Stock Funding: The Effect on Foreign Military Sales — A USAF Perspective

By

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1. What is a stock fund?

a. A stock fund is a system for financing the acquisition of inventory and holding it until required for use by various activities.

b. When a stock fund begins operation, it is provided with cash and inventories of certain commodities or items. The cash and inventories together are called the capital or corpus of the fund.

c. A distinctive feature of a stock fund is that it "revolves." The stock fund sells items to its customers and receives cash in return. Stock fund managers then use the cash to purchase additional inventory for future sale. The revolving aspect of a stock fund is designed to be self-sustaining once the cycle is set in motion.

2. What stock funds are/will be used? The use of stock funds is nothing new. Stock funds have been used for years.

a. USAF expense spares (ERRG N and P3 are managed under the System Support Division (SSD) of the Stock Fund.

b. The Defense Logistics Agency (DLA) and the General Services Administration (GSA) both use the stock fund concept to finance their operations.

c. The new stock fund that is joining the family of existing stock funds is the Reparable Support Division (RSD) of the Stock Fund. Depot level reparable items (ERRG C and T) will be managed within the RSD. [A very small percent of reparable items will not be included in the RSD; they are: munitions, reparable items, cryptologic items, classified program items, and Tanks, Racks, Adaptors, and Pylons (TRAP)].

3. Why are stock funds used? Stock funds are used because they provide a more responsive means of financial control and because they allow more flexibility in supporting requirements.

a. Each year the U. S. Congress provides money to the various services (USAF, Army, Navy) through various appropriations for aircraft, missiles, investment items, and repair of spare parts. This money is provided through appropriations which can only be obligated within the fiscal year for which they are appropriated. The stock fund, since it is a revolving fund, stands apart from the appropriations cycle. By financing items until issued, the stock fund permits the expense to be charged to an operating appropriation in the proper year and at the place where the expense is incurred.

b. Because stock fund managers can requisition inventory based on their sales, there is greater flexibility in financing the inventory levels and procurement leadtimes that are necessary to keep goods immediately available to the user.

4. How does a stock fund recoup its costs? A stock fund is a revolving fund account. It cannot make money or lose money. The price it charges to its customers must be sufficient to recoup the cost of materiel in current year dollars and the cost of stock fund operations.

a. The stock fund standard (selling) price is determined using the following formula:

	ACQUISITION COST
	+ INFLATION
CURRENT YEAR	ACQUISITION PRICE
	+ SURCHARGES
	STANDARD PRICE

b. Stock fund materiel is always maintained in the inventory at the current year acquisition cost. If an item was bought in the past year, its standard (selling) price is based on the acquisition cost. If an item was not bought in the past year, it' s standard price is based on the last acquisition cost inflated to current year dollars.

c. The cost of stock fund operations is recouped through various surcharges. The stock fund surcharges are:

(1) First Destination Transportation. This is for movement of materiel from the point of production to the first point of use or storage. For example, from a contractor's plant to an Air Logistics Center depot.

(2) Second Destination Transportation. For the FMS customer, this is the transportation from the depot to the country freight forwarder.

(3) Inventory Losses. This is for normal inventory obsolescence and warehouse losses and for product improvement efforts.

(4) Inventory Maintenance Surcharge. This surcharge is to cover stock augmentation due to increased pipeline, increased failures, stockage policy changes, and initial SSD spares. (Initial spares are those bought in support of a new system.)

(5) Inventory Control Point Surcharge. This surcharge is to pay for Air Force Logistics Command (AFLC) people who do work in support of stock fund operations.

(6) Price Stabilization Surcharge. The stock fund cannot make money or lose money. This surcharge is used to keep the stock fund in balance. For example, if the stock fund wars to lose money one year, there would be a positive price stabilization surcharge the next year to bring the stock fund back into balance. If the stock fund made money one year, there would be a negative price stabilization surcharge the next year to bring the stock fund back into balance.

(7) Condemnations. This surcharge covers the condemnation of materiel in the repair process.

(8) Drawing and Technical Data. This surcharge provides funds for Technical Order (TO) updates, printing and reverse engineering, the AFTO-22 TO Improvement Program, and engineering drawings.

5. How often are stock fund prices updated? All stock fund prices are updated once a year on 1 Oct. The prices are valid for one year. (Under unusual circumstances, individual prices may occasionally require updating during the year.)

6. Are there stock fund changes in addition to the creation of the new RSD? Yes. For the existing stock funds, the number of surcharges was expanded to include all the ones described in paragraph four above. The stock fund operating costs, previously covered by U.S. Department of Defense (DoD) appropriated funds and/or FMS surcharges, must now be recovered through the stock fund sales price. The stock fund changes were directed by the Department of Defense (DoD) and were made in order to insure full cost recovery.

7. What is the stock fund implementation schedule?

a. DLA and the U.S. Army and Navy stock funds became fully functional under the stock fund concept on 1 Oct 90. This means that their standard prices included all appropriate inflation and surcharge factors.

b. The USAF SSD prices were updated on 1 Oct 91 to include all appropriate inflation and surcharge factors.

c. The USAF RSD will become fully operational on 1 Oct 92. At that time, the standard price will include all appropriate inflation and surcharge factors. (Currently, investment items are maintained in the catalog at the last acquisition price. On 1 Oct 92 , all these old prices will be inflated to current year prices. Thereafter, the RSD prices will be updated annually. For the more commonly used items, only one or two years of inflation will be necessary for the initial price update. For items not bought in many years, the amount of inflation may be high.)

8. Will stock fund prices be shown in the catalogs?

a. The Defense Logistics Services Center (DLSC) products, such as the SNUD, will show the following prices:

(1) Standard Price. All DOD managed items, including stock fund items, will have a standard price. Serviceable items are sold at the standard price.

(2) Forecast Acquisition Cost (FAC). This is the current year acquisition price. This will be used for both SSD and RSD items.

(3) Carcass Value. This is the price at which the stock fund will buy and sell unserviceable items. This will only be used with RSD items.

b. The SAMIS catalog will show.

(1) Standard Price.

(2) FMS Repair and Replace Price. SAMIS will have in its catalog, and publish in the appropriate MRRL products, an "FMS Repair and Replace" price. This is the price at which repair and replace requisitions will be committed and billed. For stock fund items, it equals the difference between the Standard Price and the Carcass Value.

9. How will the stock fund items be billed?

a. All stock fund shipments, from a USAF depot or from a contractor, for normal requisitions (other than H-coded requisitions) will be billed the current stock fund standard price in the catalog at the time of delivery.

b. Repair and Replace (H-coded) requisitions will be billed the "Repair and Replace" price shown in the SAMIS catalog at the time of delivery.

c. Contractor shipments funded with FMS funds will be billed actual contract price.

d. There will be no change in how non-stock fund items are billed.

10. How will the stock fund affect the CLSSA program?

a. FMSO I: The FMSO I is used by the CLSSA customer to define requirements and by the inventory managers to buy stock. Since stock is bought at the current year acquisition price the FMSO I will be valued at the current year acquisition cost. A SAMIS change should be implemented by 1 Oct 92.

b. FMSO II: Sales will continue to be at the "Standard" and "Repair and Replace" prices.

11. Who will pay for transportation of FMS customer materiel under the stock fund?

a. The stock fund will pay for the movement of stock fund materiel to the country freight forwarder or other designated CONUS point.

(1) The SSD stock fund began paying for transportation to the freight forwarder approximately 1 Nov 91.

(2) The DLA stock fund began paying for transportation to the freight forwarder in Feb 92. (The methods for the funding of transportation for DLA items between 1 Oct 90 and Feb 92 is being researched. The results will be provided later.)

(3) The RSD will become operational on 1 Oct 92. At that time, the RSD stock fund will pay for transportation of materiel to the freight forwarder. Until then, RSD items are considered non-stock fund items and will be shipped on a collect basis.

b. Not all items will be stock funded. For example, support equipment, some reparable spares, ammo, and CAD/PAD items are not stock funded. Non-stock funded items will continue to move in accordance with the Delivery Term Code in the requisition.

c. The FMS country will still be responsible for over-ocean movement of their materiel. This will not be paid by the stock fund.

d. FMS spares cases to be implemented after 1 Oct 92 will be written with Delivery Term Code (DTC) 5. DTC 5 means that the U.S. is responsible for transportation to the CONUS port of exit (the freight forwarder). For existing cases, the FMS customer should use the DTC stated in the LOA.

12. How will the stock fund affect the Foreign Military Sales Excess Materiel Returns (FEMR) Program?

a. For serviceable items, the FMS customer will be credited the catalog Forecast Acquisition Cost at the time of the credit transaction.

b. For unserviceable items, the FMS customer will be credited the catalog Carcass Value at the time of the credit transaction.

13. How will the stock fund effect the LOA "Below the Line" surcharges applied to FMS deliveries?

a. Because stock fund operating costs are charged as part of the standard price, the Logistics Support Charge (3.1%), the Packing, Crating, and Handling (PC&H) (3.5%), and Inland CONUS Transportation (Generic Code LIA) charges were eliminated as of 1 Oct 90.

b. Effective 1 Oct 91, the SAAC no longer applies the surcharges for Parcel Post (LID) and Commercial Package Carrier (LIE) shipments of stock fund materiel. (see DOD 7290.3-M, Table 803-4 for an explanation of these transportation charges.)

14. NOTE: The stock funds are still under development and additional changes may occur. The information in this report is valid as of the date written. ILC/XM will provide periodic updates by message on stock fund developments. This report will be updated, if necessary. The ILC/XMXB point of contact is Charles LaVelle, DSN 757-5165.

ABOUT THE AUTHOR

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