Updated December 2, 2021

Defense Primer: Defense Working Capital Funds

Since 1870, the U.S. military has operated various types of working capital funds to procure and provide materiel and commercial products and services to its forces. Codified today under Title 10, Section 2208, of the *United States Code* (U.S.C.), a defense working capital fund (DWCF) is a type of *revolving fund* that is intended to operate as a self-supporting entity to fund business-like activities of the Department of Defense (DOD) (e.g., acquiring parts and supplies, maintaining equipment, transporting personnel, conducting research and development). DWCF transactions move hundreds of billions of dollars within DOD annually.

According to the DOD Financial Management Regulation (FMR) 7000.14-R, revolving fund accounts finance a continuing cycle of business-type operations by incurring obligations and expenditures that generate receipts. These funds are designed to break even over the long term through fees charged for goods and services provided. DWCFs are broadly categorized as *intragovernmental revolving funds*—a type of revolving fund "whose receipts derive primarily from other government agencies, programs, or activities" (see 2021 Fiscal Law Deskbook). DWCFs and other types of revolving funds are widely used in DOD to support recurring requirements and to ensure the continuous delivery of goods and services such as utilities, fuels, food, clothing, and an assortment of industrial base capabilities.

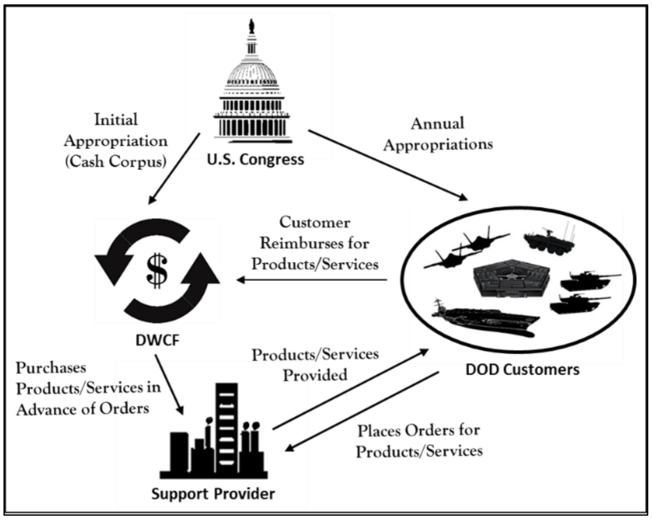
DWFCs offer certain procurement benefits and flexibilities to DOD. They generally operate without fiscal year limitations (i.e., funds in a DWCF account do not expire); facilitate the aggregation of orders, allowing DOD to leverage its purchasing power; and allow for the establishment of inventories that can reduce delivery times.

Fund Basics

When establishing a DWCF, Congress typically provides a direct appropriation to the fund. This initial appropriation and positive fund balance is called a *cash corpus*. Using the cash corpus, fund managers purchase products and services, usually in advance of an anticipated requirement (e.g., a depot overhaul of an aircraft or ship), then establish a product catalog (e.g., a parts and supplies catalog) for its customers. Fund managers then set product prices and stabilized rates for services that typically do not change until the next fiscal year.

Once a DWCF-funded organization (e.g., a depot) is open for business, the customer—normally a military unit or DOD organization (though a private party can also be a customer)—orders the product or service through a reimbursable agreement. Upon receipt of the product and/or service, the DOD customer then reimburses the DWCF with funds appropriated for that specified purpose. Private-party customers typically prepay for the products and services.

Figure 1. How a DWCF Operates



Source: CRS Graphics.

Notes: The process illustrated above is a general example of how a DWCF operates. Variations can exist (e.g., private party customers).

Rates and Budgeting

DWCFs are expected to be self-sustaining after the initial cash corpus, and this is managed through rate setting and budgeting. Fund managers typically establish rates 18-24 months in advance, locking in rates for a specified future fiscal year. Fund managers establish each rate taking into account *all costs* associated with each anticipated transaction, including the cost of the goods and services and a surcharge that includes overhead, operating costs, and any other administrative expenses.

According to the DOD FMR, DWCFs are organized by chartered *activity groups* (i.e., categories within each fund that identify the purposes, projects, or types of activities financed by the fund). In a supply-oriented activity group, a surcharge is generally added to items provided to cover management and other overhead expenses (e.g., shipping costs). For activities that are service-oriented (e.g., equipment maintenance or information technology services), fund managers establish surcharge rates based on an estimated unit cost of the service provided, plus overhead costs. In general, fund managers budget to recover all operating expenses, including

- **direct costs** (e.g., labor and materials);
- **indirect costs** (e.g., facilities operation and maintenance);
- **hardware costs** (e.g., acquisition and repair of equipment to support operations);
- **operations costs** (e.g., labor, travel, training, transportation of personnel); and
- **general and administrative costs**.

Financial Management

DWCFs may realize gains or losses within a fiscal year. At the end of each fiscal year, fund managers recoup losses by establishing higher rates in future years or, if necessary, by seeking additional appropriations from Congress. Inversely, fund managers assess gains and lower rates for customers in future fiscal years, potentially providing a benefit to DWCF customers. Regardless, DWCFs must maintain a net positive cash balance at all times to avoid Anti-Deficiency Act (P.L. 97-258, 96 Stat. 923) violations.

DOD FMR 7000.14-R directs DWCFs to operate on a "break-even" basis (revenue generated equals the cost associated with receiving the revenue). Fund managers track and report two main types of operating results: the (1) *net operating result* (NOR), which is the net difference between expenses and funds received for a single fiscal year; and the (2) *accumulated operating result* (AOR), which is the net difference between expenses and funds received since the inception of the fund. Managers normally examine AOR when establishing future rates for customers.

A Brief History of DWCFs

The modern DWCF evolved from other forms of revolving funds (e.g., stock funds, industrial funds) over the course of approximately 150 years. However, statutory authority for DOD to establish its own working capital funds was first enacted in law in the National Security Act Amendments of 1949 (P.L. 81-216, §405; now 10 U.S.C. §2208). Under this authority, the Secretary of Defense can establish as many DWCFs as necessary to support DOD operations.

In 1991, the Secretary of Defense combined five industrial funds, four stock funds, and multiple appropriated fund business activities into what was titled the *Defense Business Operations Fund* (DBOF). This consolidated revolving fund was created to streamline management and oversight responsibilities, and would become the precursor to the current DWCF structure. Major activities performed under the DBOF included depot maintenance, transportation, supply management, and finance and accounting.

By 1996, DOD recognized the difficulty in managing one large fund, including the challenge of setting suitable rates for the entire DOD. As a result, DOD disestablished the DBOF and reorganized it into four separate DWCFs: three Military Department funds and one defense-wide working capital fund (called *the DWWCF*). Since 1997, other DWCFs have been established within DOD that provide support to the entire Department, such as the Defense Commissary Agency (DeCA) DWCF, and the Defense Counterintelligence and Security Agency (DCSA) DWCF.

Military Department DWCFs

Navy Working Capital Fund (NWCF)

The Assistant Secretary of the Navy (Financial Management & Comptroller) manages the NWCF. Four broad activity groups (called "business areas") in the fund support the Navy and Marine Corps: Depot Maintenance, Research and Development, Transportation, and Supply Management.

Army Working Capital Fund (AWCF)

The Assistant Secretary of the Army (Financial Management and Comptroller) manages the AWCF. There are two activity groups in the fund: Supply Management and Industrial Operations.

Air Force Working Capital Fund (AFWCF)

The Air Force's Deputy Assistant Secretary for Budget (SAF/FMB) manages the AFWCF. There are two activity groups in the fund: Consolidated Sustainment, and Supply Management-Retail. SAF/FMB is also the Executive Agent for the United States Transportation Command (USTRANSCOM) Transportation Working Capital Fund (TWCF), however, USTRANSCOM manages the day-to-day operations of the fund.

Select Other DWCFs

The DWWCF

DOD has referred to the DWWCF as both a singular fund and as three separate funds (see Figure 7.1 in the *Fiscal Year 2021 Defense Budget Overview*). The DWWCF funds the operations of three defense agencies: the Defense Logistics Agency (DLA), the Defense Information Systems Agency (DISA), and the Defense Finance and Accounting Service (DFAS). These agencies manage a total of five activity groups within the DWWCF.

- **DLA.** The Assistant Secretary of Defense (Sustainment) has oversight of the DLA DWCF. DLA manages three activity groups: Supply Chain Management, Energy Management, and Document Services.
- **DISA.** The DOD Chief Information Officer oversees the DISA DWCF. DISA manages one activity group: Information Services.
- **DFAS.** The Under Secretary of Defense (Comptroller) oversees the DFAS DWCF. DFAS is the one activity group within the fund.

DeCA DWCF

The Under Secretary of Defense (Personnel and Readiness) has oversight of the DeCA DWCF. There are two activity groups in the DWCF: Commissary Resale Stocks and Commissary Operations.

DCSA DWCF

The Under Secretary of Defense (Intelligence) has oversight of the DCSA DWCF. DCSA manages one activity group: Background Investigation Services.

Budget Information

Budget information for DWCFs is publicly available through DOD and Service Comptroller websites. The annual budget justification books provide a financial profile of each fund over a three-year period (year of the request and two years prior). This profile generally includes an accounting of fund revenues, capital investments, cash forecasts for the budget year, and NORs and AORs (actual and projected). Justification books also describe any anticipated rate or surcharge adjustments, and provide details to support requests for direct appropriations.

G. James Herrera, Analyst in U.S. Defense Readiness and Infrastructure

Brendan W. McGarry, Analyst in U.S. Defense Budget