



Navy Public Works Center Norfolk



Public Works Center/Regional Engineer

NWCF, PWC Budget, and Rates

for

CNRMA RE

PW Transition Conference

by Tim Spreen

Business Manager, PWC/RE Norfolk

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TOPICS



- **NWCF “101”**
- **PWC Budget Formulation**
- **PWC Rates**
- **A-11 Process**
 - ✓ **Submittal**
 - ✓ **Review**
 - ✓ **Approval**
- **PWC Budget Execution**

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NWCF “101”



■ What is it?:

- ✓ **Navy Working Capital Fund (NIF-DBOF-NWCF)**
- ✓ **Revolving industrial fund – Used for programs authorized by law to conduct a cycle of business type operations. It outlays generate collections.**
- ✓ **Business-type budgeting (with no profit)**
- ✓ **Detailed cost accounting (ABM/C concept)**
- ✓ **All costs included in rates (no direct appropriation)**

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NWCF “101”



■ What is it ?:

- ✓ Provides a seller/buyer **business relationships**
- ✓ **Civilian labor set by workload, not FTE controls**
- ✓ **Clients send work requests (recurring) and project orders (specific) for services**
- ✓ **PWC provides the service/product and then bills the client.**
- ✓ **Emphasis placed on achieving your budgeted net operating result (NOR) with no variance.**

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NWCF “101”



■ What is it ?:

- ✓ **Budgeting process driven by customer requirements**
- ✓ **Budget developed for all products and services**
- ✓ **Budget includes projected costs and revenues**
- ✓ **Rate development is culmination of the budget process**
- ✓ **Stabilized Rates**

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NWCF “101”



- **NWCF Commands:**
 - ✓ **Public Works Centers**
 - ✓ **Ordnance/Weapons Stations**
 - ✓ **Supply/Material Commands**
 - ✓ **Naval Shipyards**
 - ✓ **Naval Aviation Depots**
- **DOD (DECA, DISA, DFAS)**

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NWCF “101”



■ Pros:

- ✓ Full-cost visibility (**informed management decisions with known cost consequences**)
- ✓ **Client/provider** business relationships
- ✓ Responsive **support and** local control
- ✓ **CO orders** for emergent support
- ✓ **Ability to** compare and benchmark **PWC rates with local market and similar organizations.**

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NWCF “101”



■ Pros:

- ✓ **Ability to accept project order funds at very end of the FY (>51% in-house execution)**
- ✓ **Capital investment/depreciation is built into rates (purchase authority is required from NAVFAC and ASN FM&C for capital investments)**
- ✓ **Ability to recover major project costs from annual revenues, particularly for utility system maintenance**

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NWCF “101”



■ Pros:

- ✓ Act as shock absorber for clients wrt unforeseen costs (gas prices in 01/02). Clients can budget and fund after-the-fact.
- ✓ Ability to deliver best value products and services to our clients via contract and in-house execution
- ✓ Dynamic and flexible (new rates, business lines, processes, etc.)
- ✓ System and processes promote a business acumen

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NWCF “101”



■ Pros:

- ✓ Ability to bill other non-navy customers and spread total overhead costs. Otherwise, a PWD would subsidize tenants, and pay all overhead from O&M,N Navy funds
- ✓ Detailed NWCF accounting provides ability to capture performance metrics (financial and production)
- ✓ Customer rates are established each fiscal year to recover the total cost of operations, including gains & losses from prior year operating results.

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■ Cons:

- ✓ Perceived as too costly (relative to ?)
- ✓ Poor public relations/marketing
- ✓ No outside funding source
- ✓ Rates fixed 2+ years out (crystal ball)
- ✓ PWC considered “contractor”, not Navy
- ✓ Un-funded mandates (CA studies, housing PPV, utility priv., N/MCI, HRO benefits, DFAS, etc.)

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■ Revenue

- ✓ Revenue is defined as the funds collected from billing customers for the specific products and services provided by the PWC.
- ✓ PWC’s typically meet with customers to review future year revenue projections and budget accordingly.

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■ Cost

- ✓ **Direct/Productive Costs directly support a specific product or service.**
- ✓ **Overhead (OH) or Indirect Cost consists of:**
 - **Productive Overhead** - Associated with a product or service but not directly attributable to just one product or service (i.e. a maintenance general foreman).
 - **General & Administrative (G&A)** - Typically supports all P&S. (Comptroller, IS/IT, Front Office, Mgmt/Admin, BM, CEC Officers. Total OH = 20 to 25% of total VOB.

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NWCF “101”



115 Overhead Expense Classes

- | | | |
|-----------------------------------|--------------------------------------|---|
| 21 Supervision | 62 Purch Of Office Furniture & Equip | 93 Environmental |
| 22 Other Salaries And Wages | 63 Purchase Of Shop Equip | 94 Awards |
| 31 Time Waiting Parts/Equip | 64 Equipment Rental | 95 Labor Distribution Variance |
| 32 Standby Time | 65 Depreciation | 96 Labor Acceleration Variance |
| 34 O/H Work By Prod Workers | 71 Maint & Repairs To Bldgs | 97 Station Support Costs |
| 36 Allowed Time | 72 Maint & Repair To Grounds | 98 ADP Support Costs |
| 37 Traumatic Injury | 73 Repair Office Furniture & Equip | 99 Military Labor |
| 41 Telephone Services | 74 Maint & Repair Shop Equip | 100 FECA (Workman's Comp) |
| 42 Electricity | 75 Rearranging Of Facilities | 101 DFAS Acctg Svcs |
| 43 Steam | 76 Emergency/Service Work | 103 NAVFAC Support) |
| 44 Gas | 81 Defective Work & Spoilage | 104 HRO Support (Incl. EEO Settlements) |
| 45 Water | 82 Travel/Mileage Claims | 105 TQL/ QMB Team Participation |
| 46 Sewage | 83 Training | 106 Union Business |
| 47 Other Utilities | 84 Printing & Reproduction | 107 NMCI |
| 51 Janitorial Services | 85 Unallocable Cost | 108 ABC Distribution |
| 52 Pest/Weed Control Service | 86 Safety Costs | 109 Contracted Support (A & AS) |
| 53 Use Of PWC Transport Equipment | 91 Inventory Adjustments | 110 Internal ADP Seat Cost |
| 54 Refuse & Garbage Services | 92 Excess Material & Material Losses | 111 Z140 Maintenance |
| 61 Materials And Supplies | | |

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NWCF “101”



- **A Net Operating Result (NOR):**
 - ✓ **Is the difference between revenue and cost in one FY.**
 - ✓ **There is an established NOR target for each NWCF activity.**
- **Is a key metric used to determine financial success**

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- **An Accumulated Operating Result (AOR):**
 - ✓ **Reflects the cumulative summation of net operating result (NOR) in dollars carried from FY to FY, since inception.**
 - ✓ **In a budget year, the out-year AOR target is typically set at break-even (\$0).**
 - ✓ **Rates are then established to achieve specific NOR targets that will help the command reach a \$0 AOR in the out-year.**

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NOR/AOR



	<u>Actual</u> <u>FY02</u>	<u>CON</u> <u>Budget</u> <u>FY03</u>	<u>NAV</u> <u>Budget</u> <u>FY03</u>	<u>FY03</u> <u>YTD</u> <u>7/31/03</u>	<u>NAV</u> <u>Budget</u> <u>FY04</u>	<u>NAV</u> <u>Budget</u> <u>FY05</u>
Beginning AOR	\$7.4M	\$3.7M	\$3.7M	\$3.7M	(\$12.6M)	(\$12.9M)
Net Operating Results	(\$3.7M)	(\$4.6M)	(\$16.3M)	(\$6.7M)	(\$.3M)	\$12.9M
Ending AOR	\$3.7M	(\$.9M)	(\$12.6M)	(\$3.0M)	(\$12.9M)	0

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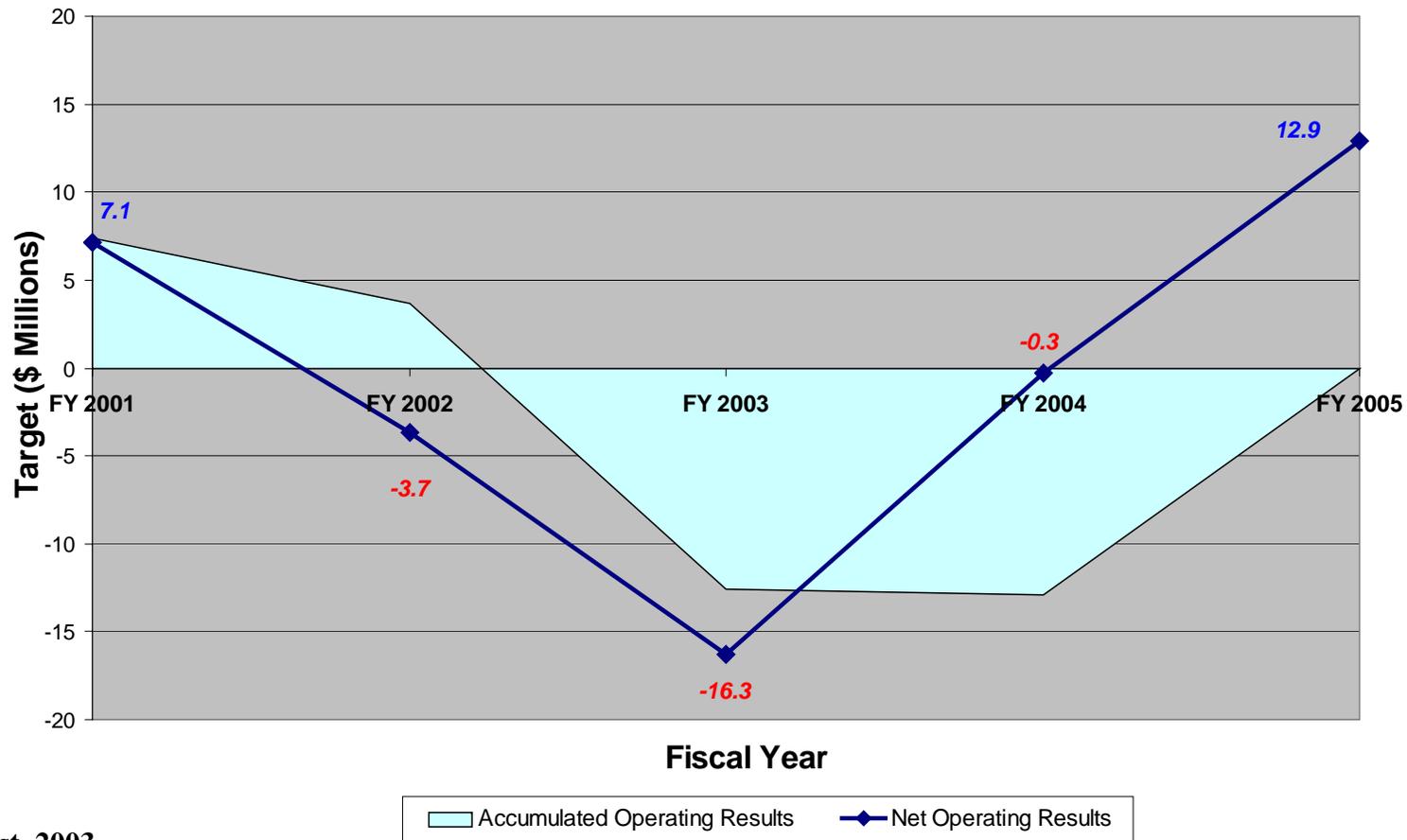


NWCF "101"

NOR/AOR



PWC NORFOLK OPERATING RESULTS (Navy Budget)



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Budget Formulation



■ Budget:

- ✓ A plan for future year expenditure of funds & collection of revenue using pre-determined rates established for separate products & services.
- ✓ *NAVCOMPT*: The budget is a plan for carrying out the organization program objectives for a specified period of time.
- ✓ The budget establishes a baseline from which we measure execution, phase, and reforecast.

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Budget Formulation



■ **Formulation:**

- ✓ **Process Managed by Board, CO, Business Mgr., - dependent on the individual PWC budget practice.**
- ✓ **Process Driven by Customer Requirements**
- ✓ **Biennial Budget Developed for Products and Services, Includes all Projected Costs and Revenues**
- ✓ **Rate Development Is Culmination of the Process**
- ✓ **Regional Commander/Claimant involved in process and approves rate submittal to NAVFAC**

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Budget Formulation



Client needs
 CA/UP/PPV
 Condition of PWC plant, facilities
 Current backlog
 Navy FMB, OSD direction
 NMCI
 Laws and Requirements
 NWCF Mandates

In-house/contract, workload(revenue)
 Product lines
 Efficiency improvements
 Investment levels
 Business and Strategic Plans
 Breakeven vs. Subsidization
 Product and Service Changes
 Organizational Changes

Direct costs
 Overhead costs
 Specific investments(I.e. M/M, CESE, CPP)
 Labor
 Fuel costs
 Purchased utilities

Change in Operations exhibit
 Unit Cost exhibit
 DONIBIS (Rev/Cost stmt; Bal Sheet; IF4; Summary Source Revenue)
 Civilian Personnel exhibits (CP2/CP23)
 IT exhibit
 Capital Procurement Program (CPP) exhibit

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PWC Rates



■ **Stabilized Rate**

- ✓ **Rates budgeted to recover all costs of services provided to the customers**
- ✓ **East Coast/West Coast Rates are established at NAVFAC based upon activity budgets.**
- ✓ **Rates are approved by FMB & OSD**
- ✓ **Once established, rates cannot be changed without OSD approval**
- ✓ **PWC Customer budgets are realigned to match proposed rates**

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PWC Rates



- **P&S Rate = estimated costs/estimated units of sales**
- **Typically, costs should not exceed expected revenue and include:**
 - ✓ **Labor (straight time and overtime) w/acceleration**
 - ✓ **Productive overhead (material & equipment, product specific overhead, labor)**
 - ✓ **Contract support, purchases, and services**
 - ✓ **Capital depreciation**
 - ✓ **Facility maintenance and repair**
 - ✓ **General and administrative overhead**

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PWC Rates



Notional Rate Development (Water)

■ **Estimated Revenue = \$2.6M (max. cost authority)**

■ **Costs:**

✓ Labor (Straight and OT)	\$1.1M
✓ Productive OH	\$0.2M
✓ Contract Support	\$0.1M
✓ Depreciation, Purchases and Services	\$0.2M
✓ Facility Maintenance and Repair	\$0.5M
✓ General and Administrative Overhead	<u>\$0.3M</u>
✓ Total	\$2.4M

■ **Estimated Units = 1,300,000 KGAL**

■ **Break-Even Rate = $2.4/1,300,000 = \$1.85/\text{KGAL}$**

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PWC Products and Services



ENG & RQMTS	MAINTENANCE	UTILITIES	TRANSPORTATION
Engineering Design & Consult			
FMS Support	Specifics	Electricity	Equipment Rental
Contract Spec. Writing	Minors	Water	DD (Refuse) Collection
Production Control	Recurring	Steam/ Thermal	Cranes/Weight Handling
Requirements Support	Emergency	Wastewater	Vehicle Maintenance
Project Development	Urgent	Gas	Vehicle Operations
	Service	Demineralized Water	Vehicle Operator Training
ENVIRONMENTAL	Pest & Rodent	Salt Water	Operator License
Laboratory Services	Ship to Shore		
Environmental Engineering			
Asbestos Removal			
Oil Spills			
Schredded Material			
Hazardous Waste			
Insulation			

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PWC Rates



■ **G&A Overhead Rate**

- ✓ **Total estimated annual G&A overhead costs typically spread over the expected direct labor for that year.**
- ✓ **Suppose G&A burden is \$21 Million and direct labor is estimated to be 3.698K Hours. The G&A rate would then be $\$21 \text{ M}/3.698\text{K} = \$5.68/\text{hour}$.**
- ✓ **Concerns:**
 - Under-executed DL will not recover costs.
 - Incur additional G&A OH Costs.

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PWC Rates



■ **Different PWC Labor Rate Structures:**

- ✓ **Standard Labor Rates - Separate rates established for straight time and overtime built with all OH at the Work Center/Trade level and then billed when the labor is provided. Two rates for “labor” P&S.**
- ✓ **Pre-Determined Product or Service Rates - Rates developed include all costs and an estimated ST/OT percentage. One rate for each product and service.**

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PWC Rates



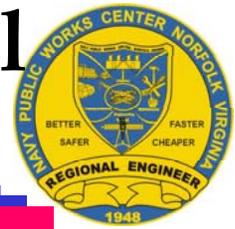
- **Distinct Geographic Rates Established for:**
 - ✓ **Hampton Roads Area**
 - ✓ **Philadelphia**
 - ✓ **Mechanicsburg**
 - ✓ **Earle**
 - ✓ **Lakehurst (New for 05 ?)**

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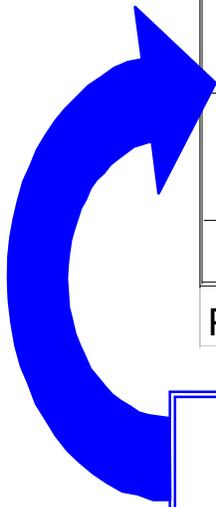
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A-11 Submittal, Review, & Approval Biennial Rate Development Schedule



<i>Budget Timeframe</i>	<i>Local Submit</i>	<i>Minor Update to Rates</i>	<i>Create Rates</i>
Oct 00 - Sep 01	April-01	02	03
Oct 01 - Sep 02	April-02	03	04, (05 Look)
Oct 02 - Sep 03	April-03	04	05
Oct 03 - Sep 04	April-04	05	06, (07 Look)
PATTERN CONTINUES SUBSEQUENT FY'S			



**Current
Cycle**

Annual Rate Approval Brief to Regional Commander and Client Major Claimant

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A-11 Submittal, Review, & Approval

A-11 Budget Exhibits



- Budget Narrative
- Change in Operations
- Rate Schedule
- Unit Cost Summary
- Civilian Personnel Exhibits
- Information Technology
- Capital Procurement Program
- Sustainment, Restoration & Modernization
- Environmental Programs
- Consulting Services (Advisory & Assistance exhibit)
- DONIBIS Exhibits
 - ✓ Balance Sheet
 - ✓ Revenue/Cost Statement
 - ✓ POL Consumption
 - ✓ Production Expenses (IF4)
 - ✓ G&A Expenses (IF5/5A)
 - ✓ Summary Sources of Revenue
 - ✓ Summary of Orders Received
- RIF/VSIP Exhibit

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A-11 Submittal, Review, & Approval



■ Budget Roles & Responsibilities:

- ✓ PWC/Field - Using guidance, responsible for: budget formulation, execution (NOR), coordination, and numerous data calls.
- ✓ NAVFAC - BSO for all PWCs. Consolidates the A-11's into two regional submittals to Navy (FMB). Liaison.
- ✓ Financial Management & Budget (FMB) - Navy Office of Budget. Ensure all Navy requirements are identified, justified, and defensible. Balance NWCF rates with client claimant O&M budget controls.
- ✓ OSD/OMB - DoD Management & Budget. Issues PBDs. Ensures all Defense budgets are consistent and justifiable.
- ✓ Congress - Review and approve the Defense Appropriation and Authorization Bill to provide legal spending authority. CRA

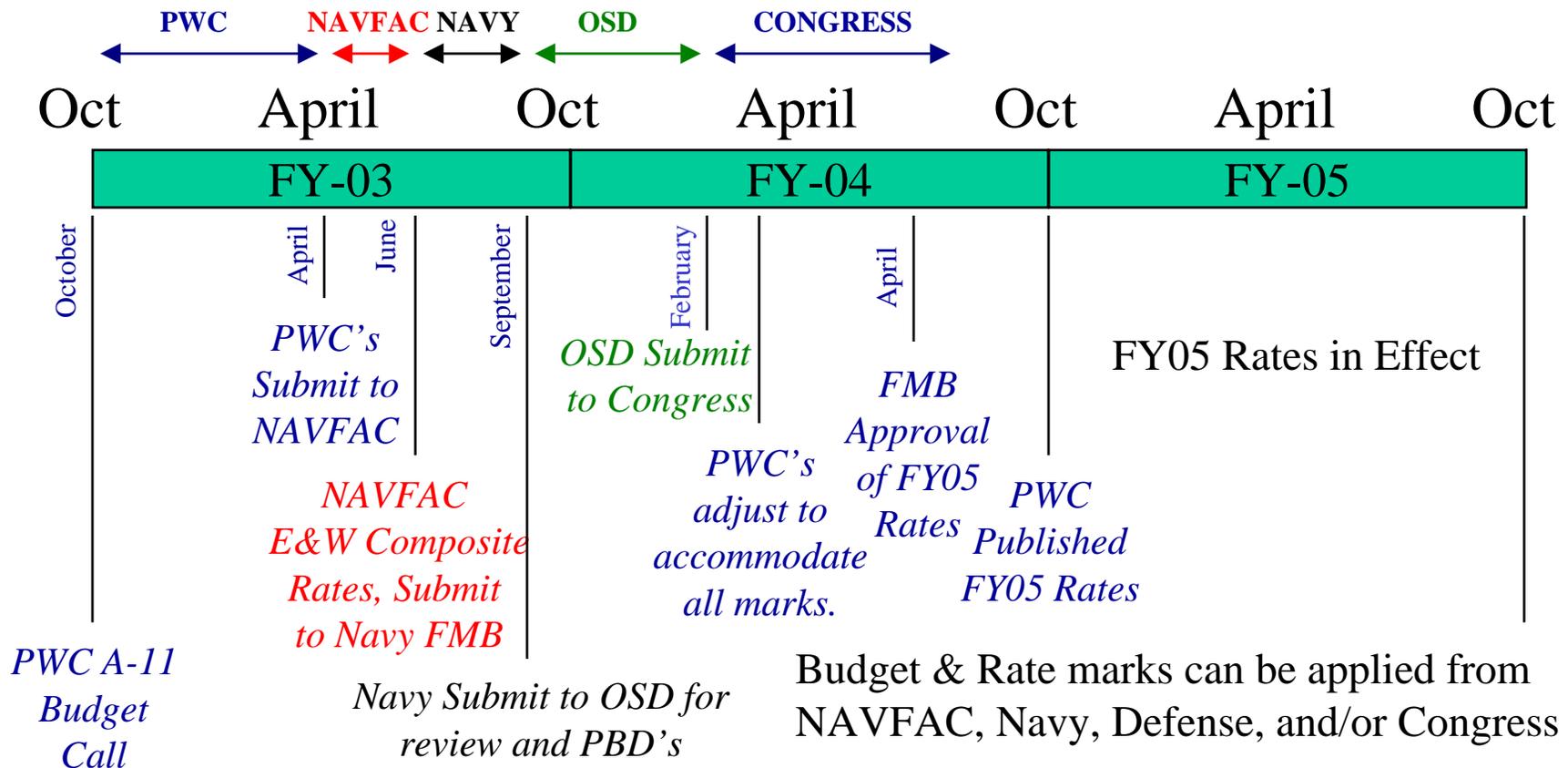
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A-11 Submittal, Review, & Approval

FY05 Rates



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Budget Execution



- **Process Managed by Command or a Board**
- **Monthly profit and loss statements are prepared for all Products and Services**
- **Execution data is compared to phased data (cost, revenue, P&L figures), decisions are made**
- **Product Owners have the ability to rephase and reforecast, if approved**
- **Year-end results define the PWC NOR**

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Budget Execution



■ Managerial Tools

- ✓ Direct Labor Hour Exhibit
- ✓ Cost Center Overhead Budget
- ✓ Products and Services Budget
- ✓ Capital Procurement Program (5 year plan)
- ✓ Major Maintenance and Repair (7 year plan)
- ✓ Information Technology Budget (5 year plan)

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PWC Metrics (18 Financial)



- Carryover
- Workload (Orders)
- Revenue
- Total Cost
- Direct Costs
- Indirect Costs
- Net Oper Results
- AOR
- Total Expenditures
- Total Collections
- Net Cash
- Unfunded Orders
- Unmatched Disbursements
- Unmatched Collections
- Undistributed Disbursements
- Direct FTE
- Indirect FTE
- Total FTE

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