCOM) and the Military Surface Deployment and Distribution Command (SDDC) developed the Defense Personal Property Program (DP3). To support DP3, DOD developed the Defense Personal Property System (DPS)—a web-based system, available 24 hours a day, to manage the cradle-to-grave household goods relocation process. DPS provides the following advantages:<sup>5</sup>

- 1) Online self-counseling and submission, instead of traveling to a Transportation Office.
- 2) Shipment tracking through DPS or Interactive Voice Response.
- 3) Online claims filing, and direct settlement with moving companies Transportation.
- 4) Full Replacement Value (FRV) of lost/damaged goods, as opposed to depreciated value .
- 5) The opportunity to score moving companies on their performance online.

The website, <http://www.move.mil> is shown below:

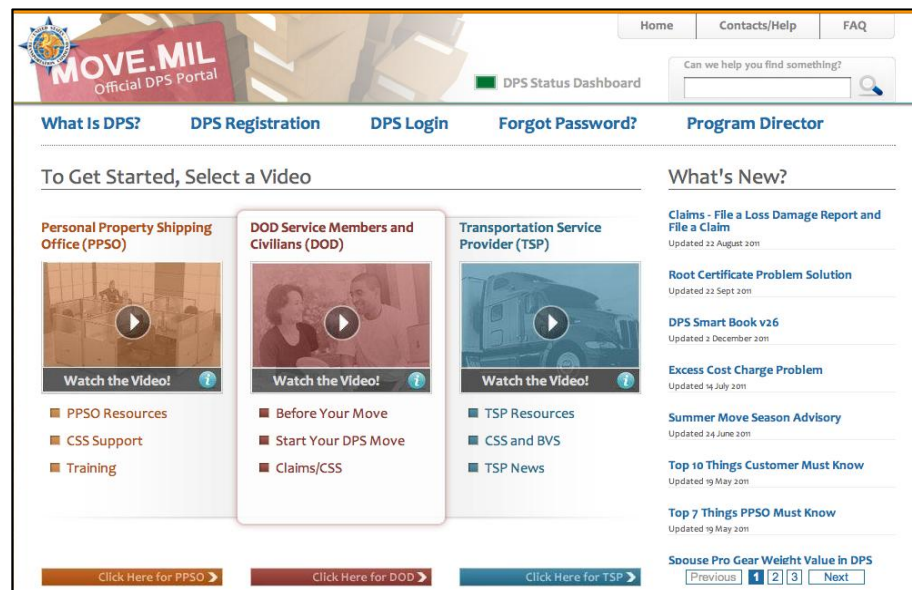


Figure 2.

<sup>5</sup> <http://www.move.mil/home.htm>

Although DPS gives service members the option to complete the counseling process on their own, members can also elect to make an appointment with a Transportation Specialist to receive face to face counseling. More importantly, although the counseling for Household Goods movement and POV shipment/storage occurs within a single session, the Global POV Contract is not managed within DPS (operated by a private contractor prior to the inception of DP3/DPS and continues to follow that model today).

The first modification that must occur during the counseling process to enable the *POV Incentive Option* includes offering service members the option to receive Fair Market Value at this initial stage of the process. With a relatively small adjustment in the existing counseling process, counselors would need access to the Kelly Blue Book® online database to give members an estimate of how much they may receive for their vehicle. Requirements for a clear, lien-free title on a any given vehicle would also have to be documented to ensure that vehicles are being turned-over by their legal owners. Once the member has satisfactorily initiated the new process, the *POV Incentive Option* documentation would remain in a “partial” status and that open file would transfer electronically to the Contracting Officers' Representative (a government employee who oversees the day to day execution of the contract on site) in the nearest VPC. Once the service member travels to the VPC, and completes the checklist of requirements required by the DTR, Part IV, he or she would surrender the vehicle, and the Contracting Officers' Representative would access the member's electronic file, change the status from “partial” to “complete” and the member would be free to proceed to the overseas assignment.

#### **IV. DEFENSE LOGISTICS AGENCY--DISPOSITION SERVICES (DISPOSAL)**

The next component of the *POV Incentive Option* model is “Disposal.” Although service members will not need to coordinate any details with the Defense Logistics Agency (DLA) directly, the vehicle that a service member choses to turn over can either be auctioned or salvaged (which fits into the exiting model for disposition under DLA).

This section will provide some background on the existing processes within the Defense Logistics Agency (DLA) Disposition Services (formerly known as the Defense Reutilization and Marketing Service). The intent here is not to elaborate on all of the formal processes within DLA Disposition Services, but to provide a brief background on the organization, and the role it would play under the *POV Incentive Option*.

The mission of DLA Disposition Services is “to support the Warfighter and protect the public by providing worldwide disposal management solutions. The vision is: “DLA Disposition Services will be the preferred choice for worldwide reuse and disposal solutions, and an integral partner in safeguarding national security and improving efficiency and effectiveness in the global supply chain.” The overall goal of the organization is to anticipate needs and deliver exceptional performance to customers through the reuse, transfer, donation, sale or disposal of excess property.<sup>6</sup>

DLA Disposition Services provides maximum value to taxpayers by marketing

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<sup>6</sup> <http://www.dispositionservices.dla.mil/sales/generalinfo.shtml>

and selling property that the U.S. military no longer requires. DLA Disposition Services conserves resources by permitting government agencies (and certain non-profit organizations) to obtain property for reuse free of charge, often eliminating the need to buy new property. Alternatively, property can also be sold to private companies and individuals, usually in a sealed bid auction. The inventory is typically divided into 66 broad Federal Supply Classes, and 463 sub-classes, which include a wide variety of the following items: “single engine aircraft, trucks, diesel engines, boring machines, conveyors, fiber rope, power and hand pumps, safety and rescue equipment, plumbing fixtures, rivets, hand tools, paints, oils, fuels, chemicals, batteries and other related commodities.” The inventory turns over frequently, and many commodities can fill special needs in the commercial sector.<sup>7</sup>

Private companies, as well as individual customers, compete for property by participating in DLA Disposition Services “property sales” which occur regularly. Under normal circumstances, a sale is for one broad category of property. Property is sold by local open (or sealed) bid auctions, national sealed bid auction, or by negotiated sales when certain high-value items are being sold.<sup>8</sup>

In order to satisfy the second component of the *POV Incentive Option* model, “Disposal”, DOD would need to develop a set of instructions for the Contractor Officers’ Representatives in the various VPCs to follow. Once the appropriate transactions are coordinated (preferably some type of electronic data interchange, but a manual process may suffice initially), the nearest DLA Disposition Service office would receive notification of the availability of a *POV Incentive Option* vehicle, and make arrangements for transportation. Ideally, the movement of the vehicles from the VPC to the DLA site would stay within the government domain to conserve transit costs. Alternatively, the movement could be added to Global POV Contract and the contractor would simply include a *POV Incentive Option* transportation estimate to cover projected expenses. Once the vehicles are completely under DLA control, a “Special Auction” would be held to offer vehicles to the highest bidder. After a requisite amount of time, those vehicles that did not sell would simply move into the existing DLA salvage process (with minimal cost recovery to the government).

## **V. DEFENSE FINANCE AND ACCOUNTING (PAYMENT)**

The final component of the *POV Incentive Option* model is “Payment.” Once service members have satisfied all requirements for vehicle identification, preparation, movement and turn-in, they should expect to receive the Fair Market Value for their vehicle. As with the other components of the model, this process could also rely on an electronic data interchange because the actual Fair Market Value agreed to during the “Counseling” process must be communicated to the local Finance office for disbursement. This section will provide a brief overview of the Defense Finance and Accounting Service, with emphasis on any adjustments that may need to take place payment under the *POV Incentive Option*.

DFAS provides payment services to all DOD military and civilian personnel, retirees, annuitants, and major contractors and vendors. DFAS also supports customers outside the DOD

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<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

in support of electronic government initiatives. Since its inception (1991), the agency has regionalized over 300 installation offices into nine sites and reduced the number of systems in nearly 33%.<sup>9</sup>

The organization uses a Working Capital Fund structure, and gains revenue by charging customers for the services provided, rather than receiving direct appropriations. DFAS sets annual rates on a two-year cycle, based on anticipated workload and cost forecasts (rates are either increased or decreased at this time to allow for any prior year gains or losses). DFAS operations are subject to oversight by DOD, as well as other elements of the federal government.<sup>10</sup>

DFAS has consistently lowered operating costs through continuous process improvement and returned those savings to its customers in the form of reduced bills and improved service. DFAS remains the world's largest finance and accounting operation, disbursing \$554 Billion to pay recipients. Its mission is to "Lead DOD in finance and accounting by ensuring the delivery of efficient, exceptional quality pay and financial information", and the vision is to "To be a recognized leader in DOD's financial management by consistently delivering first-class service and products."<sup>11</sup>

The financial payoff from the *POV Incentive Option* could be substantial. As service members elect the option, each Military Service is no longer required to pay a storage entitlement for a 36-month overseas tour (up to a maximum of \$11,160). These funds could remain within the DOD financial system (typically called a "Line of Accounting" which may be different for End of Month pay accounts), and potentially reallocated or reprogrammed for other Service needs. The existing DFAS process would require a modification to create a smooth transition between the different variations of accounts within the DOD (often referred to as different "colors" of money, since some funds can only be used to cover a specific variety of expense). Additionally, service members would generally prefer to receive payment of their agreed upon Fair Market Value as quickly as possible and via direct deposit to their existing financial account. All service member pay information is presently included in DFAS databases, so matching payment to member should be relatively straightforward (again, an opportunity to leverage existing technology makes this adjustment tenable). Once a service member receives payment, and Service Lines of Accounting are properly adjusted or funds are reallocated, the *Payment Incentive Option* cycle is complete.

## VI. ASSUMPTIONS AND EXPECTED OUTCOMES

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<sup>9</sup> <http://www.dfas.mil/pressroom/aboutdfas.html>

<sup>10</sup> Ibid.

<sup>11</sup> Ibid.

Several assumptions are relevant to this Applied Project. Any time a new alternative is introduced, especially within the government domain, Fear, Uncertainty and Doubt usually are front and center. The following capture some of the key assumptions:

- 1) Service members will be willing to accept Fair Market Value for a (typically older, lien-free) vehicle that they initially intended to store during their overseas assignment.
- 2) Using a commercial online database like Kelly Blue Book® to establish the Fair Market Value of a service member's used vehicle is legally sufficient.
- 3) The *POV Incentive Option* would not violate any elements of the Soldiers and Sailors Civil Relief Act if a service member experienced subsequent financial difficulties.
- 4) Each Military Service would be interested in participating in the program because of the significant potential for cost reduction.
- 5) Congressional legislation may be required if the alternative requires a change to any pay provisions under the existing appropriations for Military Services.

The expected outcome, predominantly, is significant cost avoidance for each Military Service. To the extent that each Service has a responsibility to be a good steward of government resources, it is not in the best interest of the taxpayers to pay vehicle storage costs that exceed the Fair Market Value of a vehicle by three to four times. Additionally, members can use the proceeds that they would receive under the *POV Incentive Option* to help offset moving expenses.

## **VII. ANALYTICAL CONSIDERATIONS**

To provide a basic analysis, it is important to follow a systematic process to evaluate the key elements of the current environment, and make recommendations to execute or not. The following steps provide a basic structure:

- 1) Collect the data for existing expenditures on POV Storage across DOD.
- 2) Graph or plot the data and examine the trend.
- 3) Determine whether the trend is acceptable.
- 4) If the trend is unacceptable, offer some hypotheses on actions to take to improve trend.
- 5) Test those hypotheses and select the best alternative.

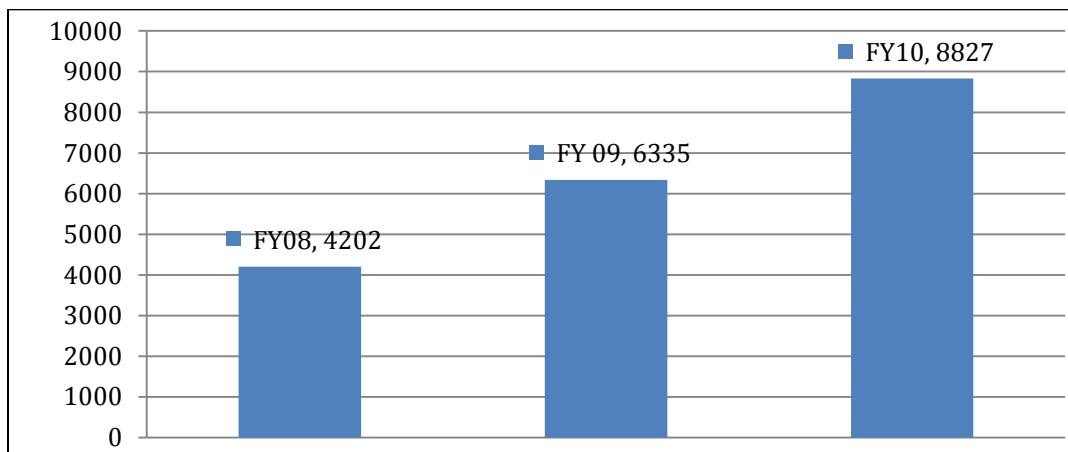
## **VI. QUANTITATIVE ASSESSMENT**

### **A. DATA EVALUATION**

To provide a high level quantitative assessment, the following data was collected on POV Storage quantities for the previous three Fiscal Years:

|               | FY 08       | FY 09       | FY 10       |
|---------------|-------------|-------------|-------------|
| Air Force     | 1642        | 2195        | 2918        |
| Army          | 805         | 1270        | 1300        |
| Coast Guard   | 36          | 57          | 34          |
| Marine Corps  | 588         | 1127        | 1847        |
| Navy          | 1131        | 1686        | 2728        |
| <b>TOTAL:</b> | <b>4202</b> | <b>6335</b> | <b>8827</b> |

**Table 1.**



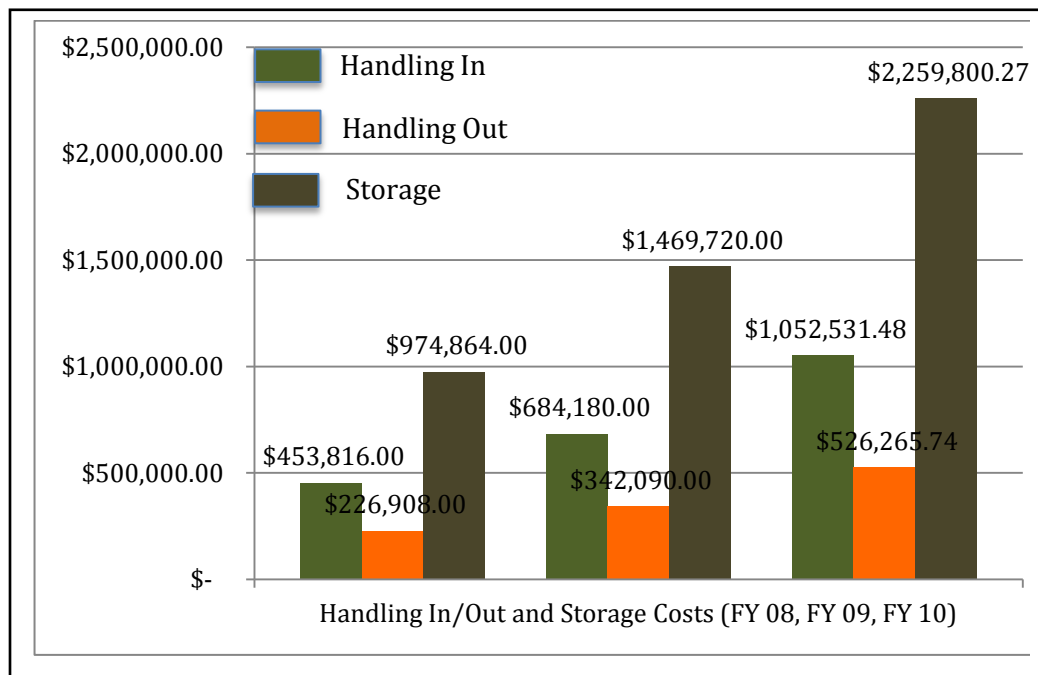
**Table 2.**

The data in Table 2. shows a sizable 110% increase in the numbers of POVs stored from FY 08 to FY 10. This substantial increase was the impetus for seeking cost reduction, or cost avoidance, alternatives for the Global POV Contract.

The data in Table 3. below captures the respective cost increases as the numbers of POVs increased over the FY 08 – FY 10 timeframe. Essentially, each vehicle requires pre-processing upon arrival (“Handling In”), post-processing upon departure (“Handling Out”), and long term storage (Monthly Storage Cost). Costs can increase over time, as shown for FY 10 storage.

| <b>FY 08</b>         | <b>Vehicles</b> | <b>Cost</b> | <b>Total</b>   |
|----------------------|-----------------|-------------|----------------|
| Handling In          | 4202            | \$108.00    | \$453,816.00   |
| Handling Out         | 4202            | \$54.00     | \$226,908.00   |
| Monthly Storage Cost | 4202            | \$232.00    | \$974,864.00   |
| <b>FY 09</b>         | <b>Vehicles</b> | <b>Cost</b> | <b>Total</b>   |
| Handling In          | 6335            | \$108.00    | \$684,180.00   |
| Handling Out         | 6335            | \$54.00     | \$342,090.00   |
| Monthly Storage Cost | 6335            | \$232.00    | \$1,469,720.00 |
| <b>FY 10</b>         | <b>Vehicles</b> | <b>Cost</b> | <b>Total</b>   |
| Handling In          | 8827            | \$119.24    | \$1,052,531.48 |
| Handling Out         | 8827            | \$59.62     | \$526,265.74   |
| Monthly Storage Cost | 8827            | \$256.01    | \$2,259,800.27 |

**Table 3.**



**Table 4.**

In Table 4. on the preceding page, the Handling In, Handling Out and Storage costs are depicted for FY 08, FY 09, and FY 10. Again in each category, the Global POV Program costs have risen consistently, with the greatest being an astounding 132% increase in the monthly storage cost from FY 08 to FY 10. Although DOD has not established a hard cost threshold for the Global POV Contract, it is reasonable to conclude that this type of cost increase in two short years is not in the best interest of taxpayers.

## B. ASSESSMENT RESULTS

The *POV Incentive Option* is one way that the DOD can help bring these storage costs under control. (Another viable alternative is to simply send fewer service members to overseas locations, and shift to longer standard assignments within CONUS. Although viable, the option is fraught with the uncertainty since the geo-political landscape can shift quickly, and a lack of forward military presence may weaken the ability for U.S. political leaders to use military force as a deterrent).

To estimate the benefits of the *POV Incentive Option*, the following basic assumptions are necessary:

- 1) Each Military service will adopt the alternative for all eligible service members.
- 2) Previously presented data for FY 08, FY 09 and FY 10 are sufficient for an estimate.
- 2) Hypothetical "POV Option recipients" are estimated at 30% of the Storage required. (30% is a gross planning factor only and not derived from empirical data)
- 5) "Cost Per Vehicle" includes Handling In/Out and Monthly long term storage.
- 6) Average Fair Market Value for a *POV Incentive Option* vehicle is \$3000. (\$3000 is a gross planning factor only and not derived from empirical data)
- 6) Each service will continue regular overseas rotations (although the standard tour is a 3-year assignment on average, all Services have personnel rotating to and from overseas locations monthly).

| Fiscal Year   | Storage Required | Total Cost         | Cost Per Vehicle | POV Option Recipients | New Total Cost     | % Change    |
|---------------|------------------|--------------------|------------------|-----------------------|--------------------|-------------|
| FY 08         | 4202             | \$1,655,588        | \$394            | 1261                  | \$1,158,912        | -30%        |
| FY 09         | 6335             | \$2,495,990        | \$394            | 1901                  | \$1,747,193        | -30%        |
| FY 10         | 8827             | \$3,838,597        | \$435            | 2648                  | \$2,687,018        | -30%        |
| <b>TOTAL:</b> |                  | <b>\$7,990,175</b> |                  |                       | <b>\$5,593,123</b> | <b>-30%</b> |

**Table 5.**

The high level analysis in Table 5. suggests that if the *POV Incentive Option* had been available for FY 08, FY 09 and FY 10, the DOD would have realized a 30% decrease in storage costs.

Another important aspect is the cost to implement the *POV Incentive Option*, specifically in the in the areas of Counseling, Disposal, and Payment (focused on labor since it represents the greatest overhead expense).

The **Counseling** costs would arise from approximately 30 minutes of additional labor during the existing counseling process. At the installation level, counselors are typically at the Federal government General Schedule (GS) of GS-06, and earn \$16.73 an hour. Thus, for 30 minutes of additional labor, the cost is \$8.36 per service member counseled for the *POV Incentive Option*.

The **Disposal** costs would flow from two areas. The first cost is for the actual vehicle inspection at the VPC, and the second would be the transportation cost to the move a vehicle from the VPC to the nearest DLA facility. The contract employees within the VPC earn approximately \$12.00 to \$16.00 an hour, for an average of \$14.00 an hour (used in this cost estimation). A *POV Incentive Program* inspection would take approximately 30 minutes to complete. Therefore, the 30 minutes of additional labor carries a cost of \$7.00 per vehicle processed for the *POV Incentive Option*. (The transportation cost to relocate vehicles from the respective VPCs to the nearest DLA location could be incorporated into the New Global POV Contract set to execute in November of 2013).

The **Payment** costs would most likely occur as a cost per transaction for the *POV Incentive program*. Payment processing clerk positions are typically staffed at the GS-07 level and earn \$18.59 per hour. For this analysis, the assumption is that a clerk can process two transactions every hour in a standard eight-hour workday. Thus, 30 minutes of additional work for a single *POV Incentive Option* vehicle would cost \$9.30 per transaction.

Adding the respective costs together produces \$24.66 of additional expense for the *POV Incentive Program*, that must be accounted for in the Overall Cost and Overall Percent Change (\$24.66 was rounded up to \$25.00 for the calculations in Table 6). Using the same data from FY 08, FY 09, and FY 10 (specifically “Total Cost” and “New Total Cost” in Table 5.), Table 6. below reflects the Overall Cost and Overall Percent Change of the *POV Incentive Option* after estimated expenses are included:

| Fiscal Year   | POV Option Recipients | Expense per POV Incentive Vehicle | POV Option Total Expense | Overall Cost       | Overall % Change |
|---------------|-----------------------|-----------------------------------|--------------------------|--------------------|------------------|
| FY 08         | 1261                  | \$25                              | \$31,525                 | \$1,190,437        | -28%             |
| FY 09         | 1901                  | \$25                              | \$47,525                 | \$1,794,718        | -28%             |
| FY 10         | 2648                  | \$25                              | \$66,200                 | \$2,753,218        | -28%             |
| <b>TOTAL:</b> |                       |                                   | <b>\$145,250</b>         | <b>\$5,738,373</b> | <b>-28%</b>      |

**Table 6.**

After expenses, the *POV Incentive Option* still shows that a 28% cost reduction would have been attainable in FY 08, FY 09, and FY 10.

NOTE: (This analysis does not explicitly calculate the cost differential for the Fair Market Value of used vehicles against vehicle storage entitlements, nor does it consider the particular financial mechanisms that the different Military Services might use to pay members who selected the option. A more in-depth, quantitative analysis would be necessary to account for the variability in Service processes and provide greater precision in projected cost reduction).

## IX. CONCLUSIONS AND RECOMMENDATIONS

### A. IMMEDIATE IMPACT

Overall, the costs of vehicle storage and processing under the Global POV Contract have risen steadily over FY 08, FY 09 and FY 10. It is reasonable to assume, under the present economic conditions, that these costs will continue to increase. Additionally, DOD has been challenged by the current administration to produce \$178 Billion in cost savings over the next five years. This is a monumental undertaking for an organization as large, capital intensive, and distributed around the world as DOD. It may even take the elimination of a major weapon system to truly reach the expected level of reduction. Regardless, every government office has a responsibility to be a good steward of taxpayer dollars. If opportunities exist to reduce cost, streamline processes, and eliminate waste, all government entities should vigorously pursue those opportunities. The Global POV Contract presents once such opportunity for USTRANSCOM and its Army component SDDC. Along the same lines as the popular "Cash For Clunkers" program, the *POV Incentive Option* leverages existing organizational structures and requires adjustment to three key processes 1) **Counseling**--to inform members of their opportunity and educate them on all pertinent details, 2) **Disposal**--to take those vehicles that previously belonged to service members and put them up for auction or salvage, and 3) **Payment**--to provide disbursement of a member's Fair Market Value and to reallocate resources as required inside of each respective Service. The analysis in this Applied Project, using data from FY 08, FY 09, and FY 10 indicates that DOD can reduce costs by approximately 28% after expenses through the adoption of the *POV Incentive Option*.

As stated earlier, the Global POV Contract renews in November of 2013. The timing is right and there is a golden opportunity to shape the new contract to fit the requirements of the *POV Incentive Option*. In the end, the questions posed at the outset meet with favorable responses. The *POV Incentive Option* 1) is definitely feasible, 2) a high-level analysis does indicate a cost reduction 28% after expenses, and 3) there are existing organizational structures in-place across DOD than can keep the *POV Incentive Option* execution costs to a minimum.

### B. FOLLOW-ON REQUIREMENTS

The next steps to move this idea forward are as follows:

1) Coordination with USTRANSCOM Acquisition community to discuss the viability of moving forward contractually and build a timeline.

2) Coordination with DLA Disposal Services to begin draft a Memorandum of Agreement for how *POV Incentive Option* vehicles can move into their existing auction and salvage program.

3) Coordination with DFAS (Regional) to discuss the options for disbursement of Fair Market Value amounts to service members and develop a process (preferably an electronic data interchange transaction) to routinely reallocate funds that were previously set aside for vehicle storage entitlements.

## **LIST OF REFERENCES**

Defense Transportation Regulation, Part IV, Personal Property, Attachment K4,  
“Storing Your POV.”

Global POV Contract Performance Work Statement, 2011.

<http://www.move.mil/home.htm>.

<http://www.dispositionservices.dla.mil/sales/generalinfo.shtml>.

<http://www.dfas.mil/pressroom/aboutdfas.html>.

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# MILITARY SURFACE DEPLOYMENT & DISTRIBUTION COMMAND

## A COST REDUCTION ALTERNATIVE FOR THE DOD PRIVATELY OWNED VEHICLE CONTRACT

LT COL DEREK OLIVER

2 FEB 2012



Problem Option Analysis Conclusion

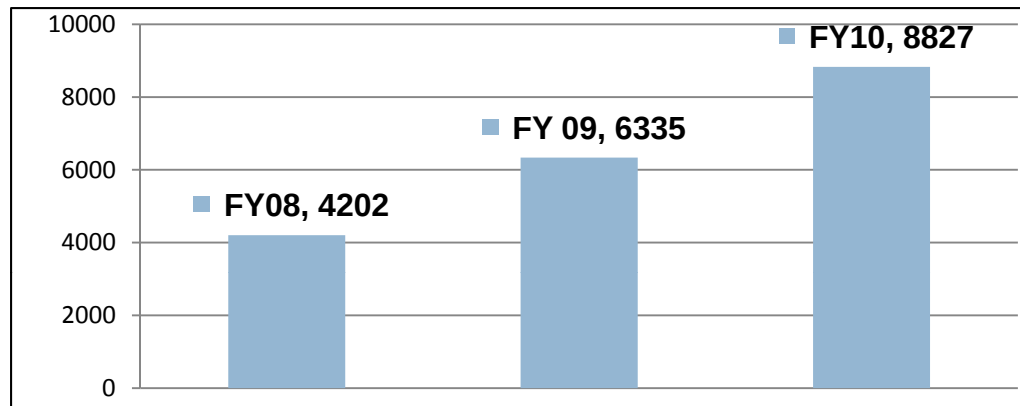




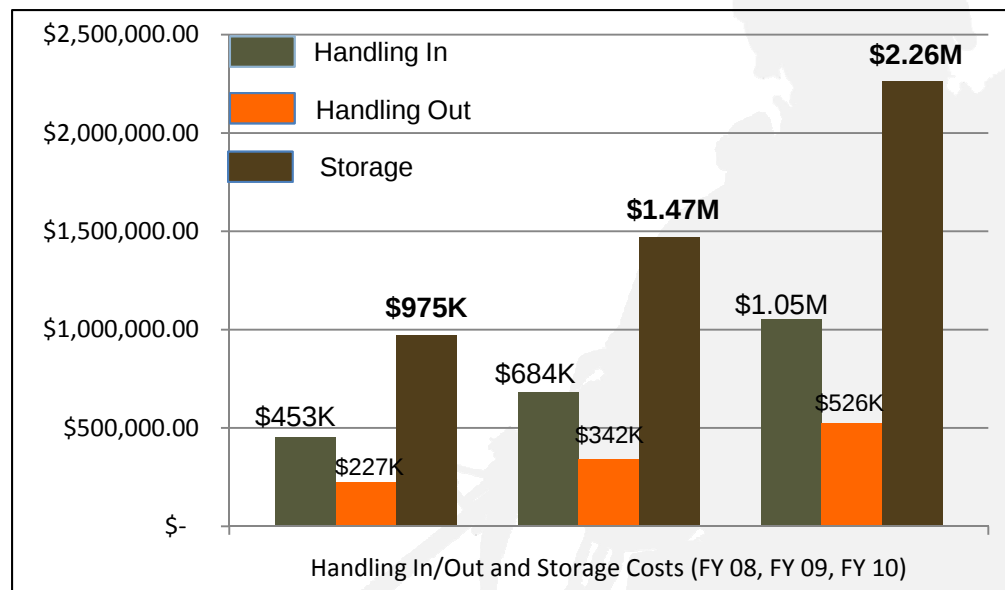
# PROBLEM



**Goal: Reduce Department of Defense vehicle storage costs**



Vehicle Storage Requirement

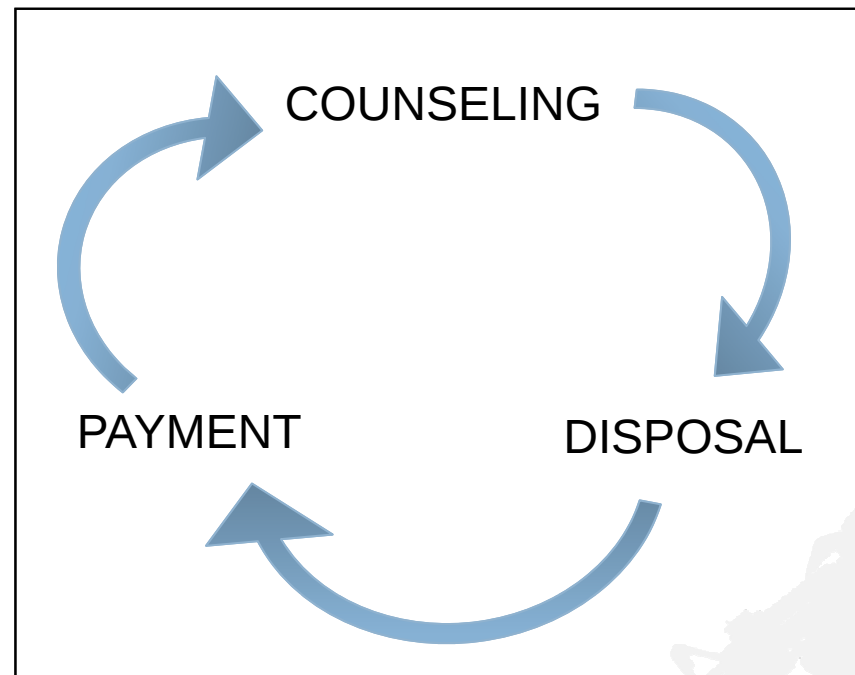




# INCENTIVE OPTION



- Defense Personal Property System **Counseling** process
- Defense Logistics Agency **Disposal** process
- Defense Finance and Account Service **Payment** process





# ASSUMPTIONS



–To estimate the potential benefits of the Incentive Option, the following basic assumptions were necessary:

- 1) Each Military Service will provide the option for their members
- 2) Historical data is sufficient for a high level analysis (fixed cost on annual vehicle storage and “then-year” dollars for FY 08, 09, 10)
- 3) Hypothetical “Incentive Option” recipients estimated at 30% (gross planning factor, not empirical)
- 4) “Cost per Vehicle” includes Handling In/Out and Monthly storage
- 5) Average Fair Market Value is estimated at \$3000 (Kelly Blue Book Online Estimator®)



# ANALYSIS



–High level analysis provided the following favorable result:

- If Incentive Option recipients = **30%** (of FY 08 - FY 10 requirement), then Total Cost reduction = **\$2.25M\***
- Total Cost reduction includes estimated implementation cost of **\$145K**

\*(Incentive Option Sensitivity Model included as backup slide contains detailed analysis)





# CONCLUSIONS



- Incentive Option is feasible / existing structures sufficient
- High level analysis supports favorable cost reduction
- Implementation details require coordination with USTRANSCOM, DLA and DFAS on key processes
- As the PM, the Surface Deployment and Distribution Command will seek approval from OSD for a 1 year “Pilot” and collect data for evaluation





# CONTACT INFO:



***Lt Col Derek Oliver***

***DCS, Personal Property***

***1 Solider Way, Scott AFB, IL 62225***

***Phone: 618-220-5964***

***Email: [derek.m.oliver2.mil@mail.com](mailto:derek.m.oliver2.mil@mail.com)***



### POV INCENTIVE OPTION SENSITIVITY MODEL

% Option recipients (variable):

| Fiscal Year     | Requirement | Total Cost      | Cost per vehicle | Option recipients | New Total Cost  | % Change |
|-----------------|-------------|-----------------|------------------|-------------------|-----------------|----------|
| 08              | 4202        | \$ 1,655,588.00 | \$ 394.00        | 1,260.60          | \$ 1,158,911.60 | -30%     |
| 09              | 6335        | \$ 2,495,990.00 | \$ 394.00        | 1,900.50          | \$ 1,747,193.00 | -30%     |
| 10              | 8827        | \$ 3,838,597.00 | \$ 434.87        | 2,648.10          | \$ 2,687,017.90 | -30%     |
| Total:          | 19,364      | \$ 7,990,175.00 |                  | 5,809             | \$ 5,593,122.50 | -30%     |
| Cost reduction: |             |                 |                  |                   | \$ 2,397,052.50 |          |

Cost per Option (variable):

| Fiscal Year           | Option Recipients | Expense per Option | Option Total Expense | Overall Cost    | Overall % change |
|-----------------------|-------------------|--------------------|----------------------|-----------------|------------------|
| 08                    | 1260.60           | \$ 25.00           | \$ 31,515.00         | \$ 1,190,426.60 | -28%             |
| 09                    | 1900.50           | \$ 25.00           | \$ 47,512.50         | \$ 1,794,705.50 | -28%             |
| 10                    | 2648.10           | \$ 25.00           | \$ 66,202.50         | \$ 2,753,220.40 | -28%             |
| Total:                | 5,809             |                    | \$ 145,230.00        | \$ 5,738,352.50 | -28%             |
| Total cost reduction: |                   |                    |                      | \$ 2,251,822.50 |                  |

Avg Fair Market Value (variable):

| Fiscal Year   | Fixed Entitlement | Cost Avoidance | Option Recipients | Total Cost Avoidance |
|---------------|-------------------|----------------|-------------------|----------------------|
| 08            | \$ 3,000.00       |                |                   |                      |
| 09            | \$ 3,000.00       |                |                   |                      |
| 10            | \$ 3,240.00       |                |                   |                      |
| 3 Year Total: | \$ 9,240.00       | \$ 6,240.00    | 5,809             | \$ 36,249,408.00     |

**Total Cost Reduction: \$2.25M    Potential Cost Avoidance: \$36.2M**