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HEARING

ON

NATIONAL DEFENSE AUTHORIZATION ACT
FOR FISCAL YEAR 2012

AND

OVERSIGHT OF PREVIOUSLY AUTHORIZED
PROGRAMS

BEFORE THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES
ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

SUBCOMMITTEE ON MILITARY PERSONNEL HEARING

ON

MILITARY RESALE PROGRAMS OVERVIEW

HEARING HELD
FEBRUARY 10, 2011



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MILITARY RESALE PROGRAMS OVERVIEW

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
SUBCOMMITTEE ON MILITARY PERSONNEL,
Washington, DC, Thursday, February 10, 2011.

The subcommittee met, pursuant to call, at 2:05 p.m., in Room 2212, Rayburn House Office Building, Hon. Joe Wilson [chairman of the subcommittee] presiding.

OPENING STATEMENT OF HON. JOE WILSON, A REPRESENTATIVE FROM SOUTH CAROLINA, CHAIRMAN, SUBCOMMITTEE ON MILITARY PERSONNEL

Mr. WILSON. Ladies and gentlemen, I would like to welcome everyone to the second meeting of the 112th Congress of the Military Personnel Subcommittee. In particular, I am so grateful that we have our freshman Representative here, Congressman Austin Scott, and then yesterday of course he participated, and I am very grateful today that we have Congressman Mike Coffman, himself a veteran and has served in Iraq, and I am so grateful for his service. And thank you, Congressman, for being here today.

And then Congresswoman Chellie Pingree from the great State of Maine, who has family in South Carolina. So we are very grateful to have you here. And of course we couldn't meet if Congresswoman Bordallo wasn't back and to be here with Congresswoman Davis. But I would like to thank everyone for being here today.

And today the Subcommittee on Military Personnel will conduct its second hearing on nonappropriated fund activities and will turn its attention to commissaries and exchanges, the Department of Defense's [DOD] military resale operations.

And even as we begin, I want to indicate that I was really hopeful that the votes that we will have today would have been prior to the beginning of this hearing, but they could be any moment. And then if we appear startled and run out the door, it is because we are trying to live within the time frame of the vote. But the good news it won't be that extended and so then we shall return, and you can even figure out when we are coming back now, which is a novelty.

I believe that the commissaries and exchanges are an essential part of the health of the military community in combat capability, as morale, welfare, and recreation [MWR] programs that this subcommittee examined during yesterday's hearing. Similarly, we also expect the exchange and commissary systems to pursue efficiency during this era of increased budget austerity, because we want these operations to provide the best service and value to the service members and their families.

However, it must be recognized that the exchanges are not big consumers of appropriated dollars and calls for the exchanges to save appropriated dollars should be answered with factual justifications. There are analysts who are calling for more reductions in appropriated funding from the commissary system or have questioned the need for the military to operate the commissaries at all.

I believe that the Defense Commissary Agency is a model of efficiency in our government with a budget that is less than what it was 10 years ago when inflation is considered. Service member surveys consistently rate it as one of the most highly valued benefits offered by the military that delivers over 30 percent in grocery savings to families, service members, and veterans.

I believe if the Defense Commissary Agency were eliminated that we would have to invent another benefit of equal impact on retention and the chances are it would not be as effective or as efficient.

In addition to learning more about the value of the exchanges and commissaries and the need to prove they are factually justified, the resale community has other challenges that we also hope to learn more about today.

We intend to explore continuing concerns about, first, the adequacy of funding for recapitalization; second, renewed interest in pursuing exchange consolidation; and third, the negative impact on vendors of the 3 percent tax withholding imposed by the Tax Increase Prevention and Reconciliation Act of 2005.

Representative Davis, do you have any opening remarks?

[The prepared statement of Mr. Wilson can be found in the Appendix on page 29.]

STATEMENT OF HON. SUSAN A. DAVIS, A REPRESENTATIVE FROM CALIFORNIA, RANKING MEMBER, SUBCOMMITTEE ON MILITARY PERSONNEL

Mrs. DAVIS. Thank you, Mr. Chairman, and I am delighted to be with you again today, and I want to welcome our witnesses here as well. We know that Mr. Gordon and Mr. Larsen joined us yesterday, and thank you for being here once again. We appreciate your willingness to do that, to come back a second day. And General Casella, and Admiral Robillard, and Mr. Jeu, Mr. Nixon, and Mr. Gordy, welcome to you as well.

Yesterday, as the chairman noticed, we mentioned we focused on morale, welfare, and recreation programs, and today we will look at the military resale community.

In thinking about our hearing yesterday, we talked about military resale in the context of the support programs that are provided to our men and women and their families in uniform. And we talked about how important, how critical those were for a variety of reasons, and I think that that was outlined really quite well in that hearing. So we share concern that the future of commissaries and exchanges may be being discussed in some significant way and some changes, and we want to be part of that conversation of course, but we also have to state very strongly how important the nonappropriated funding [NAF] that goes to our support services is.

Over the past several years the commissary and exchanges have faced a number of significant challenges and you have all been

aware of them, including the transformation of services, the personnel drawdowns, base closure and realignments, and force structure changes and movements. And sometimes we overlook those decisions about those functions really can impact our men and women in a large variety of ways and certainly impact our commissaries and exchanges as well. So we want to be very mindful of that as we move forward.

Our military personnel and their families as well as our MWR programs have relied on the accomplishments of the commissary and exchanges. So we appreciate your leadership and your partnership with our private sector partners to ensure that we provide the best programs and the best products for our men and women in uniform.

Thank you for supporting our service members. I know when I have had a chance over the last few years to address your organization I know how dedicated people are to being certain that our men and women are well cared for, and I appreciate that very much.

So with you, Mr. Chairman, I look forward to the hearing and look forward to the remarks of our witnesses. Thank you.

[The prepared statement of Mrs. Davis can be found in the Appendix on page 30.]

Mr. WILSON. Thank you very much. And we are grateful to have an excellent panel of witnesses today. Mr. Robert L. Gordon, the Deputy Assistant Secretary of Defense, Military Community and Family Policy Office of the Under Secretary of Defense for Personnel Readiness.

Major General Bruce A. Casella, USAR, Commander of the Army and Air Force Exchange Service. And General, the subcommittee is sadly aware of the recent passing of your wife Cathie. And on behalf of the subcommittee members and staff please accept our heartfelt condolences on your loss.

We are grateful to have Rear Admiral (Select) Glenn C. Robillard, U.S. Navy, Commander, Navy Exchange Service Command [NEXCOM]. And I appreciate last week the opportunity of touring the command and seeing the first class professionals who work there.

Mr. Joseph Jeu, the Director and Chief Executive Officer, the Defense Commissary Agency.

Mr. Timothy R. Larsen, Director, Personal and Family Readiness Division, Manpower and Reserve Affairs Department, Headquarters, United States Marine Corps.

Mr. Patrick B. Nixon, President of the American Logistics Association.

And also Mr. Thomas T. Gordy, who is the President of the Armed Forces Marketing Council. And we welcome Tom back to Capitol Hill. He had a distinguished record of service here on Capitol Hill, and then I personally was very grateful for his Navy Reserve service in Iraq. And he was my host when I was there and made sure that we got to meet as many troops as possible and thank them for their service, and we thank you for your service in Iraq.

As was the case yesterday, many of our witnesses are appearing before the subcommittee for the first time. General Casella, Admi-

ral Robillard, Mr. Jeu, Mr. Gordy. Welcome. Mr. Nixon, you have testified before the subcommittee many times in the past but not in your current role at the American Logistics Association, and again you were previously director of the Defense Commissary Agency. And as we hear good things about that, we give you a lot of credit.

I want to welcome to the hearing at some time the gentleman from California, Congressman Wally Herger, to the hearing. Mr. Herger has asked to participate in the hearing, and I would ask unanimous consent that he be permitted to do so following the members of the subcommittee.

Without objection, so ordered.

And so we will begin right away with Mr. Robert L. Gordon.

STATEMENT OF ROBERT L. GORDON III, DEPUTY ASSISTANT SECRETARY OF DEFENSE, MILITARY COMMUNITY AND FAMILY POLICY, OFFICE OF UNDER SECRETARY OF DEFENSE FOR PERSONNEL AND READINESS

Mr. GORDON. Thank you, Chairman Wilson and members of the subcommittee. I am delighted to testify before you again today. As with MWR, I am grateful for this committee's support for the Department's resale activities. Our industry partners here today also play a key role in preserving the valuable exchange and commissary benefit.

As the Exchange and DeCA [Defense Commissary Agency] commanders will tell you, the state of military resale is healthy. Through cooperative and independent efforts we are improving the availability of services and lowering out-of-pocket expenses for service members and taxpayers. Customer satisfaction and customer savings are also healthy. In addition to internal customer satisfaction surveys, external surveys are conducted by the American Customer Satisfaction Index, or ACSI. DeCA's 2010 score of 80 exceeded the ACSI commercial supermarket industry average of 75.

Commissary savings on patrons' overall purchases is 31.5 percent. Exchange savings average 26 to 28 percent with tax savings. The 2010 Exchange ACSI scores finished at or slightly below the department and discount store industry average of 76, with Marine Corps Exchange [MCX] at 75, Navy Exchange Service Command at 75, and Army and Air Force Exchange Service at 73. Each of the exchange services also conduct internal surveys to evaluate and improve customer satisfaction.

The Department of Defense leadership is fully engaged in the oversight of these important benefits. The Executive Resale Board, with many of its members also serving on the DeCA and Exchange boards is taking an active role to ensure complimentary approaches where there are mutual interests.

My written testimony outlines our ongoing work in greater detail. I look forward to working with this committee, and I thank you for your support and look forward to your questions.

[The prepared statement of Mr. Gordon can be found in the Appendix on page 32.]

Mr. WILSON. Thank you very much.
General Casella.

**STATEMENT OF MG BRUCE A. CASELLA, USAR, COMMANDER,
ARMY AND AIR FORCE EXCHANGE SERVICE**

General CASELLA. Mr. Chairman, members of the subcommittee, I want to thank you for this opportunity to testify today. I am eager to share with you how the Army and Air Force Exchange Service [AAFES] is providing the exchange benefit to members of the armed services and their families. First, I would like to express my sincere gratitude for your commitment and our dedication to protecting and enhancing this important benefit. I would also be remiss if I did not thank the committee staff for their professionalism and counsel. It is a credit this committee.

I am here today to report to you that AAFES, Army and Air Force Exchange Service, continues to succeed in a challenging economy. As part of our strategic plan we have focused on customer service, business and process efficiencies, and investing in capital improvements. Despite the recession we were able to generate over \$8 billion in 2009 sales, and increased sales by 1 percent over plan for 2010, coupled with over \$260 million of dividends returned to our MWR programs for 2009 and 2010.

What I am most proud of is the 4,500 volunteer AAFES associates who have deployed in Southwest Asia since early 2000. Today we have an average of 400 associates deployed in Southwest Asia who provide a touch of home to our service members in harm's way. I am also proud of the support we provide the military community to new facilities. In Germany, Kaiserslautern Military Community Center opened in late 2009 and achieved more than a \$1.2 million in sales on opening day. In Japan, Kadena Air Force Base main store became our largest exchange in the Pacific. At Fort Bliss, Texas, the 52 acre recently opened Freedom Crossing lifestyle center, it supports over 120,000 soldiers, families, and local retirees.

With these and other efforts discussed in the testimony I have provided for the record, I believe AAFES is on the right course to maintain a viable force in the lives of our customers and the military community we serve.

Again, I want to thank this committee for its support of AAFES and the entire military resale community as a whole, and most importantly the brave men and women of our Armed Forces we support. And I look forward to your questions.

[The prepared statement of General Casella can be found in the Appendix on page 59.]

Mr. WILSON. Thank you very much. And it is interesting to me as we serve on the committee to find out that shopping centers have been superseded by lifestyle centers, but that is really reflecting serving our families.

Admiral Robillard.

**STATEMENT OF RADM (SELECT) GLENN C. ROBILLARD, USN,
COMMANDER, NAVY EXCHANGE SERVICE COMMAND**

Admiral ROBILLARD. Chairman Wilson, Ranking Member Davis, distinguished members of panel, thank you for the opportunity to appear before you today. It is my privilege to represent Navy Exchange Service Command and our 14,000 associates worldwide.

Navy is committed to military and family readiness, and the Navy exchange programs are an important part of that commitment. Everything we do is focused on our sailors and their families. It starts with employing family members. Twenty-six percent of our associates are military family members. And we listen to our family members. Through surveys and focus groups we have learned what is important to them. We interact through social media, including Facebook and Twitter. We have also developed customer segmentation to focus on the differences of our shoppers, allowing us to target merchandise assortments at each location.

Our military families see the Navy exchanges as more than just a store. It is a place where they go for that sense of military community, particularly for those families whose sailor is deployed or those families serving overseas. We provide the services they need, whether it is affordable lodging when they transfer, telecommunications to keep in touch when deployed, ship stores when they are at sea, barbershops, gas stations, dry cleaning, and much more.

I would like to take this opportunity to thank our industry partners who help us provide not only value and savings to our families, but they support the many events that let the family know how special they are. I would also like to thank the other members of the military resale community here today. We are committed to working together to improving the military family's quality of life.

In closing, I would like to say how proud I am of the Navy sailors who serve our country around the world every day. I am also proud of our Navy exchange team who is dedicated to taking care of sailors. Together with our industry and government partners and the support of this subcommittee, we are able to do more for the deserving families. On our sailors' behalf, I thank you.

[The prepared statement of Admiral Robillard can be found in the Appendix on page 79.]

Mr. WILSON. Admiral, thank you. We have been joined by Congressman Brady, thank you for being here, from the Commonwealth of Pennsylvania.

Mr. BRADY. Thank you.

Mr. WILSON. Mr. JEU.

**STATEMENT OF JOSEPH H. JEU, DIRECTOR AND CHIEF
EXECUTIVE OFFICER, DEFENSE COMMISSARY AGENCY**

Mr. JEU. Mr. Chairman and members of the subcommittee, it is my distinct honor to have been chosen to serve military families and who continue to rate the commissary as one of their most valued benefits. I would like to talk about the value of commissary benefit.

Too frequently we have limited our definition to patron savings, currently 31.5 percent. While savings are at the heart of the benefit, there are many other factors that define as real value. There are three facets that comprise the commissary benefit—quality of life, military readiness, and cost avoidance. The quality of life is most definitely measured by the patron savings, which can generate \$4,400 annually for a family of four, which system-wide totaled \$2.69 billion last year.

Additionally, there are ancillary benefits provided by our industry. They contributed \$244 million last year to military scholar-

ships, commissary specific coupons and promotions, and installation support programs.

I am pleased that 63 percent of DeCA's workforce is from our military family.

The readiness facet allows our service members to concentrate on their mission rather than wondering about the well-being of their families.

The cost avoidance facet describes what the Department saves in other areas such as reduced cost of living allowance, or COLA rates, better shipping rates for overseas transportation. These factors combined provide exceptional value and added to the Nation's return on investment from the commissary system.

In closing, I want to thank you for your steadfast support of our military members and their families and the Defense Commissary Agency. Thank you, sir.

[The prepared statement of Mr. Jeu can be found in the Appendix on page 93.]

Mr. WILSON. Thank you very much. And Mr. Timothy R. Larsen.

STATEMENT OF TIMOTHY R. LARSEN, DIRECTOR, PERSONAL AND FAMILY READINESS DIVISION, MANPOWER AND RESERVE AFFAIRS DEPARTMENT, HEADQUARTERS, U.S. MARINE CORPS

Mr. LARSEN. Chairman Wilson, Ranking Member Davis, distinguished members of the subcommittee, thank you once again for the opportunity to represent the Marine Corps and provide a report on Marine Corps Exchange and Retail Programs. I thank the Congress, especially this subcommittee, for your continued support.

During 2009, we experienced one of the toughest retail economic climates in recent history, yet we exceeded all established performance measures. We are completing system-wide initiatives that began about 5 years ago to centralize buying, recapitalize our stores, and implement branding standards.

As part of our daily operations we constantly pursue program efficiencies through cooperative efforts and partnerships with our sister services. We will be focused on improving our supply chain and management over the next several years.

Without question, the Marine Corps Exchange is linked to our mission of taking care of Marines and families. Our operational success is measured on the program's value and contribution to readiness and retention and our ability to provide a high quality customer service, premier facilities, and value goods and services at a savings.

On behalf of Marines and families, I thank you for your oversight and continued support of these critical pieces of the military and family community support system. I look forward to your questions. Thank you.

[The prepared statement of Mr. Larsen can be found in the Appendix on page 107.]

Mr. WILSON. Thank you very much. And Mr. Patrick B. Nixon.

**STATEMENT OF PATRICK B. NIXON, PRESIDENT, AMERICAN
LOGISTICS ASSOCIATION**

Mr. NIXON. Thank you, Mr. Chairman. It is once again an honor to appear before this subcommittee representing the members and board of directors of the American Logistics Association. I want to take this opportunity to recognize the leadership of the chairman and the distinguished ranking member over the course of the last several years, in particular your support for these vital benefits we will discuss today.

We have outlined our legislative agenda and issues in the prepared statement provided to the committee. Major issues where we seek the committee's support are: Full funding of commissaries, exchanges, and MWR programs on quality of life and retention and readiness grounds; relief from the 3 percent withholding requirements of section 511 of the Tax Increase Prevention and Reconciliation Act of 2005 in the form of full repeal or exemption of MWR and resale programs when it affects prices to our men and women in uniform and their families; and finally a secure, affordable and expedient method of providing access to installations and facilities for industry personnel.

I look forward to our discussions and I return the remainder of my time for Mr. Gordy.

[The prepared statement of Mr. Nixon can be found in the Appendix on page 124.]

Mr. WILSON. My goodness.

Mr. GORDY. I will take it.

Mr. WILSON. This is startling.

Mr. Thomas T. Gordy.

**STATEMENT OF THOMAS T. GORDY, PRESIDENT, ARMED
FORCES MARKETING COUNCIL**

Mr. GORDY. Good afternoon, Chairman Wilson. Thank you for your kind comments earlier. It was certainly a pleasure to host you over in Iraq as well as Mr. Coffman when you came over and Ms. Bordallo when you came over, especially with the troops from Guam, and we had a wonderful meal, didn't we, ma'am?

Ms. BORDALLO. Yes, we did.

Mr. GORDY. Thank you for inviting me to be with you today to offer comments on behalf of the Armed Forces Marketing Council regarding the military resale services and the vital role they serve in supporting the quality of life of service members and their families.

As we begin the hearing today there are a few facts that I believe should we noted first and kept in mind throughout our discussion. DeCA continues to receive clean audit opinions, demonstrating responsible stewardship of taxpayer dollars. All systems continue to maintain or improve their customer satisfaction index scores, showing that they are more in step with customer needs. All systems continue to provide double digit savings for military families. The exchanges continue to post strong dividends in support of military quality of life programs. All systems continue to recapitalize their stores and modernize their systems, seeking to always provide military families with a quality shopping environment and experience while driving efficiencies whenever and wherever possible.

The military resale systems also provide expeditionary support to the warfighter, particularly AAFES and MCX which supports the needs of our warfighters on the front lines in Iraq and Afghanistan, while NEXCOM supports our service members in places like Guantanamo Bay and Djibouti. And all rapidly deployed to support troops mobilized to respond to natural disasters such as the devastating earthquake that struck Haiti last year. The civilian employees of the exchanges who deploy in support of contingencies are to be commended for their commitment and dedication to serve our warfighters in these difficult environments.

As our economy has struggled to regain momentum, we have seen the value of food stamp usage among commissary patrons triple since 2007. Thus, the benefit is as important as ever in supporting the financial readiness and the health and well-being of our service members and their families.

The view of the Armed Forces Marketing Council is that the military resale benefit continues to work well. It is honest, it is efficient, and it is responsive. Its success derives from the unfailing commitment that the systems have made to the customer service, patron savings and to continued process improvements and efficiencies to keep costs and thus prices low.

However, as we look to the future there are policies, practices and proposals that we believe warrant Congress's attention and action in order to prevent them from adversely impacting the resale benefit.

And I will look forward to answering your questions regarding these and other issues. Thank you.

[The prepared statement of Mr. Gordy can be found in the Appendix on page 151.]

Mr. WILSON. Thank you very much. It is anticipated that we will have three votes, one 15, two 5-minute, between 2:30 and 2:45, but we will proceed. But we will recess and proceed quickly and come back.

At this time, again I would like to thank all of you for being here today, and for Mr. Gordon a question I have, we all understand more than ever base security is more important than ever and the vulnerability of our bases. The Department of Defense does not operate a uniform process for acquiring base access credentials for employees of the companies that deliver goods and services to the network of exchanges and commissions. What is your perspective of government and private sector efforts to provide vendors and brokers base access cards, and what is the status of the Department of Defense's efforts to address this problem?

Mr. GORDON. Thank you, Mr. Chairman. We did meet recently, a month ago, about this very issue. It is very important of course just in terms of both efficiency and effectiveness to determine ways that we get our vendors on our posts and bases across the world. And it is an issue because of course it bumps up against the security requirements for our installations within the wake of a new era where we have to pay attention to security in much more important and measured ways. But we are committed to finding an alternative and a solution. It is not just about the Department of Defense, though. This is a whole of government approach, whether we are talking about our other agencies in terms of access to our

facilities and our installations. Yet at the same time we are committed to finding a solution. We met recently about it. We are looking at ways where we can bring together both the commercial sector and our partners and our department and a whole of government approach to making sure that vendors have some sort of identification that they can get onto our facilities. So we will continue to work it, and I would love to keep you up to date on it.

Mr. WILSON. Well, that is so important. In fact, Mr. Nixon and Mr. Gordy actually brought it up. And both of you, Mr. Nixon and Mr. Gordy, can you tell us about the secure vendor identification system that has already been developed by the private sector but hadn't been adopted, sadly, by DOD?

Mr. NIXON. Yes. Mr. Chairman, first of all I would like to compliment Secretary Gordon for his transparency on this issue. He has met with us as well as meeting with the Armed Forces Marketing Council and Coalition of Military Distributors to discuss this issue and have a better understanding of the impact on industry.

We have been working this issue for 6 years now, and it seems like it is one step forward and two steps backwards. We have worked closely with the Department on a federated solution that was actually initiated by the Department, and while that appears to meet all the requirements of HSPD-12, which is a controlling directive, the Department didn't recognize it as a solution. In fact there are some folks within the Department said a federated solution is not what they are looking for.

An alternative, we have a company who is a member of the association, Eid Passport, has developed a system called RAPIDgate that has been adopted by the Navy and the continental United States for access to vendors. In a meeting with the Department they told us that RAPIDgate did not comply with the purported solution as well. So it appeared we ended up somehow stuck between the Department arm wrestling with itself on what is between the policy and the practices of what the right answer is going to be.

In our written testimony is a little more gloom and doom than I think actuality now. February 3rd, the White House has issued a directive that all Federal agencies will comply with HSPD-12 this year, and our goal is a single solution that industry can use for all activities, and this appears to be what we are looking for.

Now, there is a deadline of a date in March when the policies and procedures for each agency must be submitted to the OMB [Office of Management and Budget] and be certified that they are going to comply. If not, it is OMB's intention to withhold funding from agencies that do not comply with it. So we are going to go to both of our credential providers, have them certify that they meet these criteria, send that certification to the Department, make sure it is validated. And if this is in fact implemented as the White House says, then we expect a solution to take place this year.

Mr. WILSON. Thank you. And Mr. Gordy.

Mr. GORDY. First of all, I just want to commend Mr. Nixon. He has been really the champion on this issue for the industry and he has been our subject matter expert. And I really don't have anything to add to what he said other than from the Armed Forces Marketing Council's perspective, what we are concerned about is the interoperability of systems. As Mr. Nixon pointed out there,

having one system would work best, but if the Army brings on one system, the Navy brings on another, and the other services yet go to different agencies or have different systems, it could mean that a vendor, one of the employees of the vendors, has to have four different CAC [common access] cards in order to access the different bases. That could lead to potential fraud. It also is very expensive. In order to get one of those cards then would you have to have a background check for each one of those cards. So this becomes very expensive for the vendor community, and we would hope that whatever systems are adopted that they are interoperable so that the vendor could have one card that would work at each base regardless of which service operates that base.

Mr. WILSON. Well, thank you all. And thank you, Mr. Gordon, for helping to spearhead. Ms. Davis.

Mrs. DAVIS. Thank you. Thank you, Mr. Chairman and again for all of you being here.

We addressed this a little bit I think yesterday just in talking about some concerns that we might have about the exchange and commissary systems throughout our bases and our communities. I wonder, Mr. Gordon, if you could address for us whether there are any rumors, particularly as they would address the consolidation of the exchange consolidation, that would be helpful for people to hear. We know that there were several years there between I think 2000 and 2006 where that was a major area of discussion, and I was wondering if we have a chance to examine that today.

Mr. GORDON. Thanks very much. I am not aware of any at this point discussions in terms of considering a study once again to consolidate our exchanges. You know, as we all know, this has been studied many times, about six times, in the past 42 years. What I am really excited about is the kind of efficiencies first of all that the leaders have found working together really in partnership because our services are different. They are the same but different. They are the same in terms of defending this country, but they have different slices of that sort of defense. So if you take the demographics of our services, they cater to those sorts of demographics.

It is interesting, I think, when you visit the headquarters of our various resale activities how they have been very thoughtful about the demographics and how they outreach basically to their communities to provide the best benefit, but also the best value.

I just want to note what Mr. Jeu said about the \$244 million that our commercial partners offer in terms of corporate social responsibility, you know, from scholarships to coupons. That sort of innovation I believe occurs because we have got different sorts of exchanges who participate with collaborative programs, and we have done that, who think very innovatively about how to outreach to their communities. So the good news story is you continue to see both the benefit and value go up with this system that we currently have, and the kinds of innovation and creatively can continue to occur with the kind of system we have.

Mrs. DAVIS. Thank you. Mr. Nixon or Mr. Gordy, would you care to comments on that at all?

Mr. NIXON. I would just mirror the Secretary's comments that this has been studied. If you were to look at the numerous effi-

ciencies that have been garnered by the exchanges' cooperations to date, clearly they have partnered in many initiatives, supply chain efficiencies, and I think to undertake another study would be throwing good money after bad. It has been looked at and it just doesn't work.

Mr. GORDY. Exactly. I mean I showed Mr. Wilson last week a stack of studies that were this tall of all the studies that have been done on exchange consolidation. And we know about the \$17 million that have gone behind this. Millions and millions of dollars that have studied this and to go, you know, to any discussion that could be put forward. And we are thankful that it is not coming from the Department, but we are hearing it more from outside the Department where people think that this is a solution, but yet it is one of those items that it sounds good, it looks wonderful on a PowerPoint presentation, it briefs well, but when you start doing the studies and the analysis you realize it does not deliver the efficiencies or the savings that they promise.

Mrs. DAVIS. I wonder if General Casella, or Admiral Robillard, or Mr. Larsen, what immediate challenges do you see facing the exchange system as we look at that today, aside from the fact that we are not perhaps looking at the consolidation, but what challenges do you see?

General CASELLA. Great question. I think from our perspective at AAFES some of the challenges that we see today is probably trying to keep pace and be in a very competitive mode with our counterparts on the commercial side of the house.

Today we are really getting into social media and to try to work that. We are working our dot.com sites. The paradigms in our community have changed over the years. We used to have 70 percent of our folks living on base and 30 percent off base. And now that has flipped. So there is only 30 percent living on base and 70 percent living off base. And then a lot of those Guard, Reserve, and retirees are in the community not even near a local base or garrison out there to receive those benefits.

So one of our challenges is how do we tap those and let them tap into this benefit resource and take care for their families and save money.

A couple of things that are a challenge for us is where we have enhanced our dot.com sites to allow them to shop online and get the same savings with free shipping for certain costs you pay for certain goods. It is an excellent approach. It allows us to tap into a whole host of commodities.

Our biggest store has 250,000 unique items in it, if you went to a store. Online we have 18 million. So if you do the math, you find out that if you want to tap into all the products and resources out there, you want to touch your community on the dot.com side.

We are also getting into innovations too with smartphones. A lot of folks now are doing consumer shopping and comparison shopping with their smartphones. And we are developing that technology along with the other folks on the panel here to help leverage that to provide our families and our warfighters out there with those opportunities. So that is a challenge for us.

I think another challenge for us is the Army is in huge transformation. The Air Force on our side of the house is fairly stable,

but the Army is in huge transformation. We have large numbers of brigade combat teams consisting of 4,000 or more folks each and large shuffling going on with BRAC [base realignment and closure] moves, transformation, et cetera. With that comes a lot of movement, change, construction, a lot of effort that we have to be focused on. We are, we have a great plan for that, but it is a lot of big muscle movements for us.

And I think, thirdly, for us is probably the OND [Operation New Dawn], OEF [Operation Enduring Freedom] support that we do overseas. We have got a great handle on that, a great process, and we are trying to work that transformation as well in terms of downsizing in OND and taking care of the requirements in Afghanistan.

Mrs. DAVIS. Thank you.

Mr. WILSON. Thank you very much and we have been joined by Congresswoman Hartzler of Missouri and Congressman Rooney of Florida.

Our next question would be from Congressman Mike Coffman of Colorado.

Mr. COFFMAN. Thank you, Mr. Chairman. I am not sure who would answer this question, but I believe that in South Korea where we currently have 28,500 military personnel and that now there is a movement afoot to take that from an unaccompanied tour to an accompanied tour, and to bring the dependents forward, and that we have to develop the infrastructure for that.

Do you have any idea of what the costs will be relative to developing the exchange and commissary capability there to support those dependents? And where would that money come from?

General CASELLA. Well, Congressman, now I guess my challenge is—I am not sure I have the exact figures for you for the cost data, but I will tell you that we are working in consolidation with the folks here on the panel to come up with a consolidated solutions at Camp Humphreys. Camp Humphreys actually is the center of gravity for the transformation off the DMZ [demilitarized zone]. And we figure about 40 percent of our population will be collocated at Humphreys once that installation is complete.

One of the things the Army and Air Force exchange system is doing is we have already negotiated and already got the agreement through the folks in Korea to do a new main exchange at Camp Humphreys along with a relocation of the commissary as well, the commissary can talk about that as well, to provide a great resource for those families that are coming over.

The budget for this, the dollars that are associated with this are in our program. We have programmed those, they are part of our master planning process. We have gone through several iterations of design to make sure we are on track. In terms of what we have to put up to make this appropriate and the Korean Government itself is also paying for certain funds to allow this to take place, too.

Mr. COFFMAN. Do we already have the contracts in place in terms of building those facilities or have they yet to be put out?

General CASELLA. I think as we speak today those contracts will have to be put out but they are part of our master plan. We are in the design phase right now, requirements and design phase. But

it is definitely on the agenda to do. We have got the milestone set. I don't see any—our biggest hurdle was to get the final agreement, it just happened last month, to get the final agreement of where we are going to put the facilities. For us there is a little more challenge, because we also have to consider our warehousing operations and our bakery, it is also in the community. But those will come with a master plan so I think we are on track and right now we are in a design phase.

Mr. COFFMAN. Okay.

Mr. Nixon and Mr. Gordy, what would be the effect of a cut in funding of 5 or 10 percent relative to commissary funding?

Mr. NIXON. Devastating, in a single word. The principal use for the appropriation for commissaries is personnel. And probably the next largest group is transportation. So any cut of that magnitude would immediately evolve into either reduction in days and hours of operation or closures of commissaries which would simply just begin to spiral to devalue the benefit.

The one thing that I think that the message that we industry members like to pass is that savings is built into the DNA of these organizations, these resale commands up here. Because of the partnership with industry, every decision they make is either about increasing savings to the patron or savings to the patron or delivering dividends back to the installations. And so they have been involved in savings for a long time now. Defense Commissary Agency consolidation was based on savings. And it saved over a billion dollars from that consolidation in taking out cost of supply chain and construction and other associated costs. So any reduction, 5 percent, 10 percent, immediately goes to personnel and immediately reduces the benefit.

Mr. GORDY. I would add that if you take a look at DeCA's budget even from last year, it has already been cut by \$40 million and now we are looking at potential cuts again this year. DeCA has been for the past decade trying to become as an efficient organization as it can be. So if you look at DeCA in context of what you have you done for me in the last year, that is too short term of a view. You really have to look back over the last 10 years and to see what DeCA has done to reduce its costs in order to make this benefit as efficient and effective as it possibly can be. Granted, are there areas for more efficiency at DeCA? Potentially, yes. But when you start talking about cuts at the level of 5 percent or above, now you start talking about going beyond just efficiencies at the headquarters level to actually reducing store personnel. If you start reducing store personnel, you start having to reduce hours, you start having to shutter stores. And when you get to that point the military patron loses their benefit.

So our concern is that any of these cuts that go beyond just achieving efficiencies at the headquarters level that actually go towards reducing the benefit or going to cut store hours or close stores, that starts effecting the military patron and that is something that we are very concerned about.

Mr. COFFMAN. Thank you.

Mr. WILSON. Thank you very much. Congresswoman Madeleine Bordallo of Guam.

Ms. BORDALLO. Thank you very much, Mr. Chairman. I do have a couple of questions here. And first of all, I want to thank all of our witnesses and of course Mr. Gordon and Mr. Larsen back again. Thank you for appearing today and providing us with your testimonies. I do promise, gentlemen, to stay away from the ever contentious issue of alcoholic beverage resale on Guam. But just a reminder it is still on my future agenda.

The first question I have is for Secretary Gordon. In last year's House passed defense authorization bill there is a reporting requirement that I requested from the Department of Defense on its efforts to locally procure fresh meat, poultry, seafood, fish, and produce for commissary and exchange stores. Now that report was due on May 1st, 2011. Can I get a commitment that the Department will make every effort to get us that report on time? And I think, Mr. Gordon, you would be the one to answer that.

Mr. GORDON. I will definitely look into it and expedite it.

Ms. BORDALLO. Okay. May 1st.

Mr. GORDON. May 1st.

Ms. BORDALLO. 2011.

Mr. GORDON. I hear you.

Ms. BORDALLO. I firmly believe in sustainability practices when it comes to our commissaries and exchanges, and here in the House we begin the greening of the Capitol initiative which has led to fresher food products in the meals that we eat. There are many benefits, including environmental cost savings, and improved health quality which improves the health wellness in the readiness of our men and women in uniform. So I would like to hear, I guess first from you, Secretary Gordon, to what extent is each of services and the Department as a whole looking at sustainability practices for our commissaries and exchanges?

Mr. GORDON. I think we look at that very much in terms of sustainability. I think it is aligned also with once again this notion of innovation because, as we know, in an austere, fiscally austere environment you have to bring in partners to ensure that sustainability of both the benefit and values. It is not just about the benefit because the benefit as we know is a value in terms of recruitment and retention and readiness. But it is also the value proposition of what would bring a service member and their family to our commissaries and exchanges.

Some of that sustainability comes with systems, and I think you would be very impressed if you go to the headquarters of these facilities and see the kind of information technology that they have now. Also the returns to scale by combining certain sorts of operations, our military STAR Card is an example of that. That begs the sustainability as well as we try to streamline efforts to ensure that each service complements one another in terms of finding ways of combining their efforts to ensure a long-term benefit in value.

With that, let me turn it over to the AAFES Commander.

Ms. BORDALLO. General Casella.

General CASELLA. Well, that is an excellent question for the AAFES because we are heavily engaged with sustainability and all the initiatives that go with that.

Specifically, we have kind of embedded this whole approach in everything we do today. We have just been recognized I think earlier this year from Department of Energy for some of the great work we have been doing in water management, water and energy conservation, and fleet management, because we actually have our own fleet of vehicles as well. And that includes consumption, gasoline consumption and how we do more efficiently and operate on the highways. So we did get an award there, that is a start for us, but it is not the end.

We also are involved in several LEED [leadership in environmental and energy design] silver projects in terms of what we do. And these LEED silver projects were already introduced at Randolph Air Force Base, Fort Polk, Fort Bragg, and Fort Bliss as well. And if you went to our new lifestyle center in Fort Bliss, Texas, you would see that we have many enhancements that we put not only there but in also our stores. Some include energy saving lighting systems where if you walk up to the counter they will turn on and if you leave they turn off and save energy. We have 30 and 40 percent reductions in basically water consumption for our bathrooms and some of the things that we use for water consumption. Air conditioning, we are using better air conditioning materials now. So in effect we save energy there too as well as for some of the insulation that we are using.

Flooring, flooring that we use in our facilities is huge. We now have a flooring solution we use which allows us to give a high polished approach to concrete and saves maintenance costs tremendously. And we also use recyclable materials for building our new facilities, which is a huge effort in terms of our reusing those materials.

So we are incorporating that not only in our lifestyles, but all of our image upgrades, too, that we are doing across our infrastructure, and that is where the bulk of our efforts are going to be.

Ms. BORDALLO. Thank you, General. It sounds very good and of course we will have to hear here from the Admiral now.

Admiral ROBILLARD. Yes, ma'am. I just want to talk a little bit about sustainability. One of the issues to be sustainable you have to be relevant. So one of the issues we deal with significantly is how do we deal with a new generation of demographics and how are we going to continue to make sure that they shop our exchanges and recognize the benefit we bring to them. So the entire effort that we do with segmentation is really about sustainability, to make sure we are relevant to our future sailors.

When it comes to energy we do many of the same things as General Casella. We partner and we actually use best practices. I go to many of his stores as he does with ours to get an idea of some of the things that we do. But LEED silver, any new projects that we do today are built to a LEED silver standard. In fact, Bethesda, which is being planned over the next year, will be built to a green gold—LEED gold standard, and it will have the first green roof. So when you go there you will see you could actually put cows on the roof up there if it could hold it.

When it comes to energy reductions, again that is significant not only for us but our entire department. So wherever there is a requirement for energy reduction we are really leading that, because

we do a lot of renovations. So wherever we renovate we adhere to the latest energy savings as possible.

Ms. BORDALLO. Very good. Mr. Jeu, yes.

Mr. JEU. Defense Commissary Agency is also committed to sustainability. In fact, every major decision we make relating to a facility we are always thinking about how can we conserve our energy and environmental. And in fact we have created environmental management system where all our major decisions are processed through it. And some of the things we are doing, the same thing as what AAFES and NEXCOM are working on.

As you know, when you look in grocery store we have all these refrigeration units. They are heavy users of energy. So now we go into all the refrigeration units with the doors so that they will not lose energy efficiency. We are also into recycling all the cardboard boxes, as a grocery store we generate quite a bit of those, tons. And so just about everything we do we think about sustainability.

Ms. BORDALLO. Thank you. And just one last comment, Mr. Larsen.

Mr. LARSEN. Thank you, just one point that is just a little different tack. I think we all do very similar things in most of those areas, but one additional point is I think we need to take a balanced approach. And there is a connection here to exactly the question that Congresswoman Davis asked a few minutes ago, and that is about the threat. And I think one of the things we need to look at is the balance of appropriated and nonappropriated funds. Those areas that are appropriate appropriated fund requirements need to be funded. Because when we don't then we take and we use NAF money to pay for those expenses. We then either have to do two things, diminish the dividend or we have to increase the prices. And when you do that, that becomes a threat to the sustainment of all of our facilities.

So just a little different slant on the issue.

Ms. BORDALLO. Thank you. Thank you, Mr. Larsen. And I am going to look forward to visiting some of these facilities very soon.

Thank you, Mr. Chairman, and I yield back.

Mr. WILSON. Thank you, all. We will recess and return after the vote.

[Recess.]

Mr. WILSON. Ladies and gentlemen, thank you for returning. And we are delighted to proceed with the hearing. Congresswoman Pingree.

Ms. PINGREE. Thank you, Mr. Chair. I appreciate being welcomed onto the committee. Thank you for that. And thank you all of you for your testimony. I learned a lot today. And I am glad to be here with all of you.

I have a couple of questions that are very specific to Maine, so I hope you will indulge me. The first one is for Mr. Gordon. Thank you for all of the testimony that you provided us today. I imagine that you may know that the Brunswick Naval Air Station, which is in my district, was selected for closure in 2005 during the BRAC process. And with it, the Navy has decided to close both the commissary and exchange at the base, a decision I must say I wholeheartedly disagree with. This decision will negatively affect the military population that should continue to be able to use these fa-

cilities, including a significant population of retirees. There is a very large Active Duty population in the immediate area, starting with the Supervisor of Shipbuilding, part of NAVSEA [Naval Sea Systems Command] that is stationed at BIW [Bath Iron Works], a mere 6 miles away from the stores. There is also a Marine Corps Reserve battalion and an Army National Guard unit that are moving onto main side in the coming months. Construction is already underway. So I believe these sailors, soldiers, and marines are entitled to the savings and quality of life that you have all described so very well today.

I realize the decision to close those stores is because the Navy decided to close Brunswick. But the Active Duty and Reserve population I have just described have a mission unrelated to the Brunswick Naval Air Station, and their mission continues today.

So my question, you can imagine, is given the significant Active Duty, Reserve, and retiree population that continues to serve and reside in the mid-coast Maine area, is the Navy's decision to close these stores consistent with DOD guidelines?

Mr. GORDON. Well, what we are trying to do is determine the degree to which—and we haven't done this yet, of course, because we are waiting for a GAO [Government Accountability Office] review.

Ms. PINGREE. Right.

Mr. GORDON. And once we are able to get that review, we are going to take a very close look at it and determine the way ahead. But we think it is important for the process to let itself out in terms of review. And we are anticipating that as a result of that, we will take a look at all the issues and make a decision.

Ms. PINGREE. Great. I appreciate your saying that. I know we are all waiting for the GAO study.

Mr. GORDON. Yes.

Ms. PINGREE. But we do believe that there is significant business that would be done there.

Mr. GORDON. Yes.

Ms. PINGREE. And for the many families who have served our country and the many Active Duty personnel who are there, as you have all said so well today, it is a very important resource.

Mr. GORDON. Yes, it is.

Ms. PINGREE. Particularly to an area that is being BRAC'd and losing a lot of resources at the same time.

Mr. GORDON. Yes. I understand.

Ms. PINGREE. Well, thank you. And thank you for your work.

Mr. GORDON. Thank you.

Ms. PINGREE. I have one other Maine-specific question for General Casella. And thank you, General, for your testimony today and for your service. You probably know that the Maine Air National Guard in my home State of Maine operates out of the Bangor Air Force Base. The 101st Air Refueling Wing has been running 24-7 operations since 9/11. Because of the increased operations tempo, the Army and Air Force Exchange Service—I guess you call it AAFES, I am trying to get those things right—the AAFES BX [base exchange] has performed very well. But as I am sure you know, Air National Guard exchanges do not currently receive dividends from store profits like their Active Duty Air Force counterparts. I understand Active Duty stores send their dividends back

to the MWR programs, and the Air National Guard does not have MWR programs. However, there are family readiness and support programs that could benefit from these dividends.

Given the increased usage at the Air National Guard exchanges like this one in Bangor, would you consider being supportive of Air Force policy being changed to allow AAFES dividends to be distributed to Air National Guard bases that have exchanges that earn a profit? These dividends certainly could really help the family readiness programs that our Reserve Component relies on.

General CASELLA. That is a great question because you know, dividends is very important to what we do. And we want to make sure that all the families and warfighters out there are supported. It turns out that we actually do give dividends to Guard members. If you looked at our overall structure of dividends, we give primarily to the Army. The Army gets the bulk of those because of the Active Component of the Army. Then the Air Force gets the bulk of those.

But then if you look at our Reserve elements, we actually give to the Army National Guard, the Army Reserves, and the Air Force and Marines and Navy, believe it or not, because we support the Navy and Marines, too, in different locations. So we have dividends that go to all those families.

And I have a breakout chart that I show everybody. It is a small figure, but you have to—basically, the way the system works is you can attack this two ways. One way is all those elements that legitimately follow the rules and put in for unit morale welfare funds, they can apply for those and set up a unit account. I think it is called—it is a unit account, basically. If they apply for those and get them, then they become an eligible member to get the dividends. That is one approach. That is a pretty small amount of money, but it is appropriate and they can get that. And we do give that to a lot of the Army units that apply for those. But you have to set up an account, conduct minutes, have a meeting, figure out what you are going to do with it, and get it authorized. And that is one mechanism.

But then the other plan is actually to go back to the Air Force and suggest, you know, can you really look at your dividend policy? We don't set that policy. That is something that we just adhere to. Whatever the Air Force policy is, along with the Army policy, we distribute the dividends based on their rules. So it is not for me to say, but definitely something that can be brought up in those service channels.

Ms. PINGREE. Great. Well, we will certainly follow up on that and do that. Thank you both.

Mr. WILSON. Thank you very much. And what a great honor for all of us to have you here today. And what I would like to do, with the consent of all members, we would like to proceed with a second round, but with a hard stop at 4 o'clock due to other meetings.

And so a concern that I have, the Tax Increase Prevention Reconciliation Act of 2005, TIPRA, threatens to impose a 3 percent withholding tax penalty on military resale vendors. Mr. Gordon, General Casella, Admiral Robillard, Mr. Larsen, and Mr. Jeu, do you see a challenge for your organizations and your patrons with regard to the implementation of this law?

Mr. GORDON. I will turn this over to the resale commanders, but absolutely, yes. I mean, at the end of the day, you know, those increases will potentially be passed onto our consumers, our patrons. So it is an issue. I will again let the commanders elucidate, but we have literally 13,000 vendors and more, a lot of those small businesses, where that tax will come out of their bottom line up front, basically, and will challenge their ability to be able to continue their services and the products that they provide for our service members and their families. So at the end of the day, it is costly, it will affect our service members, it will affect our infrastructure, it will affect our partners.

General CASELLA. From an AAFES perspective, I would like to address this. This is a very important issue for us, and we are very focused on this. We hired a consultant last year to already start looking at the impacts of this, because we know with the extension that it is going to be effective in January of 2012. And so it turns out that the way things are rolling now, we would have to commit and start actually committing money to this approach about middle of this year in order to be compliant, if it kept going the same path it is on.

We have looked at the impact of this, and it is huge. Definitely it is going to have an impact on how we do business with our vendors. These 13,000-plus vendors that AAFES has, quite honestly, the 3 percent puts a burden on them. When I am not in an Army uniform, I am a small business part owner myself, because I am in the Reserves. But bottom line is that it puts a huge burden on small businesses to have that withholding, because they need that cash flow in order to keep going. So that is a huge thing for them. We anticipate they would in turn raise the cost of our products, or decide not to do business with us, because the same constraints may not be on their commercial counterparts they are working with.

So it is going to be a twofold impact for us. And specifically for AAFES itself, for supplier cash flow, we have estimated an annual loss due to reduced offsets to cost of goods sold to be about \$41 million because of this effort. On top of that, we estimate that our estimated annual loss to the vendor cash flow will be \$125 million. Estimated annual cost increase to the Exchange will probably be \$23 million. Internally, because of the modifications that we have to make to account for all these changes, it is going to cost us probably around half a million dollars. And we have to probably hire more folks for reconciliations we have to do between the contract works and the resetting those.

And also, then likewise as I said, the impact on small business. It is going to have a huge impact across our—in turn, all these will affect our dividends.

Mr. WILSON. Well, that information needs to be shared with Members of Congress, and I will.

Admiral ROBILLARD. Sir, we are certainly not as large as AAFES, but I would like to tell you that we have very similar concerns. Right now it is probably one of our number one impacts that we have to worry about. Very soon we have to, within again the next few months, we will have to start spending money to implement this. And we think in our estimate that it will be almost a million

dollars to implement it, and then a recurring cost of at least \$200,000 a year just to work those reconciliations.

Our biggest concern is really our vendors. We have a lot of small vendors. We have 5,000 vendors that would fall under this act. And a lot of those vendors, because they are already providing us what we think is best pricing, because of their sense of commitment to the military, are operating on very low cash flows. And so what they will have to do is borrow money, and, again if they have to borrow money to make themselves viable, then they will have to pass that cost onto us. And so really it is a reduction in benefits as a result of it. So again, we feel very strongly, mostly because it is an impact to our vendors, which again will impact our constituents as well. Thank you, sir.

Mr. WILSON. Thank you.

Mr. LARSEN. Mr. Chairman.

Mr. WILSON. Yes.

Mr. LARSEN. Yes, sir. You know, we share the same concerns that NEXCOM and AAFES have expressed for the Marine Corps Exchange System, so there will be for us an impact on labor and an impact on systems that we will have to cover those costs.

We have also heard that the Senate Finance Committee may be considering a GAO study on this topic. And if that is the case, you know, that would be a step in the right direction. But our issue is we have to start putting things in place now if they are going to implement this in January. So there is a timing issue here that we need to get in alignment if we can. Thank you.

Mr. WILSON. Thank you very much. And Mr. Jeu.

Mr. JEU. Mr. Chairman, we at DeCA are also deeply concerned with this law. The 3 percent withdrawal requirement would adversely impact nearly all of our contractual agreements we have with our vendors. And from discussion with the industry members, this withholding cost will be passed on to our customers. And in fact, one of our largest brokers estimated that they would have to increase our cost of goods by between 4 to 5 percent, and that will be obviously passed onto customers. So we are deeply concerned with the potential price increase. Additionally, there will be significant administrative and system costs, as others have mentioned.

Mr. WILSON. Well, I want to thank all of you. This is somewhat startling to hear people who represent government entities concerned about patrons and small businesses. This is very refreshing. I now refer to Mrs. Davis.

Mrs. DAVIS. Thank you, Mr. Chairman. As you all know, second destination transportation [SDT] funding is used to subsidize the cost of goods sold overseas in exchanges and commissaries to ensure that our service members, of course, and their families are not penalized with those higher prices than members who are serving here in the United States.

Mr. Gordon, could you share with us, does the Department share the subcommittee's views that this funding is well justified?

Mr. GORDON. Yes, it is. And we want to make sure, under the auspices of fairness, that all of our service members and families, regardless of where they are in the world, are treated fairly, have the same access to goods and services. So I would love for actually the services to elucidate on that, please.

Mrs. DAVIS. Okay. Fine. And then also, Mr. Nixon and Mr. Gordy, if you could give us your perspectives on that.

Mr. NIXON. Yes, ma'am; absolutely this is a very significant appropriation. And there have been efforts along the way in past years to take runs at this for other purposes and think it is an easy target. Fortunately, this committee has stepped in on several occasions and made that much more difficult to do. As the Secretary said, this is an extremely important additive that allows the price of goods overseas to be sold at the same price as those in the continental United States. It is a very important element. We should make sure that it is protected at all costs.

Mr. GORDY. I come at this issue a little bit from more of a personal perspective. Serving in Iraq it was great to be able to go to Camp Liberty or to Camp Victory to the PX there on base and be able to get a tube of toothpaste for \$2 and change. If the costs had to have been borne by AAFES in order to put that toothpaste in there, and that cost would have been passed on to me, there is no telling how much that toothpaste would have cost. Or if my wife would have had to put it in a box and mail it to me, we would have had the \$10 cost of shipping and it would have taken 2 weeks to get to where I was.

You think about that in terms of the amount of money that we spend on SDT, the hundreds of millions, \$200 million that we spend. If that cost had to be borne by military families, that means military families would be paying hundreds of millions of dollars more for the products that they purchase. And so to me, SDT is very important to help support the financial readiness of our families, particularly those overseas.

Mrs. DAVIS. Anything else to add? General.

General CASELLA. Yes, Congresswoman. Three things. We are good stewards of the money, too. I mean, we do understand the need, and we do need to have that equity in our costs. We are good stewards, though. We have used cube-container stacking processes to save money and reduce containers that go over in order to keep those moneys as low as possible.

Along with that, we have container stuffing costs that we actually have a cost avoidance of \$9.2 million just because of the way we are handling our containers, and being able to stack and rack and stack those for shipment. So we are saving \$9.2 million there instead of just doing it on the cuff.

Likewise, for commercial air usage, we have actually had a cost avoidance there of \$27 million. So I think we are doing our best at our level to take those funds that are given to us and use them very wisely so we can have them go further for us.

Mrs. DAVIS. Thank you.

And Admiral, I know that I was going to come back to you on the other question earlier about the consolidation, the challenges with the exchanges. And if you want to just comment on that briefly, and Mr. Larsen as well, quickly on this and the other one.

Admiral ROBILLARD. On this topic, I just wanted to mention that we really do believe in equity of service overseas. In many areas that we operate, and it is critical, and sometimes it is not that perspective taken. In Gitmo [Guantanamo Bay, Cuba] or Djibouti there really are no other alternatives. There is no outside-the-gate

shopping at all. So we are the only source for that family or that sailor or that military member. And the only way we can be competitive is to have that offset. So thank you.

Mrs. DAVIS. Mr. Larsen.

Mr. LARSEN. Yes, ma'am. The point on that is the same point. And that is, there is a direct relationship with reduction in appropriated costs and the impact on the dividend. And that is also an issue that is closely linked to consolidation. That is the way we all do business and our business models, our service cultures. And how we approach providing the services and the programs for marines and families and other service members and families, that is directly impacted. It has a direct impact and connection to our ability to provide those programs that have—and they have a direct impact on retention and readiness.

And so consolidation I think over time would have a huge impact as you go from service to service on the types of family programs and the services that are provided. So, you know, we see that as a potential risk or challenge that we face. And that is if we decide that we are going to again explore consolidation, and we go down that road, there will be an impact for a number of years significantly on the dividend and on how we provide those programs to the service members and their families.

Mrs. DAVIS. All right. Thank you. Thank you, Mr. Chairman.

Mr. WILSON. Thank you, Mrs. Davis. And thank you for asking the questions about overseas availability.

And I share the same personal view of Mr. Gordy. And I have had two sons serve in Iraq, another served in Egypt, and I have a fourth that will be deployed one day. And so I know how reassuring it is to our service members to be able to buy a product without there being an excessive charge.

And so I want to thank all of you for being here today on behalf of military service members, military families, veterans, widows. And in particular as I think of the services you provide, we know firsthand. And so thank you very much for all of you being here today. And we are adjourned.

[Whereupon, at 3:54 p.m., the subcommittee was adjourned.]

A P P E N D I X

FEBRUARY 10, 2011

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

FEBRUARY 10, 2011

Statement of Chairman Joe Wilson (R-South Carolina)
House Subcommittee on Military Personnel
Hearing on
Military Resale Programs Overview
February 10, 2011

Today, the Subcommittee on Military Personnel will conduct its second hearing on non-appropriated fund activities and will turn its attention to commissaries and exchanges—the Department of Defense’s military resale operations.

I believe that the commissaries and exchanges are as essential to the health of a military community and combat capability as the morale, welfare, and recreation programs that the subcommittee examined during yesterday’s hearing.

Similarly, we also expect the exchange and commissary systems to pursue efficiency during this era of increased budget austerity because we want these operations to provide the best service and value to servicemembers and their families.

However, it must be recognized that the exchanges are not big consumers of appropriated dollars and calls for the exchanges to save appropriated dollars should be answered with factual justifications.

There are analysts who are calling for more reductions in appropriated funding from the commissary system or have questioned the need for the military to operate commissaries at all.

I believe that the Defense Commissary Agency is a model of efficiency in our government with a budget that is less than what it was 10 years ago when inflation is considered. Servicemember surveys consistently rate it as one of the most highly valued benefits offered by the military that delivers over 30 percent in grocery savings to families, servicemembers and veterans.

I believe, if you eliminated the Defense Commissary Agency, you would have to invent another benefit of equal impact on retention and the chances are it would not be as effective or efficient.

In addition to learning more about the value of exchanges and commissaries and the need to prove they are factually justified, the resale community has other challenges that we also hope to learn more about today.

We intend to explore continuing concerns about the (1) adequacy of funding for recapitalization, (2) renewed interest in pursuing exchange consolidation, and (3) the negative impact on vendors of the 3 percent tax withholding imposed by the Tax Increase Prevention and Reconciliation Act of 2005.

HONORABLE SUSAN DAVIS

**HOUSE ARMED SERVICES COMMITTEE
SUBCOMMITTEE ON MILITARY PERSONNEL**

MILITARY RESALE PROGRAM OVERVIEW

February 10, 2011

Thank you, Mr. Chairman. I would like to join you in welcoming our witnesses here today.

Mr. Gordon and Mr. Larsen, welcome back today. We appreciate both of you coming back for a second day in a row. General Casella, Admiral Robillard, Mr. Jeu, Mr. Nixon, and Mr. Gordy welcome. General Casella, we know what a difficult time this must be for you, and we deeply appreciate you making time to be here with us.

Yesterday we focused on morale, welfare, and recreation programs. Today, we will focus on the military resale community. As I said yesterday, these hearings are important and valuable to our military personnel and their families. There is a great concern that the future of the commissaries and exchanges may be facing significant change.

Over the past several years, the commissary and exchanges have faced a number of significant challenges, including the transformation of the services, personnel draw downs, base closures and realignments, and force structure changes and movements, and often overlooked in these decisions has been the impact on the exchanges and commissaries. I

suspect the future will continue to bring challenges for the commissaries and exchanges, and my concern is whether they will be able to continue to succeed.

Our military personnel and their families, as well as our MWR programs, have relied on the accomplishments of the commissary and exchanges. We appreciate your leadership and the partnership with our private sector partners to ensure that we provide the best programs and products for our men and women in uniform. Thank you for all that you do to support our service members, retirees and survivors, and their families.

Thank you, Mr. Chairman. I look forward to hearing from our witnesses.

**NOT FOR PUBLICATION
UNTIL RELEASED BY
THE HOUSE ARMED
SERVICES COMMITTEE**

**STATEMENT
OF
MR. ROBERT L. GORDON III
DEPUTY ASSISTANT SECRETARY OF DEFENSE
(MILITARY COMMUNITY AND FAMILY POLICY)
BEFORE THE
SUBCOMMITTEE ON MILITARY PERSONNEL
OF THE
HOUSE ARMED SERVICES COMMITTEE**

FEBRUARY 9-10, 2011

Mr. Chairman and members of this distinguished Subcommittee, thank you for inviting us to testify before you.

In my role as the Deputy Assistant Secretary of Defense for Military Community and Family Policy, I recognize the Commissary, Exchange and Morale, Welfare and Recreation (MWR) programs, including child care and youth activities, are fundamental to readiness of Service members and their families. These programs are elements of non-pay compensation and quality of life for military members and a valued retirement benefit.

President Obama, Secretary Gates, Admiral Mullen and Dr. Stanley are clear in their direction: quality of life for our members and their families remains a top priority. In an unprecedented commitment to military families, on January 24, President Obama announced 50 initiatives by 16 federal agencies to help support military families with programs designed to concentrate on improving psychological health resources for military families, ensuring excellence in education for children of Service members, developing career and education opportunities for military spouses, and increasing the availability of child care. Mrs. Obama announced a year-long campaign to promote the plan and draw more attention to the needs of military families. In the words of the First Lady, "These are lasting commitments by the government to address your needs and concerns for years to come."

The President's Budget request to operate fiscal year 2011 commissary, exchange, and MWR programs reflects our strong commitment to provide a secure standard of living and quality of life to those who serve in uniform and their families. These challenging times require that we make every dollar count. We are rebalancing the programs to align funding and policies with current priorities and to gain efficiencies in the organizations that oversee the programs.

The state of Military Resale and MWR is healthy. Through targeted programs and partnerships, we are improving the availability of services and lowering out-of-pocket expenses for members and their families, including the Guard and Reserve. We thank

Congress for the new authorities, which enabled many of these changes. Our challenge today is to scale and shape these programs to support the readiness of the force and to improve efficiencies.

To ensure we are on-target in investing in programs needed by Service members and their families, we initiated an extensive strategic planning process for family readiness and MWR programs, beginning with a thorough assessment of existing needs, programs, and related issues. A variety of methods were used to gain input from key stakeholders across the system, including family members, support professionals, non-governmental organizations, land-grant universities, and senior DoD leadership. There are many important initiatives that will emerge from this strategic direction.

We place great confidence in the leadership of the commissary, exchange, and MWR organizations who also testify today. Through their example and energetic leadership, the organizations are working together and partnering with industry and other quality of life programs to support the military community.

MORALE, WELFARE AND RECREATION

Participation in recreation, fitness, sports, cultural arts and other leisure activities is the key to active living, which leads to improved personal health and well-being, and helps build strong military families and healthy communities. Active living can also reduce stress, loneliness, obesity, and depression and builds positive self-esteem and esprit de corps, so critical in the military environment.

MWR Oversight

In March, the Department hosted an MWR Strategic Planning Offsite with 35 senior civilian leaders from the Military Departments and their headquarters to discuss the current status and future of MWR programs. The group reached unanimous consensus to improve MWR customer satisfaction, support troops in combat and families back home, and address appropriated funding for MWR. The continued vitality of the MWR program depends on sound management, meeting command and customer needs, a

predictable stream of nonappropriated revenue, and solid appropriated fund support of Category A (mission sustaining) and B (community support) activities.

MWR Nonappropriated Fund (NAF) Financial Condition: The Department is currently reviewing the Services' FY10 funding data and will provide the FY10-12 data to Congress when this review is complete. The Services' consolidated MWR NAF instrumentalities are in sound financial condition. In fiscal year 2009, NAF net income was \$216 million, compared to \$117 million reported for fiscal year 2008. Based on FY 2009 reports, the Army and Navy profits surpassed FY 2008, while the Air Force profits are stable and the Marine Corps profits decreased.

MWR Appropriated Funding (APF): In FY 2009, \$2.7 billion of APF funding represented 61 percent of total MWR funding with the remaining 39 percent supported with NAF. The direct baseline support (excluding indirect support and Overseas Contingency Operation funds) was \$1.097 billion for MWR activities and \$731 million for child and youth programs. In FY 2010, the direct baseline support increased to \$1.12 billion for MWR activities and \$939 million for child and youth development programs.

The majority of the Services met the minimum DoD standard percentages of APF support for Categories A and B in FY 2009. Category A mission support activities (fitness, libraries, recreation centers, single Service member programs, intramural sports, and unit activities) should be entirely funded with appropriations. The Department sets a minimum standard requiring at least 85 percent of total expenses being supported with APF. In FY 2009, all Services met or exceeded the Category A standard.

Category B community support activities (child and youth development programs, outdoor recreation, crafts and automotive skills, and small bowling centers) should be supported with a minimum APF of 65 percent of total expense. The Navy achieved 61 percent while the other Services met or exceeded the Category B standard during FY 2009.

MWR Recapitalization Programs: In addition to funding facilities construction programs reported to the Congress, nonappropriated resources support capital programs for equipment, information systems, and facility sustainment projects. Overall, MWR capital programs and investments in facilities have steadily increased over the past five years. However, the Military Departments have identified nearly \$2.4 billion of unfunded MWR NAF requirements for the next ten years. The Military Departments plan to address those requirements with emphasis on renovations, repairs, and maintenance to extend the useful life of facilities and, where new facilities are required, are pursuing multi-purpose/multi-use projects, public-private ventures, commercial borrowing, new revenue sources, and inter-program business ventures. The Army, Navy, Air Force and Marine Corps are engaged in a world-wide reassessment of MWR facility requirements to ensure optimal investment of funds and estimates may be adjusted as the studies progress. We will continue to report status to the Subcommittee with the annual nonappropriated fund construction program.

MWR Customer Satisfaction Index (CSI)

In August 2009, the Defense Department conducted the first military-wide assessment of MWR customer satisfaction with programs. Conducted by the CFI Group, whose methodology underpins the respected American Customer Satisfaction Index (ASCI), almost 25,000 active duty Service members had an opportunity to rate customer service, operation hours, facility condition, and quality of services. The result was an overall DoD customer satisfaction index score of 69 based on a 0-100 scale. Seven individual MWR programs were rated for customer satisfaction. Libraries scored the highest with 74; followed by Single Service Member Program (73), Outdoor Recreation (72), Recreation Centers (72), Leisure Travel (72), and Automotive Skills (72), and Fitness Program (69). The scores do not represent "percent satisfied"; instead the scores represent the average rating of three customer satisfaction questions on a 0 to 100 scale. Broadly speaking, scores in the 60s may be characterized as "fine but could use work," in the 70s as "good job but keep working on it" and in the 80s as "excellent - keep it up."

Applying the CFI Group sophisticated regression analysis, the assessment also measured the impact of MWR satisfaction on four desired outcomes: readiness, retention, organizational commitment, and unit cohesion. The findings indicated that MWR satisfaction has the greatest impact on “readiness” and indicates if MWR satisfaction increases, readiness also increases. Conversely, if MWR satisfaction decreases, readiness also decreases. The research also indicates improvement in fitness and outdoor recreation programs will have the highest impact on the overall satisfaction with MWR and consequently on the “readiness” outcome. The Customer Satisfaction Index is an important tool to rebalance resources within MWR programs in better alignment with our most critical challenges and priorities. The assessment will be updated biennially with the 2009 results providing the baseline.

Keeping the Force Fit to Fight

Installation fitness facilities are some of the most important facilities on base for troops to release stress after returning from deployment, combat obesity, and remain physically and mentally fit to fight and win. It is also becoming increasingly important to provide capacity and access for family members. As we try to meet the increasing demands, the complaints become increasingly frequent about the quality, availability, and inaccessibility of facilities.

The 2009 Customer Satisfaction Index Survey indicated that 80 percent of the respondents currently use DoD MWR fitness facilities with 57 percent using them daily or several times a week. However, fitness facilities ranked the lowest in customer satisfaction. Our fitness facility infrastructure is old - either surpassing or coming very close to the service life set by DoD standards. The weighted average age of over 8,200 indoor and outdoor DoD fitness facilities is 39 years; weighted average service life is 37 years. The Department appreciates the five MILCON fitness centers authorized in FY 2010. However, MILCON and O&M funding for fitness is not keeping pace with DoD facility funding standards. The long-term strategy to improve fitness facilities uses the DoD facility budget models for sustainment, modernization, operation, and restoration.

Requirements have been identified based on an analysis conducted by an engineering firm and benchmarked against the approved DoD facility budget models.

To improve fitness programming, which is as important as facilities, we have contracted with the Council on Accreditation, a nationally recognized accrediting body for a number of human service related fields, to benchmark DoD and the Service's fitness standards with those of the public and private sector. Areas measured include staffing, training and supervision, health and safety, equipment, programs and classes, and auxiliary services such as child care and retail services. This benchmark study will be the basis for revising DoD MWR fitness standards to ensure high quality programs are consistent and applied across all Services.

Support to Troops in Combat

Communication. The ability to communicate with family and friends is the number one factor to cope with longer and more frequent deployments. Currently, Service members have free access to the non-secure military Internet by using their military e-mail address, including aboard ships. They also have free Internet access to over 1,000 MWR Internet Cafes in Iraq and Afghanistan with over 9,000 computers and 4,000 phones. Assets from Iraq are being relocated to Afghanistan to increase the number of free computers with Internet access. MWR Internet cafes offer webcams and Voice over Internet Protocol phone service at less than \$.04 per minute. To enhance MWR-provided services, AAFES provides wireless service for customer convenience which requires a user fee. They have recently awarded a new contract to provide turnkey internet access to individual living quarters "in-room", WiFi hotspots, and designated locations at various military installations in Afghanistan and expect service and affordability to improve. In addition, the USO and American Red Cross provide Internet Services at their centers and canteens. Back home, computers and Internet service located in our family support centers, recreation centers, libraries, and youth centers help ensure families can connect.

With FY 2009 and 2010 Overseas Contingency Operations funding, the Department purchased 135 portable Morale Satellite Units to support remote forward operating bases that cannot be supported with MWR Internet Cafés. Similar to MWR Cafes these computers provide free unclassified, mobile communications between troops and families and provide access to often restricted but popular social network sites. The systems run off Humvees and include 4-6 laptops with webcam capability and dedicated bandwidth and can be set up and taken down in 20 minutes. All 135 units are expected to be in Afghanistan by the end of February. Our thanks goes to the Marine Corps Community Support office for managing this important program for the Department. I've attached a couple of photos that demonstrate how popular these units are. Portability of the units is a great benefit in that they can be quickly deployed to wherever the need is the greatest.

Additionally, the exchanges contract for telephone services in combat zones as part of their worldwide telephone services contracts; operating 60 calling centers with 1,047 phones in Iraq, Afghanistan, and Kuwait, plus calling centers on-board ships in theater. Rates are 45 cents per minute afloat and 15 cents per minute ashore. The number of phone centers declined due to the drawdown in Iraq and the migration of customers from landline to wireless cell phones and Internet-based services. The exchanges contract with providers so individuals may purchase those services at competitive rates.

Recreation and Fitness. Sustaining morale and readiness and reducing stress is the essence of MWR support to troops in combat. Service members have access to a full spectrum of MWR activities specifically implemented for forces deployed to fight. Activities encompass cardiovascular and weight equipment, including the popular, self contained "TRX" suspension training kits, sports and recreation equipment, portable movie theaters, and large screen televisions with DVD and video projection players. MWR recreation kits are sized to fit the needs of the deployed unit. Established locations and ships have full fitness centers and libraries. The Department shipped over 264,400

paperback books and 231,974 Playaways (self-contained digital audio books) in FY 2010. Playaways now surpass paperback books in popularity with troops citing ease of use, convenience, and ability to read at night without electricity. Included in the Playaway inventory were 17,678 Dari and Pashto basic language/Afghan culture and 5,535 Arabic language Playaways.

Professional entertainment. Entertainment continues to build morale and nowhere is this more important than in the austere locations where Service members are performing duty. Armed Forces Entertainment (AFE), in cooperation with the USO and the Services' entertainment programs provide much welcomed celebrity and professional entertainment to our forces overseas. In FY2010, AFE conducted 77 tours with 475 performances in over 40 countries at more than 350 sites.

MWR Outreach

YMCA Membership Program. Families of deployed Guard and Reserve personnel and active duty assigned to independent duty typically do not have access to installation MWR programs. Therefore, to promote a fit, healthy lifestyle, reduce stress, and expand the military MWR benefit to those families during the deployment, we contract with the Armed Services YMCA to offer free YMCA family memberships at local, participating YMCAs throughout the United States and Puerto Rico. Wounded Service members assigned to a Community Based Warrior in Transition Unit can also join the YMCA to aid in their recovery and encourage family recreation throughout the recovery period. Free Child Watch is provided when families visit the YMCA and 7,020 military families have also taken advantage of an additional 16 hours per month per child of respite child care at 264 participating YMCAs; 265,000 hours of respite care have been provided. The YMCA Outreach program remains very popular with over 41,200 military and 64,364 family members taking advantage of this benefit to date. Numerous testimonials attest to the fact that the opportunity to join the YMCA has significantly aided families, reduced stress, and provided a much needed break for families of deployed personnel.

Affordable Vacation Getaways. The Armed Forces Recreation Centers (AFRC) and local installation lakeside cabins, beach houses, mountain condos, and other “best kept secrets” offer affordable destinations for family vacations and relaxation. We developed professional videos to advertise and market AFRC; these and links to each of the Service’s “best kept secrets” and other MWR programs and services are available at MilitaryOnesource.com.

DoD MWR Online Library. Overseas Contingency Operations funding supports the Free DoD Online Library, which is available anywhere/anytime through Military OneSource and the Services Library Portals. Users conducted over 44 million on-line activities in FY 2010. Resources include free downloads of audio and e-books and access to up-to-date data bases offering education and career transition support, free SAT, ACT, GRE and CLEP testing, auto repair, finances, home improvement, genealogy, animated children’s books, newspapers, and more. The program supports voluntary education, career transition, spouse employment, special needs families, home schooling, language diversity, child and youth development, and recreation needs. Feedback continues to be outstanding with many appreciative customers.

Inclusive/Adaptive Recreation

The ability of injured Service members to engage in recreation and sports is a very important component of rehabilitation and reintegration. Under a contract with Penn State University, 297 MWR specialists have completed Joint Service training on recreation inclusion for wounded warriors. Feedback is exceptional, training continues in 2011, and installation MWR specialists are successfully working with medical personnel, wounded warrior units, community parks and recreation, and non-profits to ensure inclusive and adaptive sports and recreation are part of installation MWR and community recreation programs.

Thanks to the support of Congress the United States Olympic Committee’s, the DoD Paralympics’ Military Program continues to provide rehabilitation support and mentoring to injured Service members/veterans who have sustained various types of

injuries. Over 6,800 members have been introduced to various sports opportunities through camps, clinics and competitions since April 2008 and 240 individuals are pursuing higher levels of athletic performance and achievement. Paralympics' military events are conducted at four DoD and 14 VA Medical Treatment Facilities, 29 Army Warrior Transition Units, 7 Marine Corps Wounded Warrior Battalions/Detachments, and 3 Navy and 3 Air Force locations. One hundred eighty-seven wounded Service members and veterans competed in the inaugural "Warrior Games" in May in Colorado Springs with Paralympics' competition in seven sports. With an additional 1,000 attendees including family, friends and senior military and government officials, the games were successful. Training is well underway for the second annual Warrior Games Competition this May.

Personal Information Services Policy

Personal information services include, but are not limited to, Internet, telephone, and television access via any delivery method such as wireline or wireless mode. The Department has implemented 10 U.S.C. 2492a, which imposes limitations on Department entities competing with the private sector in offering personal information services and is drafting policy for other related personal information services responsibilities for MWR, exchanges, and lodging programs. The policy has not been published pending clarification of security requirements for an additional layer of protection in overseas contingency locations.

Air Force Food Transformation Initiative

The Department approved a waiver for the Air Force to use a NAFI Memorandum of Agreement to contract with a national food service organization to operate APF dining facilities and certain MWR food and beverage operations at six Air Force installations. Using a competitive bid process, Air Force selected ARAMARK, a leader in providing professional food services and facility management for business and industry, college and universities, school districts, etc. The contract began in October 2010. The waiver recognizes that Air Force is partnering with Ability One, has an acquisition strategy that

requires right of first refusal be given to qualified employees of small business predecessor contracts and NAF employees as applicable, and will not include installations with existing Randolph Sheppard Act dining facilities' contracts. At Congress's request, the Government Accountability Office has begun their review of the implementation and management of the contract and is expected to report its findings six months after implementation. Air Force will not move forward with expanding beyond the six bases until 90 days after the Comptroller General has submitted the report to the congressional defense committees.

CHILDREN AND YOUTH PROGRAMS

Child Care

The Department continues its abiding commitment to quality of life and military readiness concerns in the delivery of child care programs and in meeting the increased demand due to high deployments and operation tempo. DoD is proud of its support programs and their multifaceted delivery systems and continues to seek improvement in accessing quality and affordable child care. The overarching goal is to provide a holistic and systemic approach not only for quality, affordable child care but to provide peace of mind to families regardless of where they may live.

Child care is a key factor directly impacting family readiness and retention of Service members. To date, over 43 percent of Active Duty and Reserve members have 1.1M children, ranging in age from birth to 12 years, of which 700,000 children are under age 5. In addition to changes in military family demographics, deployments to Iraq and Afghanistan have called for flexible child care options for families of deployed Service members. The DoD Child Development System (CDS) is serving over 200,000 military children from birth to 12 years of age, operating 800 child development centers at over 300 locations worldwide and approximately 6,000 family child care homes. DoD Child Development Centers (CDCs) maintain high standards of quality child care: 98 percent of eligible programs are nationally accredited.

Recognizing an investment in child care is also an investment in readiness, the Department continues to expand its partnerships with civilian child care providers. Three programs sponsored by the Services and DoD and managed by the National Association of Child Care Resource and Referral Agencies, Military Child Care in Your Neighborhood, Operation Military Child Care, and Operation Child Care, are designed specifically to assist military families who do not have access to a DoD CDS space and need help in finding affordable care in their local communities. In addition, respite child care is provided through participating YMCAs, offering this support for geographically isolated families and meeting the growing needs of deployed, Guard, and Reserve families.

In late 2010, to further expand child care capacity for Active, Guard and Reserve families that are geographically dispersed or otherwise unable to access childcare programs on a military installation, the Military Community & Family Policy office launched a new initiative to improve awareness and availability of quality child care using existing local, state, and federal delivery systems including existing child care facilities, schools, recreation and after-school programs, and home-based care. Thirteen states have been selected to participate in the pilot. The states are: Alaska, California, Colorado, Delaware, Florida, Indiana, Kansas, Kentucky, North Carolina, Texas, Virginia, Vermont, and Washington.

DoD is coordinating this effort with a number of federal partners including the Health and Human Services' Administration for Children and Families, the Department of Education and their Office of Special Education Programs, and the Department of Agriculture. Each partner will play a significant role in developing strategies and implementation guidelines.

DoD continues to execute a robust construction program designed to increase child care capacity in order to meet the goal of an 80 percent demand accommodation rate. Construction projects approved in FY 2008 and FY 2009 will add an additional 21,000 child care spaces. The American Reinvestment and Recovery Act (ARRA) of

2009 appropriated \$80 million to each of the Military Departments for the construction or replacement of CDCs for a total of 3,950 spaces. Two MILCON projects in FY 2010 facilitated the construction and/or replacement of approximately 414 child care spaces. It is estimated that the 80% of demand accommodation goal will be met by the Services by FY 2012 (this does not account for needed funds for recapitalization or increased operations tempo).

Section 2810, National Defense Authorization Act for Fiscal Year (FY) 2006 authorized the use of minor military construction for CDCs. Congress authorized a limit of \$5 million in Operations and Maintenance (O&M) funds or up to \$8 million in military construction (MILCON) funds for projects that corrected a life-threatening deficiency. This authority provided a means to serve additional families in an expeditious manner, based on where the greatest need was identified. The authority was renewed in FY 2008 and expired at the end of FY 2009. The temporary program to use minor military construction for CDCs was highly successful and allowed the Services to increase the availability of quality, affordable child care for military Service members and their families. The Department and the Services were most appreciative of the flexibility this authority allowed to increase spaces on a rapid basis using O&M funds.

DoD's CDS is built upon research-based quality indicators to ensure developmentally appropriate practices and materials are rooted in the daily operation. To sustain high-quality programs, the Department is committed to providing adequate funding, strict oversight, on-going training, and professional development for staff, wages tied to completion of training components, strong family involvement, and centers that meet national accreditation standards.

Youth Programs

Recognized as providing dynamic, innovative and successful youth programs, DoD is proud of the vital programs and services offered to more than 500,000 children and youth of military Service members between the ages of 6-18, not only across the United States but around the globe. The DoD has a long history and has earned the

reputation for providing positive programs for youth during out-of-school hours. Approximately 117,000 children between 6 – 18 years of age have at least one parent currently deployed. Research suggests that children and youth of deployed parents experience more stress than their peers. While military youth are often described as resilient, the cumulative effects of multiple moves and significant parent absences can erode this resilience. The Department believes its policies and programs must provide a firm foundation and expand to the ever changing needs of military youth today. As a result, the Department offers programs and services to recognize the achievements of youth and develops partnerships with other youth-serving organizations that augment and offer valued resources to support the military youth community. Military Youth Programs prepare youth to meet the challenges of military life, adolescence, and adulthood with programs such as physical fitness and sports, arts and recreation, training in leadership, life skills and career/volunteer opportunities, mentoring, intervention and support services. DoD promotes programming to support character and leadership development, sound education choices, and healthy life skills.

There were 25 youth facilities funded with NAF between FY 2008 – 2010, contributing to meeting the needs of military youth and supporting military families in state-of-the art facilities.

The Department enthusiastically supports and joins the First Lady Michelle Obama's efforts to combat Childhood Obesity and improve the health of our Nation's children. The DoD Childhood Obesity working group has developed a strategic action plan to support the President's goal of eradicating childhood obesity in a generation. This multidisciplinary working group is composed of subject matter experts in the fields of public health; nutrition; early childhood and youth development; pediatrics; prenatal care; mental health; MWR and fitness; food services; recruitment and education. We believe this has enormous promise for improving the health of our children and giving support to our parents to make healthy choices and life style changes

Child and Youth Behavioral Military and Family Life Consultant (CYB-MFLC)

The ODASD(MC&FP) established the Military and Family Life Consultant (MFLC) program to provide private and confidential non-medical, short term, situational, problem-solving counseling services. This non-medical counseling is designed to address issues that occur across the military lifestyle and help families cope with the normal reactions to the stressful/adverse situations created by deployments and reintegration. Consultants provide training, and educational presentations/workshops to Child and Youth Program staff and parents. Support is also provided to children and adolescents up to age 18 on topics such as identifying feelings, problem solving, bullying, conflict resolution, self esteem, coping with deployment and reunification, sibling/parental relationships, managing anger, time management, separation from parent(s), and divorce.

The Department continues to provide positive youth development programs that support the achievements of youth. As we look to the future, the focus will be on serving more youth while continuing to emphasize consistent, coordinated efforts to encourage and provide positive youth development.

In summary, the Department is sustaining a robust program to accelerate and expand child care capacity and youth program support. As we continue to find ways to support and build strong military families, we remain vigilant of the ongoing need of more child care and youth services. We will continue to make prudent choices of allocating resources to take care of our youngest assets – our military children.

DEFENSE COMMISSARY AGENCY

Active duty members and their families consistently rank the commissary benefit as one of their top benefits, second only to health care. The Defense Commissary Agency (DeCA) operates 249 commissaries around the world, supported primarily with appropriations. The commissaries annually sell almost \$6 billion in groceries, meat, poultry, produce, dairy products, and household goods. The products are sold at cost plus

a 5 percent surcharge paid by customers. Within this pricing structure, the Department's goal is to sustain a 30 percent saving on comparable private sector market baskets. The surcharge collections are used to recapitalize commissary facilities, equipment, and store information technology. Military Department appropriations fund commissary facilities at new locations, as well as requirements necessary to support significant mission changes.

Commissary Oversight

The Military Departments, through their representation on the DeCA Board of Directors, advise on the funding and operation of the commissary system and assist in the overall supervision of DeCA. Specifically, the DeCA Board validates the requirement for each commissary store, recommends the allocation of operating and capitalization resources, and evaluates DeCA's performance. I look forward to continuing this collaboration and consultation with senior Service representatives and consider it crucial to keep the commissary benefit on solid footing.

Through the DeCA Board, the Military Departments are working together to guarantee each taxpayer and surcharge dollar is well spent. Recognizing the commissary store is a magnet within the military community; DeCA is taking a leading role to promote quality of life, family events, nutrition, and wellness programs in partnership with the exchanges, DoD schools, TRICARE Management Activity, Guard and Reserve units, and MWR. DeCA continues their highly successful on-site grocery sales conducted at Guard and Reserve locations during training and family weekends. Since beginning the on-site sales, the Defense Commissary Agency has delivered the commissary benefit to more than 464 Guard and Reserve locations.

The DeCA Board is closely monitoring effects of global restationing, grow the force, and BRAC 2005 decisions on requirements for commissaries. The needs of active duty members are the primary consideration when making decisions about locating commissary stores. As a general rule, commissary operations are discontinued when an installation is closed. Where active duty populations are growing, new stores may open

and existing stores may expand facilities and operations, provided Service appropriations fund these mission-directed requirements.

Commissary Funding

The FY 2011 President's Budget fully funds the DeCA FY 2011 request for \$1,370.5 million to operate the commissary system. The operating budget supports 252 commissaries around the world, six overseas combined stores operated by exchanges, 10 distribution centers overseas, and the DeCA headquarters, region, and zone offices in the U.S. and overseas. DeCA is a service-oriented agency with labor costs representing 75 percent of the annual operating budget.

FY 2011 commissary sales are budgeted at over \$6.1 billion, with \$326.41 million planned for surcharge obligations to fund store maintenance, information systems, equipment requirements and the commissary construction program.

In the beginning of FY 2010, the Surcharge Ten-Year Plan was updated in accordance with current Integrated Program Budget Submission projections and requirements. The surcharge shortfall was reduced to \$100 million based on rising surcharge revenues tied to increased sales, shifting requirements properly funded with appropriations, and lower construction costs. Consequently, there are no plans to raise the surcharge rate above the five percent currently paid by the commissary patrons.

Commissary Performance

DeCA operates under Balanced Scorecard performance metrics. DeCA is improving the quality and availability of goods, maintaining sales levels, reducing costs, and pursuing efficiencies through business system and process changes. These improvements translate to superior customer satisfaction and 31.5 percent savings for the commissary customer. The performance of the commissary system reflects the combined efforts of the approximately 18,000 DeCA employees.

ARMED SERVICE EXCHANGES

The Services run three independent, world-wide exchange systems that operate retail complexes on 297 military installations. Catalogs and Web sites sell a wide range of merchandise and services to the military community. The Exchanges also provide resale activities and telecommunications to support military missions on board 160 ships and in 93 contingency operations, including deployed locations and disaster relief areas.

The Army and Air Force Exchange Service (AAFES), the Navy Exchange Service Command (NEXCOM), and the Marine Corps Exchange (MCX) are operated predominantly with self-generated nonappropriated resources and with Service appropriations authorized for limited purposes. The exchanges price their goods to average at least 15 percent savings to the customer and produce revenues at a level set by their Service to sustain exchange capitalization requirements and help finance their MWR programs.

Exchange Oversight

The Military Departments have operational and fiduciary responsibility for funding the three exchange systems and each Service supervises its exchange through a board of directors.

Telecommunications Contracts in Combat Zones. The Department is committed to providing free telephone benefits and low cost telecommunications services so deployed and hospitalized members can remain connected to family and friends. The estimated value of telephone benefits provided at no cost to Service members is \$17.42 or 96 calling minutes per month, which does not include the value of Internet services.

As required by the law, we review contracts for all types of telephone services offered in combat zones in order to minimize costs to members and provide flexibility in phone card usage. We thank the Subcommittee for clarification contained in the FY2011 National Defense Authorization Act. By eliminating the requirement to review cell

phone contracts, you have improved the capability of the Exchange Services to respond quickly to requirements for cell phone service.

Exchange Funding

The FY 2011 President's budget requests \$217 million of support for exchanges, with \$188 million to fully support transportation requirements to ship U.S. procured goods to overseas locations, as is required by the law. The exchanges are responding to changing requirements for deployment support, including scaling back activities in Iraq and providing more austere support in Afghanistan. The audited FY 2009 NAF financial statements report the exchanges are in sound financial condition.

Exchange Performance

The exchanges have standardized performance measures against program and financial goals established by their Military Services, which we review annually. In 2009, AAFES and NEXCOM fell short of sales goals, but exceeded profit goals. Marine Corps sales and profits surpassed targeted goals. Compared to 2008 performance, both AAFES and NEXCOM reported improved profitability and the Marine Corps profits returned to 2007 levels after a banner year in 2008. The Exchanges are improving, streamlining, and modernizing operations using new technologies and business partnerships. Exchange cooperative efforts are underway in systems, logistics, and supply. Business and cooperative partnerships are also being used to optimize catalog and internet operations.

The improved AAFES and NEXCOM 2009 profitability allowed the exchanges to maintain distributions of MWR dividends at 2008 levels, while retaining more funding for capitalization requirements. AAFES and NEXCOM continue to report sufficient funding for NAF capitalization requirements identified for the next ten years. The Marine Corps' 2010 major construction is unusually large due to commercial borrowing to recapitalize high revenue-producing main stores. In 2010, the Marine Corps revised its ten-year recapitalization shortfall estimates, having previously reported no shortfall.

All three exchanges are exceeding the goals set by their boards for customer savings and satisfaction. The exchanges are responding to customer- identified opportunities to improve quality and value, while recognizing consumers are “de-luxing” in the wake of the recession. Customer feedback is also sought on-line and in-store at point of sale. When benchmarked to department and discount stores, customer satisfaction scores continue to improve and average savings to customers are 20 percent or better – well above the 15 percent target.

As a companion to customer satisfaction, the exchanges also measure employee satisfaction, which is high and continues to improve. The exchanges employ nearly 62,000 people, who serve in nonappropriated fund personnel systems, with family members representing 29 percent of the workforce and job opportunities provided to Wounded Warriors and veterans.

EXECUTIVE RESALE BOARD

Where the commissary and exchange interests intersect, Congress showed great foresight by establishing the Executive Resale Board. With many of its members also serving on the DeCA and the exchange boards, the Executive Resale Board is taking an increasingly active role to ensure complementary approaches where there are mutual interests.

Vendor Base Access. The post-9/11 environment increased demands for controlled access to our military installations. Employees of vendors who service the commissary and exchange activities experience delays and added costs in order to gain access to military installations. The interests of the resale community are being considered as the Under Secretary of Defense for Intelligence designs, tests, and evaluates the access control systems and develops inter-operable credentials with other federal agencies.

Sustainability. The Department is committed to minimizing waste and pollutants on military installations. In consonance with the Military Departments’ environmental

management, each of the retail activities is supporting Service initiatives to achieve a 50% reduction of solid waste, including plastic bags, by 2015. The Resale Activities are testing incentives to reduce usage and improve recycling of plastic bags, offering reusable bags, and lowering the petroleum content of plastic bags.

MIGRATING TO THE NEW GLOBAL POSTURE AND DOMESTIC STRUCTURE

Access to the benefits is a pressing concern as we close and realign overseas and domestic bases. The Department recognizes our obligation to work with the affected communities. With our resource constraints, resale and MWR programs can only be provided at locations where there is a sufficient concentration of active duty members who use our activities. By divesting resale and MWR operations that are no longer required to support active duty missions, resources can be redirected to support the military communities that are experiencing a significant increase of active duty Service members.

As a general rule, we do not continue resale operations after an installation closes. At the installations closing under BRAC 2005 and based on our experience in previous BRAC rounds, it is unusual for Local Redevelopment Authorities to seek continuation of resale activities. As we evaluate specific locations, our primary consideration is the impact of closure and realignment on active duty personnel and their families who use the commissary and exchange.

Commissary, exchange, and MWR programs are realigning and rescaling to coincide with the changes in Germany and the Republic of Korea. Where new missions or significant troop movement create facility requirements, appropriations and funds available under host nation agreements are sought. At closing installations, agreements with host nations govern payment for the value of our facilities.

Effective October 1, all twelve joint installations created under BRAC legislation established full operational capability. The Department is working with the Military

Departments and installation commanders to ensure all Component equities are represented and implementation procedures and end-state programs conform to joint base guidance for nonappropriated fund activities and civilian human resources. Common output level standards for lodging, MWR, children and youth, and family and warfighter services programs are monitored quarterly to ensure the joint installations are meeting the standards.

TAX PREVENTION AND RECONCILIATION ACT OF 2005

When implemented in January 2012, the Tax Prevention and Reconciliation Act of 2005 will require the Defense Commissary Agency and nonappropriated fund instrumentalities withhold and remit to the IRS a 3 percent income tax from payments owed to vendors. Our quality of life activities will bear the costs necessary to modify systems. Our trading partners, especially small businesses, may pass the burden back to customers by raising prices or declining service to the military market.

NONAPPROPRIATED FUND PERSONNEL SYSTEMS

Thank you for your advocacy on behalf of our programs and our NAF workforce. Our MWR and exchange workforce of nearly 135,000 NAF employees continues to play a vital role in improving quality of life for our Service members and their families. There are currently approximately 400 NAF civilians deployed in combat zones. In addition to staffing the functions that provide valuable benefits to Service members and their families, the NAF workforce is a source of employment opportunity to the military community. Approximately 20 percent of the NAF workforce is composed of active duty military members' spouses. In recent years, NAF employers have taken an increasingly active role in the Department's efforts to place Wounded Warriors in civilian positions.

CONCLUSION

Be assured that as we move our defense enterprise toward a more efficient, effective, and cost-conscious way of doing business, we will take care of our most valuable asset: our Service members and their families. I look forward to working with

Congress in this effort. In conclusion, thank you for your support of the dedicated men and women who chose the highest calling of public service in defense of our nation. We share a passion for improving the quality of life of our Soldiers, Sailors, Airmen and Marines and their families.



Marines aboard Forward Operating Base Nalay use Morale Satellite computers and phones, which Marines from the Warfighter Express Services Team set up during a mission from Sept. 26 through Oct. 10, 2010. The 1st Marine Logistics Group (Forward)'s WES Team travels throughout the remote locations of southern Helmand province, Afghanistan to provide service members with some of the comforts from home such as ways to easily communicate with family and a mobile Post Exchange. On this particular Mission, the WES Team was able to support 1,589 service members."





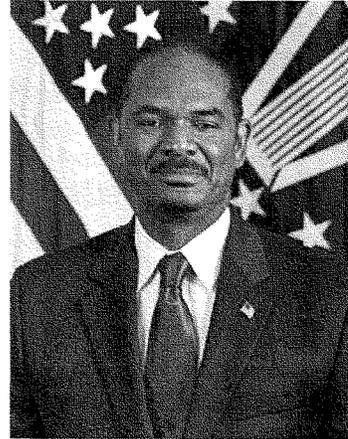
Robert L. Gordon, III

**Deputy Assistant Secretary of Defense (Military
Community and Family Policy)**



Mr. Robert L. Gordon, III, a member of the Senior Executive Service, is assigned to the Office of the Secretary of Defense, serving as the Deputy Assistant Secretary of Defense for Military Community and Family Policy, effective July 19, 2010.

Mr. Gordon is responsible for policy, advocacy, and oversight of all community support to service members and families; quality of life issues; state liaison initiatives; family programs and the 24/7, 1-800 family assistance services; child development and youth programs; military spouse career advancement; the off-duty, voluntary education program for military personnel; tuition assistance; morale, welfare, and recreation; defense resale for commissaries and exchanges; and family violence prevention and intervention. Included within the purview of his office is advocacy for quality education for all military students and defense-wide policy responsibility for the Department of Defense Education Activity that serves approximately 84,000 students in 192 schools in 14 districts located in 12 foreign countries, seven states, Guam, and Puerto Rico. His oversight includes the Armed Forces Retirement Home, casualty and mortuary affairs, and military funeral honors.



Prior to his appointment, Gordon served as the Chief People and Program Officer and Senior Vice President for Civic Leadership at *City Year*, where he was responsible for the organization's people programs including: recruitment, human resources, program and service, research and evaluation, the development of *City Year*'s 1,600 member corps of young leaders, the appointment of more than 12,000 alumni as 'leaders for life,' and the engagement of children and teens in service and civic leadership.

A 1979 graduate of the United States Military Academy at West Point, Gordon was commissioned a second lieutenant in the Field Artillery. His 26-year Army career includes command and staff positions, duty as the Aide-de-Camp to then Brigadier General Colin Powell, service as an instructor and assistant professor of American Politics, and the Director of American Politics at West Point in the Department of Social Sciences. As a 1992–1993 White House Fellow, he served as the Special Assistant to the Secretary for Veterans Affairs and the Director of Special Operations, Office of National Service, The White House, to help found the *AmeriCorps* program. Gordon then served as the executive director and co-founder of the *Service America* program at West Point, and he has advised foreign governments on

national service systems. Most recently, Gordon was the chair of *ServiceNation: Mission Serve*, an initiative that created partnerships between the military and civilian service sectors to fill critical gaps of need in the military community.

Gordon's military education includes the Field Artillery Officer Advanced Course, the United States Army Command and General Staff College, and the National War College. He earned his BS from the United States Military Academy and an MA in public affairs from Princeton University's Woodrow Wilson School for Public and International Affairs.

His awards and decorations include the Legion of Merit, Defense Meritorious Service Medal, Meritorious Service Medal, and Army Commendation Medal with five oak leaf clusters, the Outstanding Volunteer Service Medal, the Army Achievement Medal, Parachutist Badge, Ranger Tab, and two awards of the Honorable Order of Saint Barbara.

STATEMENT BY:
MAJOR GENERAL BRUCE A. CASELLA, U.S. ARMY
COMMANDER, ARMY AND AIR FORCE EXCHANGE SERVICE
BEFORE THE
MILITARY PERSONNEL SUBCOMMITTEE
OF THE
COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES
112TH CONGRESS, 1ST SESSION
HEARINGS ON
MORALE, WELFARE, AND RECREATION PROGRAMS
AND RESALE ACTIVITIES
10 FEBRUARY 2011

NOT FOR PUBLICATION
UNTIL RELEASED BY
THE HOUSE ARMED
SERVICES COMMITTEE

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to testify today. I am eager to share how the Army and Air Force Exchange Service (AAFES) is providing the exchange benefit to the members of the Armed Services and their Families. First, I would like to express my sincere gratitude for your commitment and dedication to protecting and enhancing this vital benefit.

When AAFES last participated in these hearings in the spring of 2009, financial markets were in disarray, consumer confidence was near an all-time low, the retail landscape was entering a period of rightsizing, and many merchants struggled to maintain viability. And though the recession was declared officially over in June 2009, the economy has not achieved a full recovery. In the last testimony, the AAFES Commander reported the organization was not only fundamentally sound, but strategically positioned to weather the economic storm. My report today will affirm that forecast and demonstrate the strategy behind AAFES' strength in the face of this adversity. In fact, it is only through a clearly defined strategic plan that the value of the exchange benefit, as well as the significance of our 115 year old mission to provide quality goods and services at competitively low prices and dividends to support Air Force Services and Army Morale, Welfare, and Recreation (MWR) programs, can continue to flourish.

This effort began to take shape in 2008 when AAFES leadership asked the team to begin thinking BIG and acting small. We tackled the BIG goals of pursuing patron loyalty, Associate ownership, and continuous improvement, while challenging every Associate to "act small" through executable tactics to produce desired results. In 2009, AAFES focused on building upon that foundation to "Win the Future" by refining our value proposition to be so clear and convincing that authorized shoppers recognize AAFES as their first and best choice. Our 2010 operating plan focused on "Releasing the Power of AAFES" to become an even greater force

multiplier. Today, AAFES is ready to leverage the synergies this Command shares with authorized patrons, stakeholders, partners, and Associates as we work to strengthen the exchange benefit for all.

AAFES is bringing its vision to be exchange customers' first choice into focus through a lifelong emotional connection we are committed to forging with military shoppers from Bagram to Fort Bragg and back again (and again...and again). Operating in more than 30 countries, 5 U.S. territories, all 50 states, and on the world wide web, we are building these relationships one transaction at a time. This footprint means that wherever the 12.5 million active duty troops, Reservists, National Guard members, military retirees, and their Families call home, AAFES is there. This is accomplished through a comprehensive infrastructure of more than 3,600 AAFES retail, food, and services activities and online at shopmyexchange.com. AAFES' flagship main stores – better known as BXs and PXs – are complemented by a wide variety of convenience and specialty stores including military clothing, service stations, and movie theaters. AAFES also provides vending, gas, and fast food, including about 1,100 name brand restaurants such as Burger King, Popeyes, and Subway. AAFES partners with local small businesses and community entrepreneurs to bring specialty retail merchandise and food/services concessions in addition to the traditional personal services such as barber shops, dry cleaning, and items unique to specific locales.

While AAFES strives to serve all military consumers, we recognize the special responsibility to serve those on the front lines of contingency operations and exercises, including those playing a role in OPERATION NEW DAWN (OND) and OPERATION ENDURING FREEDOM (OEF). Sustained expeditionary and mission support demonstrates that at AAFES, we truly do “Go Where You Go.” Working in concert with commanders on the ground, AAFES is developing innovative ways to deliver the exchange benefit while minimizing costs and

improving patron services. For example, a successful supply chain solution within OEF is providing a stock assortment of approximately 153 core items to unit-run Tactical Field Exchanges (TFE) scattered throughout Afghanistan. Currently, 28 unit-run TFEs and 9 Imprest Fund activities are operating in Afghanistan. AAFES is actively engaged with military leaders to effectively manage inventory and infrastructure to ensure a smooth transition as we bring additional sites online in the coming year.

AAFES is not only meeting patron expectations on the front lines, but also the needs of value conscious Military Families on the home front. Patrons appreciate the average annual 24 percent savings (30 to 32 percent with tax) they receive on a market basket of common products compared to the competition. These smart shoppers also get the most out of their exchange benefit when they reach for “private label” products. The all-exchange services’ “Exchange Select” brand, for example, saves shoppers between 20 to 50 percent when compared to name-brand counterparts. Today, Military Families can choose from more than 600 safe, high-quality, and affordable products in categories ranging from health and beauty aids to laundry detergents. Proprietary clothing labels like Passports for women, R&R for men, and PBX for the family provide entry to moderate price points for the budget-conscious military customer. Shoppers certainly expect great value from military exclusive products, but AAFES extends the savings even further to include name brand merchandise and services. Brands such as Coach, Pink by Victoria’s Secret, Nike, and Adidas attract patrons to the exchange through “concept shop” models, which offer the Best Brands at the everyday savings below the manufacturer’s suggested retail price.

AAFES continues to focus on enhancing merchandising initiatives and mandatory training programs to create a shopping environment that appeals to young, technologically savvy shoppers who are pressed for time. Our efforts were recognized in the December 2010

Consumer Reports magazine's "Best New Electronic" issue which ranked the AAFES PowerZone electronics department 5th out of 17 'walk-in' stores in overall customer satisfaction; beating out Best Buy, Wal-Mart, Target, RadioShack, Sears, and Sam's Club. Merchandise assortment is key to patron satisfaction and future success and I sincerely thank you for your support in instituting a process to seek approval to build and modify AAFES facilities to expand space to sell finished furniture. AAFES will continue to support the relaxation of all the merchandise restrictions that deny Army and Air Force families the ability to buy a more extensive range of products and services from their exchange. Removing these limitations would allow us to remain true to our commitment of value, service, and support, thereby enhancing the exchange benefit and improving quality of life for military service members and their Families.

AAFES continues to encourage the responsible use of credit through the MILITARY STAR[®] Card, the largest in-house private label credit program in the United States. Started some 25 years ago, the combined exchange proprietary credit card delivers one of the lowest interest rates of any retail card and unique features for military members, such as a 10-percent discount for new cardholders the first day they shop; no annual, late, or over-limit fees; financial education; 24/7 customer service; and exclusive zero-interest promotions throughout the year. For deployed cardholders, MILITARY STAR[®] offers a reduced interest rate and optional payment plan for the duration of the deployment. During the height of gasoline prices in 2009, AAFES increased savings for MILITARY STAR[®] cardholders to five cents off every gallon at all AAFES locations that dispense fuel and added periodic savings opportunities of up to 25 cents off per gallon. These features work collectively to strengthen the value of the exchange benefit.

Increased awareness of AAFES among the National Guard and Reserves continues to be critical, because more than half of the National Guard members, Army and Air Force Reservists, and their families do not live near a traditional exchange. Their presence on a military

installation is limited, other than during their training weekends or when called to active duty. The National Guard and Reserves' eligible sponsors represent approximately 21 percent of AAFES' authorized patrons; moreover, they constitute 26 percent of total ecommerce/catalog customers. AAFES is increasing our efforts to engage this underdeveloped customer segment. Focused strategies include new exchange level outreach program, direct mail, and initiatives designed to increase Guard and Reserve members' awareness of their multi-channel AAFES benefits.

To fully understand what value means to the National Guard, Reservists, and military retirees and anticipate their wants and needs, AAFES is creating a sense of community and belonging by finding ways to serve them in their communities. Personal engagement is critical to success! AAFES is committed to reaching outside the fence to communicate the value of this multi-channel exchange benefit in a way that is relevant to the National Guard, Reservists, Retirees, and their family members.

More than 18 million items available through the all-exchange Online Store and Exchange Online Mall, saving shoppers an average of 10 to 20 percent, have positioned AAFES as a leader in internet retailing. Supporting an extremely mobile patron base, the internet provides AAFES the ability to extend the exchange benefit to authorized patrons worldwide. In January 2009, aafes.com rolled out the new internet "Click to Brick" program that allows shoppers to place orders for qualifying items and have them delivered to any CONUS exchange without incurring shipping charges. Initially, the merchandise available for this program was comprised of the top 200 internet items; based on the feedback received, the stock assortment now includes more than 3,900 items.

We often say that AAFES is not your father's exchange and this is most apparent in the way we're connecting to patrons. AAFES entered the corporate blogosphere in late 2008 and since that time, AAFES has become an active participant in multiple facets of social media. Every day we connect with patrons in real life scenarios and engage with them to assist, inform, and at times, just listen and empathize. Utilizing an open and honest approach to both positive and negative comments, AAFES is making progress toward creating a culture of loyalty and transparency. Posts on Twitter, FaceBook, You Tube, and our own "Salute to Your Service" blog are not only helpful for shoppers, but provide additional sources of information that address their shopping and community needs.

AAFES is committed to not only the Soldiers, Airmen, Sailors, and Marines around the world, but to our beneficiaries as well: the Military Services who receive exchange dividends to support their military MWR programs. Right-sized inventories, streamlined logistics, and a sustained focus on accountability paid off in fiscal year 2009, as AAFES paid dividends to the Services totaling \$261.6 million. This same focus and faithfulness to fulfilling its important mission has continued through 2010, but like other retailers, 2010 has been a challenging year for AAFES. A slow, but continued economic recovery keeps sales and earnings relatively flat. While experts project economic momentum to yield 3-4% growth for 2011, their forecast could be tempered by lingering high unemployment and rising fuel prices.

While the stability of credit markets in early 2009 was certainly a concern, 2010 demonstrated that though they have not fully recovered, they have stabilized. Additionally, AAFES continues to work with our banking partners to take the appropriate steps to ensure the security of the organization and our employees should we be faced with a similarly unexpected financial market crisis in the future. AAFES continues to receive interest from investors and

banks alike because of our strong credit rating and solid performance during the market downturn. Standard and Poor's assigns AAFES a score of AA/Stable/A-1+, which rates our business risk as excellent with minimal financial risk. To further stabilize our credit rating, in 2010 AAFES received ratings from Moody's as well. AAFES received an Aa2 long term issuer rating, reserved for high quality companies subject to very low risk, and a Prime-1 short-term rating, which is the best possible short-term rating. For both ratings, AAFES has received the highest rating awarded to a retail organization.

While the majority of exchange earnings are returned to the Military Services to fund Army MWR and Air Force Services programs, about one-third is re-invested in exchange operations in the form of new facilities or renovated/updated stores. In the past five years, from the beginning of FY05 to the end of FY09, AAFES has completed 127 major construction projects valued over \$1.1 billion. These capital dollars were put toward larger, better, and more environmentally sustainable exchange facilities, as well as the improvement or renovation of existing exchange operations. In the next five years, AAFES intends to keep an emphasis on capital investment as \$1.5 billion is programmed for new stores and improvements to existing facilities. This investment in the future will ensure AAFES has the infrastructure in place as troops and their Families are impacted by military transformation initiatives such Base Realignment and Closure and Global Defense Posture Realignment.

At Fort Bliss, Texas, AAFES is partnering with local command, Army Family Morale, Welfare, and Recreation Command (FMWRC), Army Installation Management Command, and the Defense Commissary Agency (DeCA) to enhance quality of life within the military community. Our "Freedom Crossing" lifestyle center pilot provides an innovative retail development for military shoppers and represents a paradigm shift in AAFES' approach to

exchange facilities. This unique open-air lifestyle center provides retail, name brand casual dining, and a multiplex theater in a relaxed, inviting atmosphere complete with attractive amenities. The 52 acre Freedom Crossing, with its quaint surroundings accented by fountains and comfortable benches, is acting as the social gathering place and will become the heart of the community for Military Families. Our agreement with the FMWRC for casual dining also provides increased dividends for local MWR programs. The Lifestyle Center is convenient, safe, and delivers to patrons a contemporary, relevant retail, food and entertainment offering.

AAFES started 2010 off on the right foot, opening new exchanges at Little Rock AFB, Randolph AFB, and Fort Polk, as well as Keesler AFB, which was constructed with Hurricane Katrina appropriations. These new exchanges are not only larger to optimize the exchange benefit, they are greener, more sustainable facilities built to Leadership in Energy and Environmental Design (LEED) Silver certifiable standards. In fact, exchange facilities at Randolph AFB and Fort Polk were among the first Department of Defense (DoD) facilities to be registered with the U.S. Green Building Council (USGBC) LEED new construction retail pilot program. We are working with the USGBC to obtain Silver certification on those two facilities.

Efficient operations come not only from facility investment, but also in the resources devoted to improving core processes such as the supply chain. We are collaborating across the planning and management of all the AAFES activities involved in sourcing, procurement, and logistic processes. This includes unprecedented coordination and collaboration with channel partners that can be suppliers, intermediaries, third-party service providers, and customers. AAFES has more to do to integrate the supply and demand management within and across companies as we drive to link the major business functions and business processes into a

cohesive and high-performing business model. Marketing, sales, product design, finance, and information technology go hand-in-hand with the procurement, logistics, and store operations.

In 2010, AAFES warehouse management professionals began to prepare distribution support systems for state-of-the-art logistic systems modules that will allow for the centralized control of all warehouse operations. This centralized database platform will allow unprecedented integration with all AAFES systems and will support the organization by reducing inventory-carrying cost, labor cost, and inventory cycle times.

One of the keys to meeting the needs of both patrons and beneficiaries is developing mutually beneficial partnerships that drive overall performance. AAFES' goal is to be the premier collaborative partner with federal and commercial entities; we understand the strength of our bonds with vendors, military MWR programs, the DeCA, our Sister Exchanges, and other DoD entities will determine the strength of the entire defense resale system.

While the economy may have forced some retailers to scale back on merchandise or services, AAFES is actively seeking the assistance of local businesses to increase the product selection troops and their Families find at their local exchange. The addition of local, small, minority-, women-, and veteran-owned businesses provides the diversity, value, and innovation to further enhance the shopping experience. In 2009, AAFES increased our spend with these diverse suppliers to \$278 million; a 70 percent increase from 2008 and through the fiscal third quarter 2010, we've already exceeded 2009 results with \$330 million; an 81 percent increase. Partner businesses, called concessions, operate in AAFES-provided space, primarily in the retail mall area. AAFES assists in marketing and promotion to help maximize awareness on and around the installation. Despite the current economic condition, exchange shoppers continue to demonstrate a strong demand for new and unique merchandise. Partnering with AAFES

provides local businesses exposure to a great deal of foot traffic as well as the opportunity to serve Military Families who are protecting our freedom.

Expansion into concession operations is not limited to physical installations. With the addition of new vendors; Aaron Markus Watches, Cookies Kids, Hip Hop Bling, and Exchangeonlinemall.com, the exchange online virtual concession mall, now features 102 virtual concessions. These new concession sites provide unique products with exclusive savings to Military Service members and their Families.

Our collaborative efforts with partners in the military resale and support communities took great strides in 2010. We continue to emphasize our role in the entirety of the military community and our partners within that community, especially DeCA, FMWRC, and AF Services. Our "Operation Be Fit!" website activity promotes healthy lifestyle to the military community including Motorcycle Safety; Comprehensive Soldier Fitness and its associated assessments; both Military One Source and Army One Source; the Army Family Covenant; and local, regional, and national FMWRC and Air Force Services events. In 2010, the Exchange provided approximately 100,000 race bibs free of charge for FMWRC garrison events, yielding a significant cost offset for FMWRC.

Perhaps the most visible collaborative effort is the wrapping of 100 trailers of AAFES' CONUS fleet with the Army Family Covenant graphics and our plan to wrap 100 more trailers in 2011 with Army One Source graphics. Each trailer has more than 8.9 million highway impressions (views) per year. An estimated 89 million people have seen the first 100 trailers and that will jump to 180 million views in 2011 once the additional trailers are added. We make the most of outreach opportunities by making the wrapped trailers available to both FMWRC and

Air Force Services as static displays for major events such as the Army 10 Miler, the Army Bowl and Armed Forces Bowl football games, as well as garrison level events.

In the spirit of cooperation, we also make our extensive in-store radio and television networks available to FMWRC and Air Force Services for advertising. Our network spans not only our own AAFES facilities worldwide, but also almost all CONUS DeCA facilities.

AAFES continues to actively participate in the Exchange Cooperative Efforts Board (ECEB) and collaborative initiatives with Navy and Marine Corps sister exchanges. In addition to joint credit, e-commerce, and exclusive label programs, the ECEB-chartered Supply Chain Team continues to identify opportunities to improve operations by sharing ideas and best practices, and collaboratively working together to remove costs and achieve business imperatives. The Indirect Procurement team continues to focus on leveraging the purchasing power across the exchanges. Collaborative efforts in 2010 enhanced the efficiency and reduced operating costs by \$24.2 million by combining procurement opportunities and negotiating more favorable terms and cost prices.

As part of the AAFES and FMWRC personal telecommunications partnership on Army installations worldwide, FMWRC has transitioned all Army for-fee internet CONUS programs to AAFES in order to capitalize on economies of scale and standardization of internet, television, and phone operations. The new partnership will rationalize and centrally manage telecom categories for improved customer experience and increased savings to patrons. Managed by AAFES, with participation by and in coordination with FMWRC, we are using third-party concession providers to optimize customer service and savings, grow earnings, and streamline the requirements process. The transfer of 31 CONUS locations to contracted AAFES providers was completed by 31 December 2010.

Over the two years, AAFES expanded collaboration opportunities with FMWRC on a number of other mutually beneficial initiatives. On the logistics front, Army Installation Command in Europe (IMCOM-E) merchandise is now handled through the AAFES distribution network, which allowed IMCOM-E to eliminate their European infrastructure, resulting in significant annual savings. Other partnerships include wine and spirits for MWR clubs and joint advertising initiatives to cross-promote exchange and MWR programs.

Improving patron satisfaction, operational efficiencies, and partnership opportunities would be impossible without the drive and dedication of AAFES Associates. AAFES' goal is to create an employee culture of loyalty, ownership, sustainability, and continuous improvement. Recognizing organizational excellence does not happen by chance, so AAFES is investing in a human capital strategy as we "build the bench" to shape future leaders. Last year, the AAFES certification program advanced Associates' product knowledge in retail departments such as furniture, jewelry, clothing, and electronics. Individual development plans are providing the foundation for the knowledge, skills, and abilities. Associates need to be effective, not only at their current position, but be prepared for the next level of responsibility. Associates in name brand fast food (NBFF) operations improved their ability to execute brand standards by completing NBFF restaurant training and basic management certifications. AAFES' commitment to this program is evidenced in the 86 percent of Burger King and 80 percent of Popeye's managers who have completed certificate requirements.

Diversity and inclusion are key elements in our strategy to win the future. Diversity is about growth and opportunities for everyone. It is the right thing to do, but more importantly, it gives AAFES a clear business advantage; organizations with effective diversity and inclusion programs outperform those that do not. To fuel this change, AAFES is building a bench of

qualified, diverse candidates to lead the organization into the future. AAFES hit the mark by meeting the Equal Employment Opportunity Commission 2010 challenge given to all federal agencies to achieve two percent representation of people with “targeted disabilities” within their respective workforce. A strong leadership commitment, expanded recruitment initiatives, and increased collaboration with partner agencies has broadened the windows of opportunity and enabled AAFES to not only meet, but to exceed this goal. In 2010, AAFES was recognized by the Department of Assistive and Rehabilitative Services as Employer of the Year. Today, AAFES employs more than 800 people with “targeted disabilities,” accounting for 2.38 percent of the overall workforce. Adding “non-targeted disabilities” to the equation and the number of disabled Associates employed with AAFES spikes to more than nine percent.

AAFES continues to refine the strategic planning process that drives not only business and functional goals, but individual goals as well. This is evident in the realignment of the employee performance management systems in regard to goals and strategies. Each Associate now crafts individual goals to link organizational strategies with employee actions from headquarters to the retail sales floor. Associates carry “Goals to Go” cards with them as daily reminders of what each must achieve to meet AAFES’ goals and stay focused on our mission.

Regardless of where troops are called to serve, AAFES Associates go with them to deliver the goods and services they have come to expect from their exchange benefit. Every week AAFES civilians board planes to deploy to OND/OEF, volunteering to leave home from 6 to 12 months, to take care of troops performing a very difficult mission. Since the start of the global war on terror, approximately 4,675 AAFES Associates have deployed to the Middle East, several with multiple deployments. At any given time, approximately 300 Associates are deployed throughout the region. My respect and gratitude goes out to these brave women and

men who are willing to leave the comforts of home so AAFES can deliver the merchandise, fast food, and special services that increase the morale of troops and bring a touch of home to those stationed so far away.

AAFES brings value, service, and support not only to military members, beneficiaries, partners, and AAFES Associates, but to the larger military community. Overseas, AAFES operates bakeries and water bottling activities to provide Military Families the same fresh, high quality branded products they would enjoy in the United States; Wonder Bread, Home Pride Bread, and Culligan Water, just to name a few. We provide these products for sale in exchanges as well as to overseas commissaries, troop dining facilities, military hospitals, and MWR food and beverage activities. As the designated School Feeding Authority on Army and Air Force installations overseas, AAFES also provides 21,000 nutritious meals per day to students kindergarten through 12th grade, in 86 schools in nine countries, on a break even basis.

Fitness and wellness are universal challenges for any organization and for the military community at large; a fit body, mind, and soul ensure top performance in the daily endeavor of protecting America's freedoms at home and abroad. To assist in this vital mission, AAFES has worked with the entire military resale community on initiatives to promote healthy choices, highlight fitness solutions, and provide personal wellness information. We launched the website OperationBeFit.com, which provides a one-stop spot for fitness and wellness information, products, and events for patrons and Associates alike.

AAFES also supports the military community through employment opportunities we provide Military Family members and Veterans. AAFES currently employs more than 5,500 Military Spouses and is an active leader within the Army Spouse Employment Partnership (ASEP), which promotes the employment of Military Spouses. Local human resource offices

participate in ASEP-sponsored career fairs as well as Wounded Warrior Events, providing job opportunities for both entry level and professional positions. AAFES is also registered with the Employer Support of the Guard and Reserve and links to the statement of support from our employment website.

AAFES even provides opportunities for those outside the gate to support the military community. The American public continues to remember troops serving far from home, sending more than three-quarters of a million dollars of Exchange gift and phone cards. Our gift card effort allowed civilians from all walks of life to go online in 2010 and send more than \$125,000 worth of gift cards, which were distributed to military families around the world. The Exchange's "Help Our Troops Call Home" effort accounted for \$657,967 in online sales to non-authorized exchange shoppers last year and more than \$9.1 million since the program's inception. At \$22, the Military Exchange Global Prepaid Phone Card is capable of delivering more than two hours of calling time between Iraq or Afghanistan to the United States. Since the program's inception, the American public has provided enough communication support to furnish more than sixty million minutes of conversation between the front lines and the home front. Military Exchange Global Prepaid Phone and AAFES Gift Cards can be sent to individual service members or "any service member" through charitable partners such as the American Red Cross, Air Force Aid Society, Fisher House Foundation, Navy-Marine Corps Relief Society, Soldier & Family Assistance Center, and USO.

Cleaning up the environment begins at home, and "home" for AAFES is the Army and Air Force communities throughout the world where valued patrons serve, live, dine, and shop. AAFES has incorporated sustainability as one of its strategies for winning the future and reducing our carbon footprint. Since the AAFES Sustainability Program began more than three

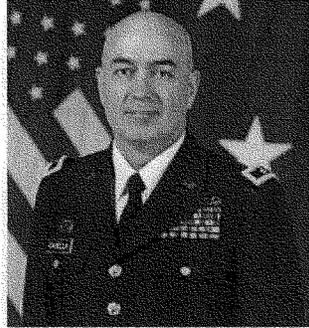
years ago, conservation efforts and Associate participation within AAFES have become increasingly visible. At headquarters and exchanges, high-profile efforts include installation of recycling bins, energy efficient lighting, low-flow faucets and toilets, increased use of Energy Star vending machines, procurement of Energy Star products, and sustainable design and construction of new and renovated stores. The AAFES logistics fleet is "going green" as we continue to deploy auxiliary power units (APU) on our fleet tractors. The APU, a self contained unit that provides air conditioning, heating, and electricity to the cab, eliminates the need for the tractor to idle during down times. Since 2009 AAFES has also employed an on board oil purification system that removes solid and liquid contaminants from engine oil, continually keeping the oil clean. Installed on 242 trucks in CONUS, the system will help reduce oil and maintenance costs since changes are only required every 80,000 miles versus previous intervals of 15,000 miles. Trailer skirts are now installed on more than 500 of our 53' trailers which have proven to increase fuel mileage by 5 percent through better aerodynamics, and aluminum tractor wheels are now installed on nearly all fleet tractors providing additional fuel savings of up to 10 percent through cooler tire temperatures and improved tire pressure integrity.

To encourage these earth friendly initiatives, AAFES established a Sustainability Award Program to recognize superior sustainability and conservation. Winners are determined using established performance criteria, including credit for sustainability partnerships with the installation; energy and water reduction performance; policy compliance; energy training; and sustainable product sales. Reducing energy, water consumption, and waste generation is a win-win situation for all, making partnerships between AAFES and installations crucial. AAFES was proud to be recognized by the Department of Energy as a recipient of the 2010 Federal Energy Management Program Award. This award is given to Government Agencies who make progress

meeting the Federal Energy Management Goals and recognizes our outstanding achievements in energy, water, and fleet management.

Releasing the power of AAFES is not a simple task, but it is one that is worthy of our efforts. It requires teamwork throughout the organization in a way that rewards excellent customer service, innovation, and results. I am confident that AAFES is poised to continue our long-standing tradition of excellence as we work together to maintain a strong and viable exchange for patrons, beneficiaries, partners, Associates, and the military communities we serve. Again, I want to thank this committee for its support, not only for AAFES and the entire military resale system, but for the brave men and women of our armed forces.

I look forward to your questions.



Major General Bruce A. Casella
Commander, Army and Air Force
Exchange Service

Major General Casella assumed duties as the Commanding General and CEO of the Army and Air Force Exchange in April 2010. Prior to his current assignment MG Casella commanded the 63d Regional Support Command based in Moffett Field, California with a BASOPS mission to support 40,000+ Reserve soldiers over seven states in the Southwest from California to Arkansas, while simultaneously commanding the 63rd Regional Readiness Command in Los Alamitos with over 10,000 Reserve soldiers spread across seventeen western states. Additionally MG Casella held the position as a Senior System Engineer and part owner of Agile Communications Incorporated, based out of Rancho Cucamonga, California.

Major General Casella was born in Vallejo, California on 1 February 1953. He is a 1975 graduate of the United States Military Academy, West Point, New York where he earned a Bachelor of Science degree in Engineering. MG Casella received a Masters in Systems Management from the University of Southern California in 1980 and a Masters of Science in Electrical Engineering from the Air Force Institute of Technology, Wright Patterson Air Force Base, Dayton, Ohio in 1983.

MG Casella attended Signal Officer Basic School, Fort Gordon, Georgia and Airborne School, Fort Benning, Georgia before reporting to the Republic of South Korea to serve as a platoon leader in Company B, 304th Signal Battalion. Upon leaving Korea, MG Casella was assigned to Fort Polk, Louisiana where he served as Commander, Company A, 5th Signal Battalion and Communications/Electronics Staff Officer for 7th Engineer Battalion.

MG Casella was then assigned to Germany where he served in the 7th Signal Brigade, Mannheim, Germany as a Tele-digital, Radio Relay and Systems Control Officer with follow-on assignment as Commander, Headquarters and Headquarters Company, 44th Signal Battalion. Upon returning from Germany, MG Casella was assigned to Fort Gordon, Georgia where he served as an instructor for the Communications-Electronics Leadership Department, Battalion Executive Officer for 4th Battalion, 2d School Support Brigade, and Battalion Executive Officer for 447th Signal Battalion, 29th Signal Brigade.

MG Casella began his Army Reserve career in September 1988 as a Military Occupational

Specialty (MOS) Director and Officer Advanced Course Instructor for the 6222nd United States Army Reserve Forces School, Pasadena, California. MG Casella then assumed duties as Headquarters Commandant for the 63d Army Reserve Command, Los Alamitos, California with follow-on assignments as Battalion Executive Officer for 155th Corps Support Battalion and Commander, 155th Corps Support Battalion in El Monte, California. MG Casella followed battalion command with assignments on the 63d Regional Support Command staff in Assistant Deputy Chief of Staff for Training and Operations positions. From 1998 through 2001, MG Casella commanded the 164th Corps Support Group, Mesa, Arizona followed by duty as the Chief of Staff, 96th Regional Support Command in Salt Lake City, Utah from 2001 to 2002. In October 2002, MG Casella became the Deputy Commanding General, 311th COSCOM and Assistant Chief of Staff, G4 (Wartime), Eighth United States Army, Korea. MG Casella served as the 311th COSCOM Acting Commander in 2004 with subsequent assignment as the Commanding General, 311th COSCOM in 2005. In support of Operation Iraqi Freedom and Operation Enduring Freedom, MG Casella was deployed during 2005-2006 and served as the Commanding General for the 377th Theater Support Command (FWD), under Combined Forces Land Component Command (CFLCC), providing theater logistics support throughout the SWA area of operations.

MG Casella is a graduate of the Army Command and General Staff Officer Course and the Army War College. His awards and decorations include the Legion of Merit, Bronze Star, Meritorious Service Medal, Army Commendation Medal, Army Achievement Medal, Army Reserve Component Achievement Medal, National Defense Service Medal, Korean Defense Service Medal, Armed Forces Reserve Medal, Army Service Ribbon, Overseas Service Ribbon, and Parachutist Badge.

MG Casella currently resides in Arlington, Texas as a geographical bachelor while his wife Cathie and daughter Heather hold down the fort in Rancho Cucamonga, California.

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THE COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

STATEMENT OF
REAR ADMIRAL (SELECT) GLENN ROBILLARD, SC, USN
BEFORE THE MILITARY PERSONNEL SUBCOMMITTEE
OF THE
COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES
FEBRUARY 10, 2011

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THE COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

Mr. Chairman and distinguished members of the Subcommittee, it is my privilege to represent the Navy Exchange Service Command (NEXCOM) and our 14,000 dedicated associates worldwide. This is my first time appearing before you and I appreciate the opportunity to update you on the Navy Exchange System.

The Navy Exchange System will celebrate its 65th birthday on April 1st. Navy Exchanges were established in 1946 with the objective of improving Sailors' Quality of Life, providing non-pay compensation as part of their total benefits package. Today we continue to meet that objective by providing quality merchandise and services our Sailors and their families want, saving them money everyday and providing funding to support their Morale, Welfare and Recreation programs. Surveys have shown that our Sailors and their families value the benefit greatly and they consider exchanges essential to retention and readiness.

Our Navy Sailors are strong in their dedication and commitment to taking care of our great nation. Our NEXCOM associates are dedicated and committed to taking care of them, as well as their families, including our retirees, reservists and guard families. In my first year as Commander, I have had the opportunity to travel to many of our exchanges and lodges and have personally witnessed that dedication and commitment. I can assure you that our Sailors and their families are in good hands. I would like to take this opportunity to share with you how we are meeting our mission today and our plans to ensure the future viability of the exchange benefit.

Supporting Family Readiness

Military life has its challenges. As our Sailors serve, so do their families. Long deployments and frequent moves are hard on families. We ask a lot of our families and

they give so much. Navy is committed to providing Quality of Life programs that help our families cope and Navy Exchange programs are an important part of that commitment.

Our Sailors and families expect us to deliver value and savings in these tough economic times. Surveys have shown savings are important to them. Seventy five percent cite savings as a major reason for shopping NEX. We also know that value is important to them. “Best Brands Best Buys” is the unique value proposition for the Navy Exchange. While many retailers offer best brands and many offer best buys, the Navy Exchange offers both. NEX offers the brands our families want at the savings they deserve.

Successful retailers have a deep understanding of their customers and their buying patterns. We work continuously to strengthen our understanding of our Navy families so we can better meet their needs. It starts with employing family members. Twenty-six percent of our worldwide associates are military family members. We have a family member continuity of employment program that provides priority placement as they move with their active duty spouse, affording an opportunity for a long-term career with NEX.

To help us better understand our families, we use data gathered from our annual customer surveys to create customer segmentations to focus on the differences of our shoppers; our customer segmentation encompasses five categories: arrivers, empty nesters, full nesters, double dippers, and senior shoppers.

With distinct customer segments, our buyers relate better to customer needs and each store better understands their customers. The end result is more targeted merchandise assortments and improved service response.

We listen to our families in order to bring them the products and services they need. Through surveys and focus groups, we know the exchange benefit is important to our Navy families. We also interact with them through social media, including Facebook and Twitter. When our families commented they needed lower price children's clothing, we responded. A recent Navy Exchange advertising flyer features, "You asked for kids' lower prices, we listened," with children's basic t-shirts and shorts at \$3.99 and mix and match separates under \$6.00. The families' input is very important to us.

NEX delivers much more than savings to our families. Indeed, they see the NEX as more than just a store. It is a place where they can go for that sense of community, particularly for the family whose Sailor is deployed and for those who live overseas. With the support of our industry partners, we offer many programs and activities focused on families, including celebrity appearances, homecoming events, health and safety awareness programs, bridal fairs, back to school events, and joint events with MWR and the Defense Commissary Agency (DeCA). Navy families were very excited to meet such celebrities as pop music star Justin Bieber at NEX Oceana and comedian Sinbad at NEX Pearl Harbor. Our Customer Appreciation Days are very popular, particularly at overseas locations. This past year, NEX Guantanamo Bay celebrated its ninth annual Customer Appreciation weekend, which has become one of the most anticipated and attended events on the Naval Station. With the support of more than 60 industry partners, the three-day event included an MWR/NEX 5K run, martial arts demonstrations, bike and

skateboard team demonstrations, music and magic shows, and prize giveaways. This is just one example of giving our Navy families more than just a shopping experience.

When our families transfer to new duty stations, our Navy Lodges are there to provide affordable, temporary lodging, complete with kitchens. The Navy Lodge program is funded almost entirely with self-generated revenues. Over the past several years, Navy Lodges have increased sales and modernized facilities significantly. Guest satisfaction exceeds a ranking of 95, as compared to the hotel industry average of 65. Navy Lodge rates are 45 percent below per diem, which provides direct savings for Navy families and Navy operating expenses.

Families and friends can stay in contact with their deployed Sailors, no matter where duty calls. Our Telecommunications Program provides personal calling on board for 177 U.S. Navy ships and Coast Guard cutters, as well as personal telecommunications and internet services at Navy Lodges, Navy Gateway Inns and Suites, Bachelor Quarters, various MWR facilities, and Navy hospitals. Partnering with industry ensures state-of-the-art services at the lowest possible cost. Over the years, we have successfully lowered the prices of afloat telephone calls, currently at only forty-five cents per minute. Our prepaid phone cards save up to 38 percent on calls within the U.S., and 47 percent on calls from outside the U.S. Free WiFi internet services are available at NEX food courts and Navy Lodge lobbies. Through a partnership with Navy MWR, we expanded WiFi to Single Sailor Liberty Centers, libraries, and campgrounds.

We also provide other programs that support Navy families, particularly in overseas locations. NEX provides school lunches to DoD schools at Naples and Sigonella, Italy; Rota, Spain; Yokosuka, Sasebo, and Atsugi, Japan; and Guantanamo Bay, Cuba. NEX

Naples works with local utility companies and accepts payments for electric and telephone/internet, allowing them to receive their bills in English and pay in U.S. dollars. We continue to work with our installations to expand our family support.

Supporting Military Readiness

Our NEXs are located on base installations worldwide. We are part of their community and they look to us to provide that familiar piece of home. We are fully aligned with Navy.

Demonstrating Navy's commitment to Quality of Life, senior Navy leadership executes the duties of the Morale, Welfare and Recreation/Navy Exchange (MWR/NEX) Board of Directors (BoD), providing oversight over both programs. The MWR/NEX BoD reviews and approves financial and capital plans for both MWR and NEX to ensure they are relevant and aligned to the needs of Sailors and their families. The MWR/NEX Board ensures a balance between savings to Sailors and dividends to support MWR programs due to their thorough understanding of each program.

Our General Managers and District Vice Presidents are an integral part of the installation and region commands. Our Installation Commanders have an important oversight role to ensure the needs of their Sailors are being met. One example was our recent effort at Naval Support Activity Bahrain to ensure merchandise assortment was expanded to meet the needs of returning family members. Working with the command, we were able to gain a better understanding of the demographics of the families currently there and those arriving in the near future.

NEXCOM operates 102 Navy Exchange complexes around the world, consisting of 296 retail stores, over 1,200 service outlets, 140 public private partnerships, 102 uniform

shops, and 41 Navy Lodges. We also operate 461 food service outlets, 378 through contract and 83 direct run operations, including cafeterias, snack bars, and name brand franchises. We provide 30 national name brand food service outlets our Sailors know and like, such as Subway, McDonald's, Pizza Hut, Baskin Robbins, Starbucks, Rice King, Panda Express, Five Guys Burgers, Chili's, and Quiznos, to name a few. We not only operate sites on Navy installations, but we also provide food service contract support in various DoD buildings, including the Pentagon, Defense Intelligence Agency, and the National Defense University.

As Navy's operations evolve around the globe, so do NEX operations. Our NEX Bahrain store is now one of our top 10 stores in sales. Working with Navy, we are evaluating other locations where our services need to be expanded. For example, we are continuing to grow and improve our assortments and services at NEX Djibouti, in the Horn of Africa.

We continue to partner with Navy to help them with many initiatives. To help communicate the Navy's messages, we provide space on our sales flyers for important initiatives such as financial health classes, smoking cessation, and motorcycle safety. As Navy responded to help the earthquake victims of Haiti in early 2010, we responded with support to U.S. Naval forces deployed to the region.

Our Ships Stores Program provides essential Quality of Life services to Sailors and Marines serving on fleet ships around the world. Whenever they are called to sea, our Ships Stores Program is there with them. We provide retail stores, vending machines, barbershops, and laundry facilities to make afloat life a little easier. The profits generated

in the Ships Stores support shipboard MWR programs, which are vital to building morale and readiness at sea.

The Navy Uniform Program provides quality uniforms and professional tailoring services. Partnering with Navy, we have finished the rollout of three new Navy uniforms. NEXCOM also provides joint uniform support, providing uniforms at selected locations for other services. We are also proud to provide uniforms to the Dover Mortuary and Uniformed Public Health Service for those who have made the ultimate sacrifice in support of our nation

Our support for our wounded warriors who have sacrificed so much for our nation continues. Our highly-rated Navy Lodges provide affordable accommodations in the vicinity of medical facilities, with priority given to wounded warriors and their families. It is important to our wounded warriors to get back into their uniform, and our NEX tailors work to make it happen. Our tailoring program has expanded to include Marine uniforms. We provide free phone cards to Navy hospitals and to USNS Comfort. This past year, Nintendo donated more Wii game systems, and Pioneer Distributors, with the support of Microsoft, donated Xbox Kinects to Navy medical centers and clinics throughout the world for the recreation and rehabilitation of wounded warriors. For those wounded warriors who are transitioning to veteran status, we are implementing a Wounded Warrior Hiring Program, providing training and career path opportunities.

2009/2010 Accomplishments

The past years have continued to be challenging for all retailers across the United States. In today's economic environment, the NEX mission of savings and value is even more important. Over the past year, we have initiated more successful pricing programs,

all designed to provide savings on everyday items used by our Sailors and families. Customer response has been very positive and our patrons know Navy Exchanges are there to help them stretch their dollar.

As a result, we had a banner year in 2009. Same store sales increase is a key metric in the retail industry, measuring retail sales growth for stores open a full year. Our 2009 Navy Exchange store sales increased 2.2 percent, outperforming the commercial retail industry average decline of 2.5 percent. We proudly delivered a net profit of \$72.6 million from our FY09 operations, surpassing our MWR/NEX BoD approved plan. This profit resulted in \$51.1 million provided directly to our Sailors through contributions to Navy MWR programs, a significant increase over recent years. We attribute the success of our profitability to the continued strong relationship with our customers and vendor partners; and better management of inventory and expenses. Our strong performance continued into 2010, and while our financial results are not yet finalized, we expect to exceed our MWR/NEX BoD planned profits.

Every fall, NEX customers participate in a customer satisfaction survey to determine if the stores are delivering the products and services they need. The survey rates a variety of areas including merchandise selection and availability, customer service, store environment, and the total shopping experience. In 2010, we achieved a one point increase with a score of 83, continuing a trend of annual increases. We are extremely pleased with this score. A score over 80 ranks the NEX among the upper tier of retailers in the United States.

To ensure we meet a critical element of our mission, which is savings, we use an outside company to conduct price surveys. NEX's latest market basket survey shows that

customers save an average of 22 percent, not including sales tax. The survey compared prices on approximately 350 specific merchandise items against major retailers across the continental United States and Hawaii. Navy Exchanges provided savings to customers in each of the 36 different departments shopped. Savings in the domestics department were 45 percent, boy's clothing savings were 37 percent, and girl's clothing savings were 32 percent, to name a few.

As commercial retailers are reaching out to their customers through social networking, so are the NEX and Navy Lodge. We are on Facebook and currently have 80,000 fans, growing daily. Navy customers who become Facebook fans of NEX have the opportunity to find out about upcoming sales, promotions and store events, and they can also ask questions and participate in surveys. Social media forums such as Facebook, Twitter and emails, help spread the word about the NEX benefit and keep our customers connected. Talking about a recent celebrity visit at NEX Oceana, one fan recently posted, "It really does mean a lot that they are doing this for military families. What a fun thing to do, especially with my hubby deployed, gives me something to look forward to."

Today, retailers are extending their brick and mortar presence with cross-channel initiatives; Navy Exchange is no exception. In December 2009, we launched our enhanced website, an extension of our existing Military Uniform Web Store. The new website, myNavyExchange.com, features select merchandise to support our Navy Sailors and families. These products include tactical gear, Navy logo merchandise, motorcycle safety gear, electronics, and baby products. An important part of the online experience is the ability to provide information about products available in our Navy Exchange stores,

integrating our cross-channel shopping experience with our brick and mortar stores. We have begun this initiative with limited items and will be expanding the selection for our customers in the near future.

Positioning for the Future

As we continue our focus on delivering the benefit today, we are also working to sustain and improve the future viability of Navy Exchanges. NEXCOM's vision is to become a premier retailer with brands that reflect the spirit of our Navy, our Sailors and their families. The timeless values that make our nation strong are the same values that make our company strong.

We operate in an interconnected, global environment. Our customers have many options and we must offer extraordinary customer service to continue to attract them. To be successful, NEXCOM must be well positioned in this environment. We will do that by enabling our associates, improving our processes, upgrading our facilities, using technology to reach out to our customers, embracing our customers by providing extraordinary customer satisfaction, and partnering with the retail community. To that end, we have completed our 2015 Strategy with three strategic goals: strengthen Navy community readiness, deliver the benefit to Sailors and their families, and grow the benefit through sustainability and continuous improvement.

To remain competitive, we are rolling out an aggressive facilities modernization plan. Our objective is to refresh our buildings every seven years and rebuild every 30 years.

We are committed to fiscal accountability. The issue of financial accountability and management is paramount today. Through rigorous risk assessments, we have instituted many improved internal control initiatives.

NEXCOM has both a responsibility and an opportunity to be a leader in sustainability. As we build and renovate our exchanges, we are focused on more energy efficient operations. Additionally, our assortment of “green” products for our environment-conscious patrons has been expanded in our stores. Working with our military resale partners, we want to reduce our future consumption of plastic bags. We offer reusable bags, an initiative which has been well received.

At NEX, our greatest strength lies in the skill and talent of our associates. We have deployed world class enterprise training and development tools for each level of associate progression, from entry level to senior management. We value our associates and are committed to being an employer of choice.

Partners Delivering the Exchange Benefit

Meeting our mission and strategic objectives requires close collaboration with our partners. We all share a passion for improving the Quality of Life for our Sailors and their families.

We are engaged in strategic partnerships with Navy and our retailing partners, Army and Air Force Exchange Service (AAFES), Marine Corps Exchange, Coast Guard Exchange, and the Defense Commissary Agency (DeCA). We will continue our emphasis on collaborative initiatives that enhance military resale’s ability to deliver improved benefits to our military and their families. We are expanding our joint contracting initiatives, which has lowered our combined spend costs. There is a

significant amount of work being conducted to explore ways to streamline the logistics chain in areas where we operate together. A current initiative of the Exchange Cooperative Effort Board is the sharing of freeze containers going overseas to the Pacific for DeCA, NEXCOM and AAFES. This allows us to increase the frequency of shipments for NEXCOM and AAFES (biweekly to weekly), which results in increased customer satisfaction, higher in-stock rates and sales, increased ability to react to sudden demands, higher cube utilization, lower overall inventory, and reduced overseas transportation costs.

Our industry partners are instrumental to our success. They share our dedicated commitment to our military and their families. It starts with the quality products and services they provide at costs that help us meet our savings goals. They recognize the importance of the community spirit and provide many special events and celebrity appearances. We could not be successful without them.

In closing, I would like to thank the members of this subcommittee for your continued, dedicated support of the men and women who serve our great country. Working together with our DoD and industry partners, we truly can make a difference and improve the lives of our Sailors and families, who remain our focus each and every day.



Rear Admiral (Select) Glenn C. Robillard
Supply Corps, United States Navy
Commander, Navy Exchange Service Command

Rear Admiral (Select) Robillard is a Native of Worcester, Massachusetts. He is a 1978 graduate of the University of Massachusetts with a Bachelor of Science in Mathematics. He received his commission through the Naval Officer Candidate School in 1983. His initial sea tour was onboard the USS SIMON BOLIVAR (SSBN-641) (Gold) as Supply Officer. His later sea duty assignments include Supply Officer onboard the USS WOODROW WILSON (SSBN-624) (Gold), Supply Operations Officer onboard the USS SIMON LAKE (AS-33), and Military Detachment, Officer in Charge onboard the USNS SATURN (T-AFS-10).

His shore assignments include Overhaul and Outfitting Department Head, Polaris Material Office; Officer in Charge, Naval Supply Center Norfolk Detachment, Newport, Rhode Island; Assistant Director of Operations Research, Naval Inventory Control Point; Logistics Automation and Transformation Officer, United States Joint Forces Command; Head, Supply Detailing Branch, Office of Supply Corps Personnel; and Director of Supply Corps Personnel. Rear Admiral (Select) Robillard previously served as the Commanding Officer, Fleet and Industrial Supply Center, San Diego, California.

Rear Admiral (Select) Robillard holds a Master's of Education Degree in Mathematics from the University of Massachusetts (1982), a Master of Science in Operations Research from the Naval Postgraduate School (1994), and a Master of Arts in National Security and Strategic Studies from the Naval War College (1999). He is a distinguished graduate of both the Naval Postgraduate School and the Naval War College. Additionally, Rear Admiral (Select) Robillard completed the Stanford Business School Executive Education Program in 2005.

His personal awards include the Legion of Merit (two awards), the Joint Meritorious Service Medal, the Meritorious Service Medal (three awards), the Joint Services Commendation Medal, and the Navy Commendation Medal (three awards). He is also a 1994 winner of the Stephen A. Tisdale Award from the Military Operations Research Society for graduate research with the most significant impact on military related issues.

**STATEMENT OF
JOSEPH H. JEU
DIRECTOR, DEFENSE COMMISSARY AGENCY
BEFORE THE
MILITARY PERSONNEL SUBCOMMITTEE
OF THE
COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES**

FIRST SESSION, 112th CONGRESS

February 10, 2011

**NOT FOR PUBLICATION UNTIL RELEASED BY
THE HOUSE ARMED SERVICES COMMITTEE**

Mr. Chairman and Members of the subcommittee, it is my pleasure to appear before you, as the newly appointed Director of the Defense Commissary Agency, to detail why the Commissary continues to be an excellent investment for both taxpayers and the patrons it serves. In these trying economic times, military families continue to rate the commissary as one of their most valued benefits. We continue to see more and more of our Service members taking advantage of their benefit to relieve their financial stress. Regardless of the fluctuation we see in commercial grocery sector prices, military patrons continue to travel that extra distance to shop in their commissary. While we demonstrate daily that the commissary benefit is more valuable than ever for all those who proudly serve or served our Nation, the Agency also continues to outperform many governmental entities. These accomplishments are due in large measure to the dedication of the 18,000 employees who operate the commissary system and to the hundreds of suppliers who provide exceptional support to each and every commissary and go out of their way to reward Service members and their families who have sacrificed so much.

Efficiencies and Savings. While I am new in my current position, I have a long history with the commissary system, and have helped it seek better business efficiencies and practices, both before the DeCA's activation as a Defense Agency and after. Since its activation, DeCA has a proven history of taking cost out of the commissary system without decreasing the value of the benefit provided. DeCA's operating costs, when measured in constant dollars, continue to decline. Since its beginning, efficiencies have allowed DeCA to reduce its workforce by almost 10,000 full time equivalent positions and operating costs by almost \$700 million in constant FY 1992 dollars. In fact, when measured in constant dollars, DeCA's operating costs are only slightly more than one-half of what they were

when the Agency activated on October 1, 1991. We had another impressive year in fiscal year 2010 with all key metrics moving in the right direction—sales remained near the \$6 billion mark; the cost of delivering the commissary benefit, came in under budget, customer service scores increased and patron savings levels remained constant.

Even with decreasing costs, the value provided by the commissary benefit continues to be confirmed by our patrons, who have expressed their satisfaction with an overall customer service rating of 4.68 on a scale of 5. Again this year our internal measures were validated externally by the American Customer Satisfaction Index (ACSI). DeCA's latest score of 80 exceeded the ACSI commercial supermarket industry average of 75. Customers reported to ACSI once again that DeCA's strengths are: customer satisfaction, perceived overall quality, perceived value, and low customer complaints.

Of course, saving our customers money remains the heart of the commissary benefit. If you ask commissary customers such as Navy Reserve Chief Petty Officer Rene Sotolongo, a mobilized reservist who is stationed at Naval Base San Diego, he'll tell you how valuable the benefit is to him: "When I got off of full active duty there was a year where I had no benefits at all, so I was kind of forced to shop out in town," he said. "Shortly thereafter, my wife started complaining because we saw the food bills increasing exponentially, and that was one of my driving factors to go back to the Navy so that I could get my commissary privileges back. We saw our food bills drop about \$150 a month – and that's a lot of money."

Commissary savings on our patrons' overall purchases remained constant at 31.5 percent this year, yielding total customer savings of nearly \$2.8 billion. For those patrons who consistently use their commissary, savings can amount to nearly \$4,400 per year for

an average family of four, over \$2,400 for a couple, and more than \$1,500 for a single Service member.

Partnerships with Industry. Of course, without the tremendous support of our trading partners—manufacturers, distributors and brokers—our level of savings would not be possible. Their support of military families and the commissary benefit remains outstanding, extending far beyond the pricing and in-store support of products. The tremendous ancillary support from industry in the form of store support, military only coupons, contributions to installations, promotions and giveaways, scholarships, and income opportunities for family members, provided an additional \$244 million in value last year, over and above the savings military families realized on their commissary purchases. As examples, commissary trading partners contribute millions each year to support the Scholarships for Military Children Program administered by the Fisher House Foundation. Since the program started in 2001, it has awarded more than \$8.3 million in scholarships to almost 5,400 children of Service members. They have donated generously to installation programs seeing our troops off to war, welcoming them back home, and providing that special care for and recognition of our wounded warriors. Others, like Newman's Own, contribute the profits it makes on the sale of its products in the commissary to provide grants to a number of veterans and community groups so they may continue their special programs that provide such needed items as companion dogs and oversized clothing that can fit over body casts for hospitalized troops. At the same time, commissary trading partners are supporting other service organizations that take care of the military, such as the Red Cross, USO, and the National Military Family Association. At Langley Air Force Base, the J.M. Smucker Company went all out to demonstrate “the best

part of waking up” to over 3,000 military personnel by serving them breakfast in a park adjacent to the commissary, while they were serenaded by country western singer Rhonda Vincent. Whether it is huge promotions like those just described, bringing celebrities to commissaries and installations, providing prizes for drawings, or giving commissary gift vouchers to patrons, our trading partners do their part daily to support the commissary benefit and their country. I would be remiss if I did not take this opportunity, on behalf of the Department, the Defense Commissary Agency and commissary patrons everywhere, to publicly acknowledge and thank them for their continued support. This type of trading-partner support demonstrates vividly that there are many elements that comprise the true value of the commissary benefit.

Military Readiness. The commissary enables troops to focus on their mission when deployed, improves retention by providing a “sense of community” for military personnel and their families, and provides access to American products around the world in a safe, secure shopping environment. We have long known and heard the anecdotal stories that military personnel appreciate that the commissary is looking out for their families as they look out for our country. Knowing their families are being cared for allows troops to focus on the mission at hand, rather than on the well-being of their families. To take that one step further, DeCA increased emphasis on conducting more on-site sales at National Guard and Reserve centers to provide a partial commissary benefit to members living in areas where DeCA does not have brick and mortar commissaries. Continuing the emphasis we have place on these events, during Fiscal Year 2010, 156 National Guard and Reserve on-site sales were held. Over 70,000 patrons bought \$8.7 million in commissary items, saving \$4 million over commercial supermarket prices. We were joined by a military

exchange at several of these events. These sales continue to be a military community hub for National Guard and Reserve families to get information on other DoD benefits and programs. Military health officials, MWR activities, and other DoD service providers also distribute information on their programs at these on-site sales. An additional benefit of these sales is that we offer employment opportunities to family members and military spouses as part-time employees to augment our workforce for these events.

People continue to be our most valuable resource as they provide the backbone of the commissary system. Of our approximately 18,000 employees worldwide, virtually all of whom are civilian, it is gratifying to know that 62.5 percent of our U.S. civilian employees are comprised of military spouses, family members, military retirees, National Guardsmen, Reservists, or veterans. I am convinced that it is because of this vested relationship to the military that our workforce does such a great job of taking care of our Service members and their families. With military spouses making up the largest overall category of our employees, the Agency has been very successful in recruiting, promoting, and retaining them in various positions from store associate to Chief of Staff. Military spouses not only have a vested interest in the commissary, they also bring a first-hand knowledge and understanding of the importance of the benefit. We are proud to be a significant supporter of the various military spouse preference programs and have implemented an internship program specifically aimed at helping spouses maintain continuous employment, career advancement, and training. At the same time, however, we recognize that many military family members, particularly spouses, experience extraordinary impacts in their lives, particularly when their sponsor is deployed. To the

greatest extent possible, within our business needs, we work with spouses and family members to accommodate their needs.

Cost Avoidance. Two areas where the commissary favorably impacts Departmental resources are Cost of Living Allowance (COLA) and the Defense Transportation System. The presence of a commissary is a cost avoidance factor included in the formula for computing COLA rates. AAFES and DeCA also serve as the retainer for the Defense Transportation System, as the top two peacetime overseas shippers within the Department. Our peacetime use allows the Department to reserve additional shipping, at more favorable rates, when required for operational needs.

Financial Accountability. We closed our financial books for fiscal year 2010 with pride and satisfaction, knowing our fiscal responsibility assures taxpayers their dollars are well-invested in the commissary benefit. We continue an unblemished record of achieving unqualified opinions on our consolidated financial statements, which began in 2002. In addition, we remain a leader within the Department for implementing the requirements of the Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*, Appendix A. The effective linkage of accountability and audit readiness to internal controls over financial reporting has resulted in more outstanding results. DeCA tied for first place with Army, the Defense Information Systems Agency, and Special Operations Command for the best FY 2009 Statement of Assurance. Both of these results – eight clean audit opinions and our first-place finish in internal controls – demonstrate DeCA's ceaseless commitment to financial accountability. We are committed to fiscal accountability because commissaries are the premier quality-

of-life benefit for Service members; and we have an ongoing obligation to increase the value of that benefit without increasing costs.

Environmentally Responsible. DeCA is a committed environmental performance leader in the retail food marketing industry and the Armed Forces Community. Our Environmental Management System (EMS) has been a very useful tool in managing our environmental initiatives and measuring the success of the Agency's environmental programs. Our EMS was fully implemented in FY 2009 after being certified in conformance with ISO 14001 by an independent, Army Corps of Engineers, third party auditor. Mindful of our stewardship requirement for both taxpayer and service member funds, we annually review the EMS to ensure its continuing suitability, adequacy, and effectiveness. We have increased the amount of recycled cardboard, and more than 70 commissaries have begun recycling plastic. As you might imagine, the substantial refrigeration requirements of our stores require a lot of energy. We have retrofitted 50 percent of our stores with modern equipment that is more efficient than the requirements for Energy Star certification, and we will continue that effort until all stores are as energy efficient as possible. DeCA's environmental program recently received a high-level pat on the back when the Department of Energy presented the agency with a 2010 Federal Energy and Water Management Award for outstanding efforts in energy efficiency, water conservation and renewable energy technologies. We also encourage earth-friendly practices among our customers through the promotion and sale of a variety of "green clean" products such as compact fluorescent bulbs, reusable-recyclable shopping bags, environmentally friendly and concentrated detergents, and ultra sized paper products that

reduce waste. We continue to educate customers on the availability and use of earth-friendly alternatives that help us all.

Partnership with Other Agencies. We continue to enjoy the benefits of partnering with our fellow military resale activities and other DoD or Federal programs. Whether it is joining the U.S. Public Health Service in signing a joint proclamation urging DeCA employees, customers, and all citizens to “Be Active Your Way” by engaging in physical activity and joining the President’s Challenge, or participating in joint sales activities with the exchanges, our goal is always enhancing the Quality of Life for military patrons. Some examples of programs which enhance the Quality of Life of our military and their families are—

- Executing a campaign to confront childhood obesity.
- Working with DoD to promote the financial fitness of our Nation’s military. DeCA is joining other DoD agencies and installation financial institutions in echoing the benefits of becoming financially fit. As part of DeCA’s partnership with Military Saves, a national campaign to persuade, motivate, and encourage military families to save money every month, commissaries work with installation financial counselors to arrange “savings” tours of the stores designed to help shoppers learn how they can stretch their grocery budgets with tips that include taking advantage of price promotions and coupons.
- Promoting DoD’s program for psychological care for veterans and families to let them know it’s OK to ask for and receive much-needed assistance without being stigmatized.

We continue to enhance the working relationship and increase the cooperation between the nation’s military commissaries and exchange services. It is only natural that

we capitalize on each others' strengths since we face similar challenges, essentially have the same clientele, and are on the same team while providing different services to the nation's military community. There are several areas where elements of military resale have already partnered to better serve the customer, be it for case lot sales, National Guard and Reserve on-site sales, distribution of certain products overseas, customer mailers, and other joint activities. We continue to seek ways to amplify our partnerships, especially in marketing programs, and to improve all services across the board. For example, this summer we joined our resale and MWR partners in "Fitness and Fun for the Family" events. Busy shoppers take advantage of a bonanza of savings at the commissary case lot sale and the adjoining exchange sidewalk sale. At the same time, customers learn about the benefits of a healthy lifestyle as installation clinic health workers checked blood pressure. Meanwhile, Morale, Welfare and Recreation representatives highlight fitness activities with demonstrations throughout the day. Industry-sponsored booths give out free, nutritious food and beverage samples, prizes, and discount coupon offers. Cooperation at this level has favorably impacted the Quality of Life of our military patrons and adds extra value to every visit to the Installation.

We also have several ongoing joint distribution efforts including DeCA transporting products to AAFES in Turkey and AAFES backhauling pallets for DeCA from the United Kingdom. Of larger importance, however, is the initiative between DeCA and NEXCOM to combine transportation shipments to Guam. Each entity had been shipping its products separately to Guam and a recently concluded test demonstrated that we can all save money by sharing shipping containers. We expect to expand that concept throughout the Pacific basin.

Military OneSource and Tutor.com are two examples of numerous cooperative efforts DeCA engages in with organizations that provide services to the military. They view us as a great venue to reach their audiences, and we're pleased to help them whether it be placing posters in our stores, printing messages on bags, or adding links to our Website to ensure all of our military families are aware of the benefits their Service and the Department offer.

Nutrition, Health and Wellness. We also partner with other Defense activities, such as the Department of Defense Education Activity in Europe. We are expanding the "Food for Thought" program to middle schools in Germany this fall. The Food for Thought partnership was created between DeCA and the Department of Defense Dependent Schools (DoDDS) as a nutrition literacy program. It promotes improved dietary habits, increases awareness of both the monetary and health benefits of shopping the commissary and preparing meals at home, and incorporates nutrition education and key messages from the Dietary Guidelines for Americans across the DoDDS curriculum.

DeCA continues to assert its role as a DoD leader in providing nutrition information with one of our latest programs being the creation of in-store promotional areas called "kids' zones." These zones, like the hopscotch game display on the floor in the produce section at our Fort Belvoir, Virginia store, are designed to demonstrate the link between physical activity and making healthy choices when shopping for and eating food. Other kids' zones have creative traffic-like signs promoting healthy lifestyle choices aimed at children. There are also child-size produce bins that make it easy for young children to "shop" for fruits and vegetables.

Earlier this week we opened our new store at the Naval Air Station Joint Reserve Base New Orleans. As you probably know, New Orleans is the focal point of a broad alliance of regional government and commercial interests that works to make sure the Gulf Coast seafood industry rebounds from the one-two punch of Hurricane Katrina and the Deepwater Horizon oil spill. To highlight the Gulf seafood industry, commissary patrons were treated to tasting recipes personally prepared on the spot by several celebrity chefs of the Gulf Coast region, and by the U.S. military's Joint Culinary Center of Excellence of Fort Lee, Virginia.

The New Orleans event also kicks off a DeCA-wide initiative to sell more fresh-local seafood, and more domestic frozen seafood, throughout the commissary system. On the fresh front, military shoppers will see more "seafood roads shows" at commissaries across the United States. The events last for two to three days, normally over a weekend, and may take place either within the store or outside. These temporary sales supplement normal commissary seafood selections and provide patrons further opportunities to purchase popular items. Emphasis is on contracting with companies that provide fresh, local and regional seafood at commissary-level savings. DeCA anticipates there will be more than 150 road shows in 2011. In the frozen foods aisles, DeCA is segregating freezer cases and using signage to identify U.S. produced seafood. This helps shoppers who prefer domestic seafood, because it isn't always easy to find source information on the packaging, especially when that involves taking items in and out of a freezer case. Since placing emphasis on obtaining domestic seafood, we have doubled the number of U.S. products available for sale in commissaries. We are continuing to seek additional items and have

issued a Notice to the Trade inviting any company representing domestic product to make a sales presentation to our buyers.

It has been my pleasure to tell you about the great things DeCA has accomplished this past year and its contribution to the quality of life of our military families. In closing, I would like to thank the members of this Subcommittee as well as each Member of Congress for their continued support of the commissary benefit. Last year we held the reopening ceremonies for the commissary and exchange that were destroyed by Hurricane Katrina at Keesler Air Force Base, Mississippi. I wish all of you could have been there to hear the comments as the patrons expressed their appreciation of their new stores and the importance this construction has played in the revitalization of the Gulf Coast area. This could not have happened without the support the Congress showed in appropriating the hurricane supplemental funds necessary to rebuild these facilities that are so important to the Quality of Life of our military families. So, on behalf of all of them, and all of us at the Defense Commissary Agency, I thank you.

I will be happy to answer any questions you may have.



Biography

DEFENSE COMMISSARY AGENCY
1300 E Avenue, Fort Lee, Virginia 23801-1800

Joseph H. JEU Director & Chief Executive Officer



Joseph JEU, a member of the Senior Executive Service, is Director and Chief Executive Officer of the Defense Commissary Agency, headquartered at Fort Lee, Va., a position he has held since January 2011. He is a Tier 3 Senior Executive, one of only 45 defense leaders to be so designated. In DoD's leadership structure, a Tier 3 SES equates to the rank of a three-star flag officer. As the agency's director, Mr. JEU oversees the operations and business processes of an agency that employs more than 18,000 at its headquarters, in its three regions and in about 250 commissaries in 13 countries, worldwide. He manages an annual budget of \$7.3 billion. Commissary annual sales totaled \$5.84 billion in fiscal 2010.

Mr. JEU has more than 32 years of service at the federal government, Headquarters U.S. Marine Corps, Department of the Army and installation levels. Prior to his current assignment, he served as the assistant commissioner for general supplies and services for the Federal Acquisition Service's U.S. General Services Administration, where he was responsible for managing three business lines: 1) supply operations, providing \$1.5 billion in products to federal agencies worldwide, 2) acquisition operations, establishing government wide contracts of more than \$22 billion a year, and 3) property management, disposing of nearly \$1 billion annually in excess personal property.

Mr. JEU began his 10-year run with GSA after his appointment in 2000 to the Senior Executive Service and subsequent selection as assistant commissioner for transportation and property management for the Federal Supply Service. In 1978, Mr. JEU began his government career as a commissary officer with the U.S. Army Troop Support Agency. Six years later, he joined Headquarters Marine Corps. There he managed the Marine Corps Commissary System that included 15 commissaries and two commissary complexes. By 1987, he was promoted to head of the Marine Corps Services Branch, where he managed the Marines' garrison-level vehicle fleet, personal property and food service programs.

He is the recipient of the 2009 Presidential Rank Award for Meritorious Executive, recognizing him as a leader in the top 5 percent of the federal government's Senior Executive Service. In June 2010, President Barack Obama appointed Mr. JEU as a member of the Committee for Purchase from People Who Are Blind or Severely Disabled. He has also received the Navy Superior Civilian Service Award in May 1987 and the Navy Distinguished Civilian Service Award in July 2001.

EDUCATION

1991, Harvard University, Kennedy School of Government, Senior Officials in National Security Program, Cambridge, Mass.

1975, Bachelor's degree in Business Administration, College of William and Mary, Williamsburg, Va.

CAREER CHRONOLOGY

2006 - 2010, Assistant Commissioner, General Supplies and Services Portfolio, Federal Acquisition Service, U.S. General Services Administration, Arlington, Va.

2004 - 2006, Assistant Commissioner, Office of Global Supply, Federal Supply Service, U.S. General Services Administration, Arlington, Va.

2000 - 2004, Assistant Commissioner, Office of Transportation and Property Management, Federal Supply Service, U.S. General Services Administration, Arlington, Va.

1987 - 2000, Head, Services Branch, Facilities and Services Division, Installations and Logistics Department, Headquarters, U.S. Marine Corps, Washington, D.C.

1984 - 1987, Commissary Program Manager, Facilities and Services Division, Installations and Logistics Department, Headquarters, U.S. Marine Corps, Washington, D.C.

1981 - 1984, Commissary Management Specialist, Directorate for Transportation, Energy and Troop Support, Department of the Army, Washington, D.C.

1978 - 1981, Commissary Officer and Specialist, European Commissary Region, U.S. Army Troop Support Agency, Heidelberg and Zweibruecken, Germany.

(Current as of January 2011)

NOT FOR PUBLICATION
UNTIL RELEASED BY
THE HOUSE ARMED
SERVICES COMMITTEE

STATEMENT OF
TIMOTHY R. LARSEN
DIRECTOR OF PERSONAL AND FAMILY READINESS DIVISION
MANPOWER AND RESERVE AFFAIRS DEPARTMENT
HEADQUARTERS, UNITED STATES MARINE CORPS
BEFORE THE
SUBCOMMITTEE ON MILITARY PERSONNEL
OF THE
HOUSE ARMED SERVICES COMMITTEE
ON
MILITARY RESALE AND MORALE, WELFARE AND RECREATION OVERVIEW
9-10 February, 2011

NOT FOR PUBLICATION
UNTIL RELEASED BY
THE HOUSE ARMED
SERVICES COMMITTEE

Chairman Wilson, Ranking Member Davis, and distinguished Members of the Subcommittee, it is my privilege to report on the status of Marine Corps Community Services (MCCS), which includes Morale, Welfare, and Recreation (MWR); Marine Corps Exchange (MCX); and Warfighter and Family Services programs. We thank Congress, especially this Subcommittee, for your continued support for these programs. The combined effect of these programs strengthens the unit individual and is critical to the readiness and retention of Marines and their families.

Introduction

"We will keep faith with our Marines, our Sailors and our families."

In his Planning Guidance, our new 35th Commandant of the Marine Corps, General Amos, said,

"We will ensure that Marines, Sailors and their families have availability and access to quality facilities and support programs, as well as resources and benefits that provide a quality standard of living. This same effort will be applied equally to our single Marines, who make up half of our Corps. To ensure effectiveness and efficiency, we will evaluate all Marine Corps Family Team Building Programs to determine where they require expansion to further assist our families and where they can be streamlined to reduce redundancy. We will make concerted efforts at attracting, mentoring and retaining the most talented men and women who bring a diversity of background, culture and skill in service to our Nation. Lastly, we will conduct a thorough "bottom up" assessment of our Transition Assistance Program to ensure it is providing the right educational and occupational assistance to Marines leaving our active duty ranks, thus fulfilling our

commitment to return better citizens back to communities across our Nation."

Specifically, the Commandant directed us to take the following program actions:

- **"Review and improve family readiness** - evaluate all Marine Corps Family Team Building Programs and make recommendations on optimum span of control, where we require further assistance to our families, and where we should streamline to erase redundancy;
- **Review and improve transition assistance** - conduct an assessment of our Transition Assistance Program and recommend a plan to revolutionize our approach to better meet the needs of departing and retiring Marines; and
- **Integrate Behavioral Health efforts** - present recommendations on how best to integrate more fully Behavioral Health programs/issues (Combat and Operational Stress Control (COSC), Suicide Prevention, Family Advocacy, Sexual Assault, and Substance Abuse Prevention) within the Marine Corps."

Although the past several years have been devoted to transitioning programs to a wartime footing, we are now in a period of review to ensure appropriate program balance and effective performance in accordance with the Commandant's Planning Guidance. I am proud to have the opportunity to highlight some of our significant accomplishments and new initiatives.

Marine and Family Program Update

During the past three years, the Marine Corps has made significant investments into programs that serve our Marines and

families. Connecting them to their assigned unit and to larger installation information and referral sources is the primary duty of Family Readiness Officers (FROs). A program assessment conducted by the Inspector General of the Marine Corps in October 2010 revealed that commanders consistently indicated that the enhanced Unit, Personal and Family Readiness Program, with the FRO support, has greatly improved, strengthens units, and is a force multiplier. Marines and families think the program is great and that the Marine Corps puts its money where its mouth is!

The most tender of our families, those enrolled in the Marine Corps Exceptional Family Member Program (EFMP), have also shared a resounding endorsement for improvements made to their level of support and our focus on providing a continuum of care. Year after year since our program expansion, we have gained the trust of our families and this is demonstrated in our increasing enrollments and reduction in assignment gaps or incompatibility problems experienced by families relocating to new duty stations. Our EFMP sponsors will always be the best advocate for their special needs family member, but when they need help obtaining benefits and services under federal and state education and disability laws, our EFMP attorneys are ready to

advise families on unique legal areas, such as special needs trusts and landlord-tenant issues related to accommodations.

To help school-age children of Marines flourish in new school environments, our installation School Liaison Program partners with Local Education Agencies (LEAs) to raise the educational capacity and standard of all - not just military children. Supporting more than 80 school districts surrounding major Marine Corps installations, our School Liaisons provide LEAs with information on the needs of Marine Corps families and access to beneficial training and counseling services to support teachers and students. Marine parents have the comfort of talking with and being supported by "a local education expert" who provides meaningful insights and support tools to new transfers and those with questions on local education policies.

Whether parents are working, experiencing family emergencies, or needing respite from single parent responsibilities connected to deployments, child care services remain a high priority quality of life requirement. In 2010, we provided 13,431 child care spaces and met 73 percent of potential need requirements. Within these totals, we are caring for approximately 2,500 special needs children. The Marine Corps, with your support, is executing an aggressive Military

Construction program and is opening 6 new Child Development Centers in Fiscal Year 2011 and 5 more in Fiscal Year 2012.

We know that an important relationship exists between on-base and qualified off-base availability. To help further define requirements, we have contracted for the development of a Child Development Program and Facility Master Plan. Using market assessments and analysis tools and techniques, the plan will evaluate on- and off-base access, unmet need, and will provide prioritized recommendations for meeting the need across the Marine Corps. We anticipate results this summer.

In 2011, we will also work with Marine Forces Reserve and Marine Corps Recruiting Command to identify opportunities to enhance availability of child care for Marines and families serving on independent duty and locations that are separated from military bases and stations.

The Marine Corps Semper Fit program was reorganized in the late 1990s and is comprised of the basic categories of sports, fitness, and recreation. Although these categories are still sound and some enjoy high utilization, we have learned through program review, listening to Marines and families, and benchmark studies, that some programs require redesign and improved

capabilities. These actions are important if we are going to meet the future needs of generation X, Y and Z Marines and families and contribute to the readiness, resiliency, and retention of Marines and families. Therefore, we are beginning a multi-year program enhancement plan beginning with the restructure of our Headquarters Marine Corps program office. Enhancements include expanding recreation programming, combat conditioning/functional fitness for combat readiness, therapeutic recreation for wounded warriors and exceptional family members, more flexible sports intramural programs, and offering sports programs that contribute to the physical training needs of a unit.

Finally, as discussed previously, the Marine Corps intends to more fully integrate behavioral health services, as well as improve the transition services provided to separating Marines. For Behavioral Health Programs, we are taking action to develop an integration framework that will address risk factors, enhance legacy programs, and support future operations. Leveraging Marine Corps leadership involvement and attention is critical to success. In all behavioral health areas, standards of care and use of evidence-based practices will be paramount. Our youthful demographics share certain risk factors across the behavioral continuum. As we better integrate our programs today, the

training conducted for Marines will become less redundant and time consuming but also more realistic and engaging.

For the Transition Assistance Program, we have conducted multiple program assessments and established planning actions to make our program meet the needs of Marines. With our predominate first term force, we are committed to reaching our Marines at designated touch points and helping them develop roadmaps that support their Marine career, and better equip them to reintegrate into civilian life upon leaving active service. Today, our program is primarily a training event. In the future, our transition assistance will become a personal and professional development process that begins at initial accession and continues post separation. The Commandant wants to revolutionize the transition assistance process and embrace best practices.

Marine Corps Exchange (MCX) and Temporary Lodging

The Marine Corps Exchange (MCX) is inextricably linked to our mission of taking care of Marines and their families and is an important part of the overall non-pay compensation package. For Marines, operational success is measured on the program's value and contributions to critical mission outcomes of readiness and retention, as well as our ability to provide

unparalleled customer service, premier facilities, and valued goods and services at a savings. Like other MCCS facility master planning efforts, the Marine Corps Exchange (MCX) is executing branding strategies, and our aggressive re-investment into main stores is near completion. We are also expanding the branding strategies to focus on our Marine Marts and Temporary Lodging Facilities (TLFs). All Marine Corps design standards are focused on energy efficiency and sustainability.

During 2009, we witnessed one of the toughest retail economic climates in recent history, yet the MCX exceeded all established performance measures. We are finishing strategies we began five years ago including initiating centralized buying, aggressively recapitalizing our Exchange stores, and branding the customers' shopping experience. We continue to pursue program efficiencies through cooperative efforts and partnerships, and we will be focusing on improving our supply chain over the next several years.

Total exchange sales in Fiscal Year 2009 were \$921.5 million. MCX profits were \$63.1 million, and the exchange dividend for MWR was \$42.7 million. Financial projections for Fiscal Year 2010 include sales of \$929.8 million. MCX profits

are projected to improve to \$72.2 million. The Exchange dividend for MWR is projected to be \$49.5 million.

Continuing our discussion of positive indicators, our 2010 Customer Satisfaction survey showed increases for both customer and associate satisfaction (one point for customers (78) and two points for associates (73)). The 2009 results of our market basket survey, which we conduct annually in a cooperative effort with the Navy Exchange and Army and Air Force Exchange Service, showed a savings of 27 percent, all while maintaining a consistent gross margin.

Targeting young Marines and families on a tight budget, we deliver a valued program called "Our Cost is Your Cost" that offers items such as diapers, formula, baby food, bread, and milk for purchase to our patrons at MCX cost. Smoking cessation products are also included in this program. The MCX promotes motorcycle safety by offering a one-time 25 percent discount on motorcycle safety equipment when a Marine completes a base motorcycle safety class. These programs demonstrate our clear commitment to serving and taking care of our Marines and families.

In October 2009, we opened or remodeled 2 main MCX stores bringing the number of "on-brand" facilities to 8 of 17. In 2010, we completed four Marine Mart projects, and we have four MCX projects that are expected to open in late 2011 through early 2012.

The Master Plan process is an organized, deliberate approach to determining enterprise-wide facility requirements. In fact, we are developing Master Plans for many of our programs to ensure we have the best site picture on installation requirements. We developed a Temporary Lodging Facility (TLF) Master Plan that provides, in priority order, the requirements for new properties, additional rooms at existing properties, and renovation requirements to meet the new design standards. The new TLF standard features extended stay rooms, a small fitness center, complimentary breakfast, Wi-Fi, and other amenities popular in the hotel industry's mid-service type properties. Construction is currently underway on a 50 room addition at the Lejeune Inn at Marine Corps Base, Camp Lejeune, North Carolina, and a 102 room replacement at the Miramar Inn at Marine Corps Air Station, Miramar, California. We have also completed the upgrades of the lodging property management system and implemented on-line reservation services for our guests.

Deployed Support Update

Deployed support is one of the most important services we provide. We do it in four areas: Exchange; Recreation; Fitness; and Communication. These services not only boost and maintain morale but also help to reduce mission related stress.

- Exchange. Ongoing missions in Afghanistan include the operation of two Direct Operation Exchanges at Camps Leatherneck and Dwyer, and one Tactical Field Exchange at Camp Delaram II. The 2010 operational sales for these locations will exceed \$40 million.
- Fitness. We assist with the layout and design of fitness facilities and identifying appropriate fitness equipment and maintenance requirements.
- Recreation. We assist in providing recreational and sports equipment to units throughout Helmand Province with the joint support of USFOR-AJI. This transportable equipment includes: sports/recreation cooler kits filled with sports gear and board games, Electronic game kits, and Theater-in-a-Box kits. Reading materials are distributed, such as Playaways (electronic books) and paperback books.
- Communication. Morale Satellite services are available to forward operating bases, combat outposts, and other austere locations. With OSD funding assistance, we have delivered 11 satellite communications systems to units in

Afghanistan. Each system has two phones that each provide 6000 free minutes per month to deployed Marines. They also provide an Internet and web-cam capability to forward operating bases. From 1 Jul 2010 - 31 Dec 2010, there have been over 4415 phone calls using approximately 556 hours of air time; 11,105 Internet sessions using web browsing and voice/video chat. During Thanksgiving Day, the Marines used the MoraleSat system phone service and made a total of 447 telephone calls for 3465 minutes, and on Christmas Day, the Marines made 368 telephone calls for 2921 minutes. Other communications support includes MotoMail that was first offered in 2004. It continues to serve deployed Marines and the delivery of electronic mail and photos are available within approximately 24 hours of being sent. Since December 2004, 3.8 million letters have been created and delivered.

Non-Appropriated (NAF) Facility Construction and Renovation

During Fiscal Year 2009, we completed a total of 22 NAF projects at an approximate cost of \$87.9 million. In Fiscal Year 2010, we completed a total of 13 NAF projects at an approximate cost of \$44.5 million. These 35 facilities were internally funded by NAF generated from NAF business operations. We intend to develop program-specific facility master plans

similar to our accomplishments with our MCX, Marine Marts, and our TLF programs. Although master planning is time intensive and requires upfront investments, we have found the process improves both our organizational facility efficiency and effectiveness.

Appropriated Fund (APF) Financial Results

Our appropriated fund (APF) budget continued to support the DoD MWR 85/65 percent minimum funding standards for Categories A and B programs, respectively. For Fiscal Year 2009, the Marine Corps achieved APF support of 89 percent for Category A programs and 83 percent for Category B programs. For Fiscal Year 2010, the MWR Metric Report format changed to account for the inclusion and separate reporting of Category A Warfighter and Family Services programs, Category B Child Development and Youth programs, and Category B Basic Community Support programs. Under this new Fiscal Year 2010 reporting, the Marine Corps achieved APF support of 92 percent for Non-Warfighter and Family Services Category A programs. The Category A Warfighter and Family Services programs were funded at 100 percent APF. The Category B Child Development and Youth Programs were funded at 81 percent APF, and the remaining Category B programs reported under Basic Community Support were funded at 88 percent APF.

In Fiscal Year 2009, MWR APF direct support increased by \$81 million. Overall, the Marine Corps executed \$181 million more in total MWR APF in Fiscal Year 2009 than originally budgeted. This trend continued in Fiscal Year 2010 where MWR APF direct support increased by \$70.1 million over Fiscal Year 2009. Overall, the Marine Corps executed \$134 million more in total MWR APF in Fiscal Year 2010 than originally budgeted.

MWR Financial Results

In Fiscal Year 2009, our MWR sales were \$164.3 million and profits were \$20.7 million. In Fiscal Year 2010, our MWR sales are projected to be \$167.4 million and \$43.6 million in profits. Final results are due in the May/June timeframe.

We are confident that we will continue to provide a quality, high performing MCCS organization. This will be accomplished through our aggressive pursuits of efficiency measures that ensure we remain responsible stewards of resources to best serve our Marines and their families.

Conclusion

Your Marines continue to serve with distinction around the globe, aboard ships, and in numerous countries around the world, and we are keenly aware that the well-being of our families is

inextricably linked to the readiness of our Corps. The Commandant of the Marine Corps has given us his guidance and expectations for future program performance and with your continued support we are ready to meet those expectations.

We appreciate the support of local, state and federal agencies, as well as partnerships with the Office of the Secretary of Defense and our Sister Services which are an important part of our planning and ability to deliver adequate services, regardless of duty station or assignment.

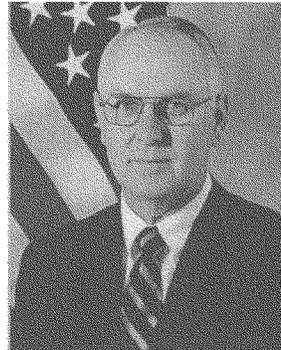
On behalf of Marines and families, I want to thank you for your oversight and continuous support to help shape and sustain these vital quality of life services, especially during a time of war and the increasingly constrained fiscal environment. Thank you for the opportunity to address these important issues with you in this very important venue.



Timothy R. Larsen
Director, Personal and Family Readiness Division

Timothy R. Larsen is serving as the Director, Personal and Family Readiness Division, Manpower and Reserve Affairs Department, Headquarters, U.S. Marine Corps. He has been in this position since 2007.

Mr. Larsen is from Denver, Colorado. After graduation from Brigham Young University, he was commissioned a second lieutenant in the United States Marine Corps through Platoon Leaders Course in 1973. Mr. Larsen held a variety of command and staff positions in the Marine Corps, commanding at every level from platoon through Joint Task Force level. He retired as a Major General on 1 November 2007.



In the operating forces, his command assignments include; rifle platoon, weapons platoon, Headquarters and Service Company, 3d Battalion, 7th Marines and Rifle Company, 1st Battalion, 7th Marines, 1st Marine Division (1974-1976); Weapons Company, 1st Battalion, 6th Marines, 2d Marine Division (1982-1983); 3d Battalion, 9th Marines, 3d Battalion, 4th Marines, 1st Marine Division (1994-1996); 4th Marine Regiment, 3d Marine Division (1997-1999); Assistant Division Commander, 1st Marine Division (1999-2001); and Commanding General, Coalition Joint Task Force-Kuwait (Forward) (2000-2001).

His other command assignments include the Marine Detachment, USS Saratoga, CV-60 (1976-1978); Marine Corps Recruiting Station, Phoenix, Arizona (1984-1987); Marine Corps Jungle Warfare Training Center (1997-1998); Camp Schwab, MCB Butler, Okinawa, Japan (1997-1999); and Commanding General, Marine Corps Base, Camp Smedley D. Butler, Okinawa, Japan (2001-2003); Deputy Commander, United States Forces, Japan, (2003-2007).

His staff assignments include battalion adjutant, company executive officer (1974-1976); fire support coordinator (1982-1983); battalion operations officer (1983-1984); Strategic Initiatives Officer, Policy and Strategy Division, Plans and Policy Directorate (J5), United States Central Command (USCENTCOM) (1988-1991). Major General Larsen deployed to Saudi Arabia with USCENTCOM during Operations Desert Shield and Desert Storm. Other staff assignments include G3 Plans Officer, 1st Marine Division (1993-1994); and Assistant Chief of Staff for Operations (G3), 3d Marine Division (1996-1997). He has attended several military schools to include; Marine Corps Amphibious Warfare School (1982); College of Naval Command and Staff, Newport, Rhode Island (1988); Japanese Language Course, Defense Language Institute, Monterey, California (1992); and Japanese National Institute for Defense Studies (NIDS), Tokyo, Japan (1993). Additionally, he holds an M.A. in International Relations from Salve Regina University (1988) and a M.A. in National and Strategic Studies from the Naval War College (1988).

STATEMENT BY:

MR. PATRICK NIXON

PRESIDENT – AMERICAN LOGISTICS ASSOCIATION

BEFORE THE SUBCOMMITTEE ON PERSONNEL

COMMITTEE ON ARMED SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

1st SESSION 112TH CONGRESS

February 10, 2011

**NOT FOR PUBLICATION
UNTIL RELEASED BY
HOUSE ARMED SERVICES COMMITTEE**

To the Honorable Chairman and Distinguished Members of the Subcommittee:

It is an honor to be here today as President of the American Logistics Association (ALA), an association that for 90 years has sought to promote, protect and enhance the military resale and quality of life benefits on behalf of our members and the military community. The ALA is proud to represent 250 of America's leading manufacturers, numerous brokers and distributors, service companies, media outlets and more than 1400 individual members who are actively engaged in providing goods and services to our resale customers, MWR activities for our military, Coast Guard, and Veterans.

We especially appreciate the opportunity to appear before you along with distinguished DoD leaders like Secretary Gordon, our business partners—the leaders of the commissary, exchange, and morale, welfare and recreation programs of the Department of Defense and our colleagues from the Armed Forces Marketing Council.

The House Armed Services Committee's continued strong support has laid the groundwork for the military resale system to continually improve and consistently rise to meet the challenges facing our military and our economy. The Nation and all of the people who rely on this system owe a great debt of gratitude to this committee for your vision and strong support over the years. In particular I want to recognize the dedication and leadership shown by the Chairman and the distinguished ranking member over the course of the last several years that has demonstrated the importance of this body in its oversight role.

The partnership between industry and the resale commands that deliver these important benefits is unique in American business. Because we value this partnership so greatly, we want to stress to you the value of these benefits to military families, the Department of Defense, the branches of the armed services, and the Nation.

In this time of mounting concern about deficits and increased scrutiny of Government spending, it is important to state the value of this system—a system that serves the taxpayer and the Department of Defense well. We know that the Department of Defense is under great pressure to realize savings in its operations. That's why our Association is committed to working with the MWR and resale commanders to find overhead and operating efficiencies that can drive out costs, keep prices low, and reduce the burden on the Department and the taxpayer. It is important to keep in mind that efficiency is built into the DNA of on-base military businesses. It is nothing new to these program managers. Each and every day and at each and every management level, decisions are made with value and economy in mind. Managers and their industry partners know that each dollar saved is a dollar that can be used to modernize the physical plant or provide increased value for the patrons.

Collectively, commissary and exchange programs generate over \$11 billion in benefits. We estimate that the American taxpayer receives a 9 to 1 return on investment (ROI) through the efficient delivery of these valued programs.

The ROI includes:

- Savings of nearly \$8 billion at the cash register for patrons
- Hundreds of millions of dollars in cost avoidance to the DoD in cost of living allowances in high cost and overseas areas.
- Nearly \$6 billion in infrastructure improvements given to the Government's inventory over the past ten years.
- Employment for 30,000 military family members adding \$900 million to their pocketbooks.
- Industry partners employing nearly 20,000 family members adding another \$600 million to military household incomes.
- \$500 million in contributions from earnings provided to community morale, welfare and recreation programs with further employment of family members in MWR programs that are paid by these dividends.
- Underpinning the military's transportation system by contributing volume that reduces overall rates for all Defense commodities shipped overseas.

Furthermore, there is tremendous value in retention and the savings are virtually incalculable. What we do know is that it costs approximately \$150,000 to \$250,000 to train each military member with a figure approaching \$1 million to train some specialties such as doctors and pilots. Resale programs are the fiber of military communities, providing everything from toothpaste to cell phones, to furniture to

groceries. These on-base services are cited in numerous surveys as the reasons that military personnel elect to remain in the service.

The resources provided for these important programs demonstrate a significant return on investment when you calculate the benefits that these programs provide with a relatively small investment compared to other costs in the military compensation package.

Moreover, the cost of these programs has remained constant while the cost of other quality of life programs such as medical care, housing, and family support services has increased 50 percent and in some cases doubled and tripled over the past five years. Surveys consistently show that resale benefits rank high on reasons cited as staying in the military, outpacing—in retention value—programs that spend exponentially more.

But, as you well know, these benefits are more than numbers and math. They are core to the high standards of military life quality. Along with providing great discounts on products and services, these programs provide familiar brand name products at the same price whether shopping in Osan, Korea or at Fort Bragg, NC.

Also, it should be noted that these programs support several key national priorities including job creation, taking care of our military people, and the First Lady's "Let's Move" campaign, such as programs that support nutrition literacy in DoD schools, military financial fitness, the promotion of psychological care for veterans and families,

fiscal accountability and transparency, environmental responsibility, and the promotion of American products overseas.

This is testament to the leadership and management of these programs. It is a demonstration of the best that Government and Industry can offer and is a prime example of how industry and Government can work together for the common good.

Simply put—these programs are well run—consistently scoring high on all performance measurements and audits. In fact, they are among the few Defense entities that consistently receive a clean bill of health from auditors and achieve the highest rankings measured by government performance metrics. Commissaries and Exchanges consistently score high marks on all accountability reviews.

In every case, these programs have demonstrated sound stewardship, exemplary leadership and a desire to transform to meet the needs of a modern force and a modern military family. The Military Resale and MWR programs have adopted the best aspects of the public and private sector and have developed deliverables that are keys to the needs of their constituency. The practice of leveraging the best aspects of the private sector with solid government performance has established these programs as benchmarks for others to emulate. A prime example are the supply chain efficiencies introduced to the military commissary system by the Coalition of Military Distributors. The elimination of backroom inventories and the introduction of frequent delivery and electronic data interchange billing information have eliminated significant inventory carrying costs along with construction requirements.

DeCA already has greatly reduced its operating budget through many initiatives including nearly \$1 billion in annual cost reductions associated with:

- Consolidation of the commissaries from separate service systems.
- Reduced inventory and warehousing costs from supply chain improvements.
- Closing of nearly 100 stores associated with base closures and realignments stateside and abroad.

Through these major structural changes and myriad on-going efficiency initiatives, DeCA's budget has been contained while costs of other DoD family support programs have doubled or even tripled.

These are extraordinary times. Our Nation is at war and has been so for nearly ten years. The nature of this conflict with extended deployments, multiple family separations, and expanded roles for the Guard and Reserves has created a level of stress never before experienced. Our retirees and veterans, our guardsmen and reservists, along with our military are facing reductions in their home values, retirement accounts and reduced employment opportunities.

. Mr. Chairman—at no time in our history have these benefits been so critical. This criticality is underscored by the fact that in recent years there has been a 70 percent

increase in the number of food stamps being redeemed at commissaries. Commissary patrons also redeemed 12 percent more coupons.

The exchange and commissary commanders will tell you of their efforts to accommodate the needs of the Guard and Reserves—groups that the Nation has come to rely upon for more and more in today's high operating tempo environment. Every deployed Guardsman or Reservist is one less paycheck for that military household. Exchange and commissary benefits help stretch these decreasing household dollars. As equal partners in the total force, we should examine ways to provide a permanent presence at guard and reserve centers to provide them with the benefits that they want and deserve.

And let's not forget the benefits that the industry partners provide to the DoD and the Nation. Collectively, our member companies contribute nearly \$1.2 trillion to the economy and generate millions of jobs. This includes support for large manufacturing jobs and a large number of small businesses that are vital to the future growth of our economy. Our member companies provide products through the resale system that generate \$16 billion and produce 30,000 jobs for American industry. This contribution is larger overseas where \$4 billion in US products are sold to our patrons—funds that would otherwise flow to foreign economies. Industry contributes nearly \$500 million in support services for these operations in the form of in-store labor support, product delivery, and in-kind services. And, goods and services purchased by the resale

system generate thousands of jobs in communities adjacent to military bases with a large percentage of these businesses being smaller and independently owned.

And, we are committed to using all of our resources to protect these benefits. This year, we plan to embark on an aggressive program to reach out to patrons—using the power of the internet—to increase awareness of the value of their benefits and encourage increased usage of these programs. We will work with our member companies to ensure that each patron knows about the savings and quality available and makes full use of all available discounts. Often, those people who need the benefit most—National Guardsmen and Reservists—do not live near military bases. We intend to ensure that they are fully aware of their privileges to shop on line. A benefit is a benefit only if it is used....and we intend to ensure that this benefit is well used.

This year we also intend to pursue initiatives to ensure that companies selling to the military resale system are not burdened with high interest rates to finance their operations. The cost of borrowing is especially burdensome on small businesses. We intend to work with the MWR and resale commanders to institute a program to ensure that companies can use the full-faith and credit of the U.S. Government to gain favorable rates on financing the cost of carrying inventory. We estimate that this initiative could save the resale agencies and suppliers more than \$50 million each year. We will keep you informed on the progress of this initiative and seek your assistance when needed.

ALA is committed to ensuring that these successful programs remain intact and are reinforced, at the same time it is a system that requires diligence to ensure that it remains strong and viable.

We believe that the following legislative initiatives will ensure it remains viable.

We urge you to:

- Continue your support for funding of commissaries, shipment of American products to our overseas bases, and full support for all authorized categories of morale, welfare and recreation programs.
- Continue your support for authorization for appropriations for commissary, exchange and other nonappropriated fund construction at bases that are expanding as a result of global re-stationing and BRAC.
- Ensure that industry representatives and authorized patrons have unimpeded and secure access to military installations.¹
- Support efforts by the exchanges and commissaries to reach out to National Guard and reservists who live in communities where they cannot readily access on-base services.
- Urge the Department of Defense to ensure that military people deployed into war zones are provided as much as is practicable with familiar products and offerings.

¹ It makes no sense to spend billions of dollars on an annual basis to issue common access cards (CAC) and other forms of identification to military personnel and yet not require a mechanism to read and validate these credentials at the point of access. Right now, there is a hodge-podge of credentialing programs with a varying degree of security being required at various activities. While we understand the prerogatives of base commanders need to be protected, there is a pressing need for a consistent and uniform policy with regard to which identity credentials are authorized and a program to make all (government and industry issues) certified secure cards interoperable and recognized at all military bases.

- Support expanding the eligibility to use these stores to more Veterans. We need to capitalize on the billions of dollars in investment that taxpayers and military people have made over the years to provide a helping hand to those who now need it most. We urge you to move to provide benefits to a larger group of Veterans and military people returning from multiple overseas deployments and suggest that this benefit be provided to all former military and their families for at least three years. We urge you to give these benefits to 30 percent disabled veterans. The Congress has directed a study of expanding this population shopping privileges in exchanges and commissaries. ALA supports this expansion.
- We urge you to either repeal Section 511 Tax Increase Prevention and Reconciliation Act of 2005 or exempt military MWR and resale entities from this requirement.² Implementation of this requirement to withhold 3 percent of all payments would, in effect, result in an increase of three or more percent to the price of goods on the shelves for military patrons. Should Congress choose to exempt companies supporting military resale and MWR programs, ALA would support a program to bar any companies who were delinquent in their taxes.

² This law mandates that federal, state, and local governments withhold 3% of nearly all their contract payments, Medicare payments, farm payments and certain grants. Compliance with this law will impose significant, unnecessary financial burdens on both the public and private sectors.

- Remove any restrictions on products and services that may be offered to authorized patrons.
- Ensure that any legislation that is passed to benefit military MWR and resale programs extend to the Coast Guard and the Department of Veterans Affairs where appropriate. Support supply chain initiatives that drive the lowest cost of goods for the military resale system while recognizing the importance of the vendor/broker/distributor support network that is unique to the military resale system.
- Be vigilant to extend and positive policy enhancements to cover Veterans Canteens and Coast Guard facilities and not allow these programs to fall through the cracks. These programs are integral parts of the military resale benefit, offering vital programs to millions of veterans and Coastguard men and women and their families. Jurisdictional boundaries need to be transcended to ensure that positive policy and legislative changes are extended to these programs.
- Be vigilant to monitor efforts on the part of DoD to consolidate exchange or exchange and commissary operations. These initiatives have been intensely examined over an extended period with two major reviews. It was determined that there was more risk than reward in any such initiatives and other alternatives provided a better opportunity for success.

The critical pillar for these programs is the support for funding stability. ALA urges Congress to oppose any initiative that would reduce benefits or savings for members, and strongly supports full funding of the benefit in FY 2011 and beyond to sustain the current level of service for all beneficiaries. ALA requests this subcommittee's support in closely monitoring commissary funding and policies and scrutinizing store closures, privatization, staff reductions, or other initiatives that may diminish the scope and quality of the benefit for all beneficiaries.

Overseas rebasing and Base Realignment and Closure (BRAC) issues also are of significant concern to our members. ALA continues to be concerned about the potential impact on every quality of life program during the Defense Department's transformation, global repositioning, Army modularity, and BRAC initiatives. ALA wants to ensure that necessary family support/quality of life program dollars and services are in line with DOD/Military Services rebasing plans, including critical family support/quality of life programs, such as MWR, child care, exchanges and commissaries, housing, TRICARE programs, health care, education, family centers, and other traditional support services.

Given the current fiscal environment and long-term financial challenges of war, ALA continues to express strong concerns about the importance of sustaining vital support services and quality of life programs. Mr. Chairman, no longer do we have to anticipate that these programs may be at risk, we know from military officials and

current news reports that cutbacks in base operation accounts and reduction in base services because of funding shortfalls are real and are expected to get worse.

Either DOD will need to continue to ask for supplemental funding, or the military services will have to fund transformation out-of-hide through program cuts that likely would hurt readiness. The most troublesome alternative is to fund changes by shifting the burden to service members and their families. That is, allowing them to come home to the United States or relocate to military and civilian communities that are unprepared, therefore threatening to degrade the quality of life for troops and families at a time of unprecedented stress on the all-volunteer force.

The resale programs are to be commended for their partnership efforts and outreach initiatives. These undertakings come with a cost and need to be funded to be sustainable and successful. We support the proposition that stores are operated in all locations where there is sufficient authorized patrons to support these operations.

There are two issues we would like to elaborate on, base access and the proposed 3% tax withholding:

Base access is an area that continues to challenge the entire military resale system. As I mentioned earlier in this testimony, industry provides a significant level of support unique to this business channel. We need to ensure expedited and secure access to military installations for industry people as well as patrons of these stores.

ALA has been engaged on the base access issue for the last six years and we appear no closer to a single solution than when we started. DoD and industry partnered on an initiative in the form of a federated solution. While this initiative has progressed, there is no one willing to step up and say this is the way ahead and communicate the same to the installation commanders. In fact, there are elements within DoD that have communicated to the security chain of command that a federated solution is not the desired end state. This has led to members being delayed, harassed and in some instances the credentials being confiscated. In one extreme case an individual was placed on the "terrorist watch list" for displaying a federated credential.

In another case, a Service adopted a credential for all CONUS bases and yet DoD says this solution does not meet its established criteria.

It is frustrating that 95 percent of the work needed to solve the base access issue is done. Billions of dollars have been spent issuing cards. All that needs to be done is for DoD to carry it over the finish line by establishing a uniform acceptance policy and making full use of the credentials by verifying identity with electronic readers. We urge you to pursue this program with the Department of Defense and gain from the DoD an understanding of why they have yet to promulgate a consistent and workable solution for allowing industry representatives with an expedited and secure access.

ALA has made progress but the effort remains ad hoc and needs your emphasis to urge DoD to proliferate a coherent and uniform approach to identity verification at the gate. We want to work with you to encourage this effort with the Administration and

work to ensure that patrons are provided with secure credentials as well. Given the increasing vital contributions that industry partners make to the resale system in the form of in-store support, it is vital that a secure, trusted and verifiable process be expanded so that this support continues in a high threat environment. It is vital that secure credentials be created and accepted in a standards based environment, both in industry and government, and provided to all eligible patrons in the event of a high threat environment where the traditional ID card might not suffice. Mr. Chairman and members of this subcommittee, this is the year to require DoD to provide a single, affordable credential to industry to allow them to provide the necessary support to the resale and MWR activities.

The 3% tax withholding law is the proverbial "elephant on the dance floor"... everyone sees it, no one likes it, we cannot quite figure out what to do about it... As we noted earlier, we urge repeal of section 511, of the *Tax Increase Prevention and Reconciliation Act of 2005* (P.L. 109-222). Compliance with this law will impose significant, unnecessary financial burdens on both the public and private sector. In a 2008 report, the Department of Defense estimated that it will cost the Department more than \$ 17 billion in the first five years to comply with the 3% withholding requirement. DoD is big but this cost represents only a small portion of the cost to the public and private sector and it far exceeds the projected savings from enacting this provision. In addition, this cost could not come at a worse time when companies are struggling to rebound from historically difficult economic times.

On a positive note, we are pleased to recognize the positive action taken on the part of the House Armed Services Committee Panel on Defense Acquisition Reform. The Findings and Recommendations of the Panel issue in the 23 March 2010 report at recommendation 5.3 specifically support this request to wit: "Congress should repeal the 3% contract withholding requirement." We also note with anticipation, the introduction the Improve Acquisition Act (H.R. 5013) which legislates many of the recommendations contained in the aforementioned Acquisition Reform Panel Report and while it does not provide the exact relief sought, it may pave the way for a more reasoned and deliberate approach to solving the delinquent taxpayer issue.

In the event, the "elephant" cannot be controlled, there must be relief granted for the resale programs. It makes no sense for Congress to approve pay raises and then force measures that obviate these pay increases. We propose the following language: "Section 511 of the Tax Increase Prevention and Reconciliation Act of 2005 (P.L. 109-222) shall not apply to purchases made for products to be sold by the military exchanges, the Defense Commissary Agency, the Veterans Canteen Service, the Coast Guard Exchange Service, as well as Morale, Welfare and Recreation activities of the respective military services, where the effect would be to increase prices to patrons of these retail outlets and quality of life support activities, provided these companies are not delinquent in tax payments as demonstrated by reconciliation of the Central Contractor Registry with records of the Internal Revenue Service." This coupled with recently released guidance from the Administration and the Office of Management and Budget that would prevent companies with serious tax delinquencies from receiving

contracts would provide meet the intent of the law and protect the buying power of our troops and their families.

Lastly, I would like to reiterate the importance of maintaining the working structure of the supply chain that serves commissaries and exchanges. The focus on execution and support to the stores by industry has led to increased customer satisfaction, increased store excitement, increased store sales and increased profit/savings for industry and the military retailer. This broker network provides merchandising and marketing support to all levels of resale equation. The military business channel while important is not considered mainstream business for most large suppliers. It is considered a specialty market. The government has different rules, delivering to military installations require different relationships; the overseas environment has differing requirements. The business model has evolved to meet these requirements. In many cases the military retailer is given the pricing advantages of the largest retailer even though it does not meet the requirements. The cost benefit of this structure does not make to the cost ledger of the retailer but it certainly has a positive impact on their bottom line. The ALA has watched the evolution of this business model over the last 90 years and it has developed into a support system that delivers world class support to a resale system that delivers a remarkable shopping environment for the troops and their families. We are proud to be an important part of the quality of life equation.

As the year progresses and given the dynamic nature of the challenges facing Government, issues will evolve and legislative challenges and opportunities will arise especially as the President submits the budget and Congress deliberates. ALA will monitor these changes and will react in the best interest of the membership and the MWR and resale programs.

Mr. Chairman, and Members of the subcommittee – you can be proud of the system that you nurture and protect and we are grateful for this support. Like Jimmy Stewart in *"It's a Wonderful Life"*, we should pause for a minute and think about what military life would be like if these programs did not exist on base. It is a bargain for the taxpayer, a must for military quality of life and a great example the private and public sector collaboration. These programs could not prosper, contribute to the economy, take care of our military and employ so many people without your support.

Thank you and I am prepared to answer any questions you may have.



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Honorable Joe Wilson
U. S. House of Representatives
Chairman, Subcommittee on Military Personnel
House Armed Services Committee
212 Cannon House Office Building
Washington, DC 20515
Attention: Jim Weiss

3 February 2011

Dear Chairman Wilson and Distinguished Members of the Subcommittee,

Thank you for your invitation of 27 January (attached) to appear before the Military Personnel Subcommittee of the House Armed Services Committee. In accordance with your request, I am forwarding a copy of our written testimony which we request be submitted for the official record of the proceedings at the appropriate time. It is our desire to fully comply with the rules of the House of Representatives, in particular those that apply to all non-governmental witnesses. I have included a curriculum vitae and a copy of the Disclosure Form for Witnesses Concerning Federal Contract and Grant Information as required by Rule 11, clause 2(g)(5) of the Rules of the U.S. House of Representatives for the 112th Congress.

It is an honor for me to once again appear before your committee and I look forward to our discussions.

Very Respectfully,

Patrick B. Nixon
President, ALA

Attachments: As Stated

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HOUSE COMMITTEE ON ARMED SERVICES

U.S. House of Representatives

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 JAN BORN, OKLAHOMA
 HANK JOHNSON, GEORGIA

ROSCOE G. BARTLETT, MARYLAND
 MAC THURMERRY, TEXAS
 WALTER B. JONES, NORTH CAROLINA
 W. TODD AHO, MISSOURI
 J. RANDY FORBES, VIRGINIA
 JEFF MILLER, FLORIDA
 JOE WALSON, SOUTH CAROLINA
 FRANK A. LOBONDO, NEW JERSEY
 ROB BISHOP, UTAH
 MICHAEL TURNER, OHIO
 JOHN KLINE, MINNESOTA
 MIKE ROGERS, ALABAMA
 TRENT FRANKS, ARIZONA
 CATHY MAHORSKE RODRIGUEZ, WASHINGTON
 K. MICHAEL CONAWAY, TEXAS
 SLOUS LANGRISH, COLORADO
 ROB WETTMAN, VIRGINIA
 MARY FALKER, DELAWARE
 DUNCAN HUNTER, CALIFORNIA
 JOHN C. FLEMING, LOUISIANA
 MIKE COFFMAN, COLORADO
 THOMAS J. ROONEY, FLORIDA
 TED CRUZ, TEXAS
 CHARLES K. CROUCH, HAWAII

PAUL ARCANGELI, STAFF DIRECTOR

Mr. Patrick B. Nixon
 President
 American Logistics Association
 1133 15th Street, N.W., Suite 640
 Washington, D.C. 20005

Dear Mr. Nixon:

You are invited to testify before the House Armed Service Subcommittee on Military Personnel on military resale on Thursday, February 10, 2011, at 2:00 PM in room ____ Rayburn House Office Building. During the hearing, you may be provided an opportunity to offer a short opening statement that summarizes your written testimony.

Committee Rule 13 provides that witness statements must be delivered to the committee at least 48 hours in advance of the hearing to facilitate distribution to the members. It is requested that 30 copies of your prepared statement be delivered to room 2340 Rayburn House Office Building by Tuesday afternoon, February 8, 2011. In addition, consistent with the House rules requirement to make materials from hearings electronically available to the general public, Committee Rule 13 requires that witness statements be provided to the committee in electronic form. This request may be satisfied by a transmittal via e-mail to Jim Weiss at jimweiss@mail.house.gov.

Finally, Rule XI, Clause 2(g)(4) of the Rules of the House of Representatives requires that all non-governmental witnesses testifying before the House include in their written testimony a curriculum vitae and a disclosure of the amount and source (by agency and program) of each federal grant (including subgrants) and contracts (including subcontracts) that the witness and/or the organization that the witness represents, has had with the federal government for the past three fiscal years. Therefore, your prepared statement must include this information.

Mr. Patrick B. Nixon
January 27, 2011
Page 2

I appreciate your willingness to appear before the subcommittee and look forward to your testimony. Should you have any questions, please contact Michael Higgins on the committee staff at (202) 225-7560.

Sincerely,

A handwritten signature in black ink that reads "Joe Wilson". The signature is written in a cursive, slightly slanted style.

Joe Wilson
Chairman
Military Personnel Subcommittee

AGW:jbw
Enclosure



Patrick B. Nixon
President, American Logistics Association

Patrick B. Nixon is President of the **American Logistics Association (ALA)**, headquartered in Washington DC. The ALA is a voluntary, nonprofit organization of manufacturers, manufacturer's representatives, brokers, distributors, publishers, and other companies that sell or provide products and services to the military resale systems and MWR/Services. At ALA, we use the term "military resale systems" as a broad term that includes all military exchanges and commissaries, Department of State stores, Veterans Canteen Services, as well as all of the armed forces' Morale, Welfare, and Recreation (MWR) activities that involve a product or service. The ALA membership includes over 250 of America's leading manufacturers, nearly 60 brokers and distributors, service companies, media outlets and more than 1400 individual members. Mr. Nixon is responsible for articulating the association's positions on issues and programs to the membership, the Congress, DoD and military resale partners. He develops the legislative focus for the association and serves as the principal spokesperson for the ALA. Prior to assuming this position, Mr. Nixon completed a successful career with the federal government rising through the ranks of civil service to the Senior Executive Service and the Head of a Defense Agency.

Mr. Nixon served as the Chief Executive Officer (CEO) of the Defense Commissary Agency from 2001 until his retirement in 2007 and served in the joint role as the Director and CEO from August 2004 until he departed in November 2007.

EDUCATION

1972, Bachelor of Arts degree in philosophy and political theory (cum laude), University of Maryland, College Park, Md.
 1978, juris doctor degree, University of Baltimore School of Law, Md.
 Graduate studies, European Institute of Public Administration, Brussels, Belgium, and Harvard's John F. Kennedy School of Government, Cambridge, Mass.
 Advanced studies certificates in corporate governance, Tulane University School of Law and Freeman School of Business, New Orleans, La.
 Executive study sessions, Brookings Institute, Washington, D.C.

CAREER CHRONOLOGY

1962-1982 Progressive Management positions with A&P Food Stores
 1966-1969 Enlisted Marine, 1st MARDIV RVN
 1982-1988 U.S. Army Troop Support Agency
 1988-1991 Program Manager, HQ USMC
 1991-2001 Leadership positions with DeCA
 2001-2007 CEO, DeCA
 2004-2007 Director and CEO, DeCA

AWARDS AND HONORS:

Presidential Rank Award for Meritorious Senior Executives and Professionals
Secretary of Defense Medal for Meritorious Civilian Service
Senior Executive Service Exceptional Performance Award

National Industries for the Blind "Visionary Award" 2006/2007

National Military Families Association's Anna Chenault Award for Exceptional Support to the Military Family
Defense Commissary Agency's Distinguished Civilian Service Award
DeCA Meritorious Civilian Service Award (4 Awards)
U.S. Navy Meritorious Civilian Service Award
U.S. Army Commanders Award for Civilian Service
Navy Achievement Medal with "V" device for valor
Vietnamese Cross of Gallantry

FISCAL YEAR 2009

Federal grant(s) / contracts	federal agency	dollar value	subject(s) of contract or grant
none			

Federal Contract Information: If you or the entity you represent before the Committee on Armed Services has contracts (including subcontracts) with the federal government, please provide the following information:

Number of contracts (including subcontracts) with the federal government:

Current fiscal year (2011): none _____;
 Fiscal year 2010: none _____;
 Fiscal year 2009: none _____.

Federal agencies with which federal contracts are held:

Current fiscal year (2011): _____;
 Fiscal year 2010: _____;
 Fiscal year 2009: _____.

List of subjects of federal contract(s) (for example, ship construction, aircraft parts manufacturing, software design, force structure consultant, architecture & engineering services, etc.):

Current fiscal year (2011): _____;
 Fiscal year 2010: _____;
 Fiscal year 2009: _____.

Aggregate dollar value of federal contracts held:

Current fiscal year (2011): _____;
 Fiscal year 2010: _____;
 Fiscal year 2009: _____.

Federal Grant Information: If you or the entity you represent before the Committee on Armed Services has grants (including subgrants) with the federal government, please provide the following information:

Number of grants (including subgrants) with the federal government:

Current fiscal year (2011): none _____;
Fiscal year 2010: none _____;
Fiscal year 2009: none _____.

Federal agencies with which federal grants are held:

Current fiscal year (2011): _____;
Fiscal year 2010: _____;
Fiscal year 2009: _____.

List of subjects of federal grants(s) (for example, materials research, sociological study, software design, etc.):

Current fiscal year (2011): _____;
Fiscal year 2010: _____;
Fiscal year 2009: _____.

Aggregate dollar value of federal grants held:

Current fiscal year (2011): _____;
Fiscal year 2010: _____;
Fiscal year 2009: _____.

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Statement of

Thomas T. Gordy

President

Armed Forces Marketing Council

before the

Subcommittee on Military Personnel

Committee on Armed Services

United States House of Representatives

February 10, 2011

Submitted for the record.

Not for publication until

released by the House

Armed Services Committee.

Good afternoon, Chairman Wilson, and distinguished members of the Subcommittee on Military Personnel.

My name is Tom Gordy and I am President of the Armed Forces Marketing Council (AFMC). Thank you for inviting me here today to offer comments regarding the military resale services and the vital role they serve in supporting the quality of life of our service members and their families. (A curriculum vitae and disclosure form are provided in Exhibit I, as well as information about the Armed Forces Marketing Council and the role its members play in supporting the military resale industry in Exhibit II.)

Mr. Chairman, as we consider the military resale systems and the benefit they provide, there are a few facts that I believe should be noted first and kept in mind throughout our discussions:

- DeCA continues to receive clean audit opinions, demonstrating responsible stewardship of taxpayer dollars
- All systems continue to maintain or improve their Customer Satisfaction Index (CSI) scores showing they are more in step with customer needs
- All systems continue to exceed savings benchmarks for patrons, providing double digit savings for military families
- The exchanges continue to post strong dividends in support military quality of life programs
- All systems continue to see increases in numbers of transactions
- All systems continue to recapitalize their stores and modernize their systems, seeking to always provide military families with a quality shopping environment while driving efficiencies whenever and wherever possible.

The military resale systems are also to be commended for their expeditionary support to the warfighter. The exchanges, particularly AAFES and MCX, continue to support the needs of our warfighters on the front lines in Iraq and Afghanistan, while NEXCOM supports our service members in places like Guantanamo Bay and Djibouti. They also rapidly deploy to support troops mobilized to respond to natural disasters such as the devastating earthquake that struck Haiti last year. The employees of the exchanges who deploy in support of these contingencies are to be commended for their commitment and dedication to serve our warfighters in these difficult environments.

Over the past few years, as our economy has struggled to regain momentum, we have seen the impact on military families. According to recent analysis published in a November 29, 2010 Army Times issue, the value of food stamp usage among commissary patrons has tripled since 2007. This rate of increase is 33% higher than for civilians, which saw a doubling of the value of food stamp usage. Thus, the benefit is as important as ever in supporting the financial readiness and the health and well-being of our service members and their families.

Value and Success through Partnership

The success of military resale can be attributed to the strong partnership among everyone engaged in and with the military resale systems over a period of many years - from this Subcommittee and its Senate counterpart to the Pentagon leaders, from systems' headquarters to the store level employees. Their collective efforts have been characterized by great vision, dedication, and hard work.

Industry support and cooperation has been another key factor in the ability of military resale to offer familiar brand name products at the lowest possible prices. The supplier community understands the role of commissaries and exchanges and fully subscribes to their respective missions. In our view, the interaction between military resale and industry is one of the very best examples of public private partnership.

The partnership that has been forged between industry and military resale is very strong, with a common mission and vision to provide quality, name brand products at low prices for the patron, and through the sale of those products, particularly in the exchanges, to reap a dividend to support military quality of life programs for our military families.

The Armed Forces Marketing Council is a passionate advocate for military resale because it recognizes how important commissaries are to the men and women who serve our nation around the world. However, the importance of military resale as one of the major components of military quality of life programs is even more profound.

At the end of the day, what makes the military resale systems a success is value. And that is why the Armed Forces Marketing Council and its members strive to protect and strengthen the military resale benefit.

Although we often discuss the value of the military resale benefit in terms of savings to military patrons, the overall value goes far beyond those savings. This truth can best be understood in the context of President Obama's recently announced initiative to support military families. Military resale is already aligned in a significant way with the four pillars of that initiative:

1. Enhance the well-being and psychological health of the military family.

2. Ensure excellence in military children's education and their development.
3. Develop career and educational opportunities for military spouses.
4. Increase child care availability and quality for the Armed Forces.

Military commissaries and exchanges enhance the peace of mind and "financial readiness" of military families by the substantial savings they offer. For example the average family of four can save \$4,400 per year by shopping at the commissary.

In addition, military resale supports and encourages the health and wellness of military families. The commissaries stock a broad array of healthy eating choices, highlighting them with special signage and educating their shoppers about the better diet options on the DeCA shopper website. For its part, industry promotes these good-for-you products with recipes, coupons and advertising.

The exchanges promote the concept of family fitness, featuring and cross-merchandising nutritional supplements with sports apparel and exercise equipment. They also help fund the gyms, pools, tracks, parks, and other quality of life amenities through annual MWR dividends. The systems, as well as the industry partners, participate and sponsor events such as races and marathons, recycling initiatives, and other programs that promote clean, healthy living.

The DoD school lunch program overseas is an important additional and somewhat unheralded facet of the mission of the exchanges. In order to ensure the excellent education and development of military children, the children must have proper nourishment and the exchanges are doing their part to by providing healthy meals for our children in overseas schools.

The military resale systems, as well as the specialized companies supporting the them, provide jobs for military family members, guard and reserve members, veterans and retirees. The percentage of military affiliated employees ranges from 25% for some firms to 62% for DeCA. The industry has and continues to be committed to supporting jobs for military families. And many of these jobs are transferable, meaning if the service member gets permanent change of station orders, his or her spouse's job goes with them to the new base.

As for childcare, again, MWR dividends generated through the exchanges helps financially support this incredibly important quality of life benefit for military families.

Beyond the four pillars identified in the President's initiative, the benefit itself serves as a tool for retention and recruitment and it supports the readiness of our troops and their families. For military families stationed overseas, it is the comfort of being able purchase the products they know and trust in a safe environment.

It should also be noted that the resale industry, from manufacturers to the local store employees, supports a wide range of military related charitable endeavors that benefit military families, wounded warriors, and the children of those who have paid the ultimate sacrifice. They do so through individual and corporate contributions, as well as all manner of fundraising events. We are proud to be a part of such a wonderful community that serves the most deserving customers in the world.

Protecting and Strengthening the Benefit

As it stands today, we view the benefit as strong and vibrant, providing good value to our military families. However, as we look to the future there are policies,

practices and proposals that we believe warrant Congress' attention and action in order to prevent them from adversely impacting the resale benefit.

3% Withholding

The first policy that concerns us is the 3% withholding requirement that will go into effect on January 1, 2012. Established under Section 511 of the 2005 Tax Prevention and Reconciliation Act of 2005, federal, state and local governments will be required, as of the implementation date, to withhold 3% of contract payments.

We agree that delinquent contractors should be forced to pay their taxes, but this legislation also applies to those who have been compliant. In effect, it requires every contractor to make what constitutes an interest-free loan to the government. However, our concern lies more in the fact that, when implemented, the requirement will most certainly have an adverse impact on the military resale benefit:

- If implemented, withholding three percent on payments to vendors would lead to higher prices on products sold in exchanges and commissaries, and impose increased costs on the military resale systems because they will need to develop accounting processes and systems to comply with the withholding requirement.
- The military resale systems will see less willingness on the part of suppliers to offer deals, allowances, promotions, and prompt payment discounts.
- The systems will be faced with a complicated reconciliation process between payable and receivable statements, which may require additional staff to monitor and report to the IRS.

- Additional costs on the exchange systems will result in reduced dividends for Morale, Welfare & Recreation (MWR) programs thus adversely impacting military family quality of life programs that already operate on tight budgets.
- The military resale systems will be placed at a competitive disadvantage because the law applies only to government retailers, not civilian.

We know it was never the intent of Congress to hurt military families through Section 511. But the reality is that military families will have to pay more for the products they purchase at the commissaries and exchanges.

Mr. Chairman, we greatly appreciate your efforts in seeking to exempt military resale from Section 511 and also your partnership with Mr. Herger (R-CA) in sponsoring legislation to repeal Section 511 once and for all. We hope that all Members of the Subcommittee will join you in both of those efforts in order to protect our military families.

Please keep in mind - time is of the essence. Although implementation is just over ten months away, costs will be borne this year to prepare for compliance, by both the government agencies and the industry. The sooner exemption or repeal is achieved, the less money and time will be expended and wasted by all.

Funding of DeCA

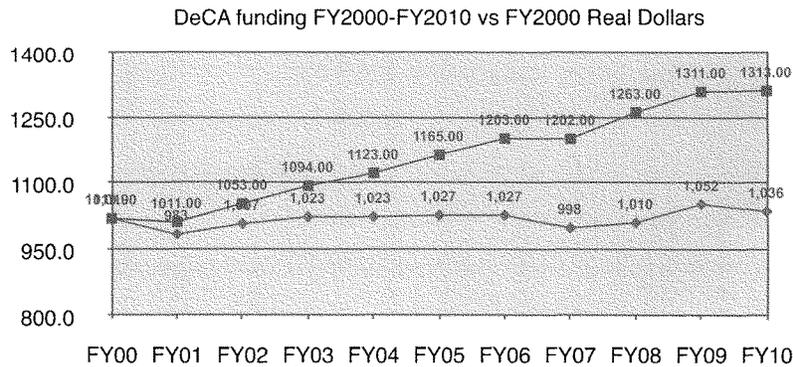
Another issue of concern is the potential for cuts to the commissary operating fund appropriation. In this time of fiscal austerity, we recognize that Congress and the executive branch must seek savings in the federal budget to reduce the deficit and federal debt. There have been many discussions over the past year regarding areas to

cut or eliminate to achieve efficiencies and savings. Some of the proposals have recommended cutting DeCA's budget or consolidating the agency with a consolidated exchange system.

Budget Cuts

The Armed Forces Marketing Council favors cuts based on increased efficiencies. It opposes budget reductions that would close stores or otherwise degrade the value of the commissary benefit.

Nine straight clean audit opinions confirm that DeCA is a responsible steward of taxpayer dollars. DeCA's history also demonstrates that it is a model of efficiency for the entire Department of Defense, as well as the entire federal government. Consider that, since 2000, DeCA's budget has remained flat in real dollars, meaning they have done more with less for the past eleven years.



Source: DeCA/Consumer Price Index data (FY2000-FY2010)

It should also be noted that DeCA reduced its budget from \$1.313 billion in FY2010 to \$1.273 billion in FY2011 due to lower operating costs resulting from Base Realignment and Closure (BRAC), as well as fewer operating days related to slight year-to-year variations in the calendar.

With the \$1.31 billion DeCA received last year, it generated savings to military families in the amount of \$2.69 billion. This represents a more than a 2-to-1 return on the taxpayer's investment, and a sizable boost to military family budgets. In short, DeCA is a real and vital benefit to those continue to sacrifice so much in defense of our country.

Although we've not seen the President's budget proposal for FY2012, we are hopeful that further efficiencies will enable DeCA to absorb any cuts that might be imposed without any discernible impact on the benefit. However, we are very concerned that there might be additional cuts in FY2013 and beyond that could force DeCA to close stores, reduce operating hours and diminish service. All such actions would have an immediate, negative impact on military families and effectively degrade the value of this vital benefit.

The Subcommittee has always served as a bulwark against misguided initiatives that would compromise the commissary benefit. For that we are very grateful. We respectfully request Members of the Subcommittee oppose any cuts in commissary funding that would diminish the benefit for military families.

Resale Consolidation

Mr. Chairman, you are aware that the National Commission on Fiscal Responsibility and Reform's recommended the consolidation of the exchanges and the commissary into one non-appropriated fund entity. In order to pay for the new consolidated system, commissary prices would have to be raised 5%. They also propose that government provide active duty military personnel a \$600 stipend to offset the increased prices on groceries. The stipend would not be provided to Guard or Reserve service members or retirees, who are also eligible patrons of the benefit.

Since 1968, numerous exchange consolidation proposals have been put forward. On their face, they seem to make sense. The arguments for consolidation promise efficiencies and reduced costs. They certainly brief well and seem unassailable in a Power Point presentation. But current and past proponents of consolidation have not understood how complicated and expensive an endeavor consolidation is. They also fail to take into account the many retail business mergers that have been wracked with difficulties and have never lived up to expectations.

At a cost of well over \$17 million, study after study has been conducted to determine a cost effective business case for consolidating the exchanges. The most recent of these studies was given impetus by a 2003 memo by then-Deputy Secretary of Defense Paul Wolfowitz when he wrote in a memo to then-Under Secretary of Defense for Personnel and Readiness David Chu, that "a single optimized Armed Service exchange system would best serve the department and exchange patrons."

After extensive research and analysis, the study concluded that a single consolidated exchange system was not cost effective, that any savings generated by

consolidation would take years to achieve, and that collaboration amongst the exchanges was a much more cost effective approach at reducing overhead costs.

Therefore, since exchange consolidation itself is not a cost effective approach at delivering the exchange benefit, it only stands to reason that consolidating the exchanges and the commissary would not be cost effective.

We respectfully ask the Subcommittee to oppose consolidation proposals as long as there is no cost effective business case for doing so. We also ask the committee to remain committed to current law which requires the DoD to operate separate commissary and exchange systems (Title X, Section 2481(a)).

Local Procurement Mandates

Mr. Chairman, over recent years, there have been occasional attempts to require DeCA and the exchanges to purchase certain items from local vendors. We understand the desire of congressional representatives to support local jobs by encouraging such actions. However, in our view, mandating such requirements would be costly, unnecessary, perhaps in some cases illegal, and could potentially result in higher prices and fewer products from which to choose that meet the patron's budget.

Please let me explain. First, to mandate local procurement would mean the systems would have to hire more buyers, produce more contracts, conduct more inspections, etc. This would put undue pressure on already tight resale operating budgets at a time when DeCA faces the specter of even greater budget constraints.

We believe such measures are unnecessary in that military resale already does business with local suppliers and small businesses if their products meet established

criteria and, in the case of DeCA, the legal requirements set forth in Title X, Section 2484(f), which requires the products to be sold in the commissary to be a name brand, sold in more than one commercial grocery or other retail operation on a national or regional basis. It is this law that undergirds the commissary benefit, ensuring that military patrons are able to buy at cost the name brand products with which they are familiar and they desire.

Lastly, because the products are local does not necessarily mean they are cheaper or healthier. The systems should have the flexibility to purchase the products the patrons desire, that meet Title X requirements, based upon competitive pricing. Mandating local procurement could result in price gouging by some vendors knowing that the systems must purchase locally with little or no competition.

The current procurement systems work well: They are efficient, competitive, and provide the recognized brands that patrons desire at a price that ensures they are getting real savings. We encourage the subcommittee to support their local businesses by encouraging their participation in the open and fair competitive processes that already exist instead of imposing mandates that would limit with whom the military resale systems can do business. Ultimately, patron demand will determine the success or failure of any product carried.

Relief from Armed Services Exchange Regulations

One issue we believe would enhance the resale benefit is relief for exchanges from the Armed Services Exchange Regulations(ASER).

Our concern is that if military resale cannot provide the shopping experience that patrons expect, then the patron will be driven outside the gate to find the product assortments they need and desire. When patrons have no choice but to shop elsewhere due to policy constraints, the result is a loss in dividend revenue for MWR and quality of life programs and a loss of savings for the patron.

It should also be noted that if military families were able to go to their exchange and purchase, for instance, quality furniture that meets their needs, they could purchase those products using the military star card, which provides favorable credit terms that are sensitive to the military lifestyle and sacrifices, and at a significantly lower interest rate. For instance, if a service member purchases furniture with his star card, then if he deploys, the finance charges are reduced until he returns home.

Additionally, the exchanges provide free repair of the furniture if damaged during a permanent change of station move. These are aspects of the value proposition of the benefit that are not well-known. However, military families are not being allowed to enjoy the full value of their benefit because of limitations in place because of ASER.

We thank the subcommittee for its past efforts to provide relief to the merchandise restrictions as established in Enclosure 4 of DoD Instruction 1330.21. We respectfully request you to again consider providing additional relief to the exchanges from remaining ASER merchandise restrictions so that military families can enjoy the full value of this benefit they have earned.

Base Access

We commend the American Logistics Association and the Department of Defense for their protracted efforts to address vendor access to military bases in order to support this benefit. This has not been an easy undertaking. Because of their hard work, patience and diligence, we are hopeful that a solution is nearly at hand. However, there is still work to be done to ensure the person checking access cards at the gate recognizes the card provided to the vendor community.

Each vendor undergoes a vigorous background check and is issued a government-issued identification card. However, the electronic readers that would validate the access card still need to be purchased and installed at the gates of our military facilities. These devices are part of the program, not just for vendor access, but for access by Common Access Card holders as well.

We are very concerned that the military services may choose different vendors and products to support identification authentication at the gate and their systems may not be interoperable. This would require multiple Common Access Cards for the single individual and multiple background checks, which is very expensive. We hope that an interoperable solution can be achieved, one that is efficient, reasonably priced, and effective at protecting our military facilities.

We are hopeful that this issue will see a quick resolution and ask the subcommittee to ensure that the issue is fully resolved so that vendor employees are able to access base exchanges and commissaries to continue unimpeded support for the delivery of the benefit to military families.

Interchange Fees

Last year, Congress passed and the President signed into law the Financial Reform Act. The act included the Durbin amendment, which provided relief from interchange fees for debit card transactions.

We fully support the Durbin amendment for it has helped to reduce the overhead costs of the exchanges. Interchange fees continue to increase as more and more consumers use credit and debit cards for their purchases. The costs to the exchanges for interchange fees is over \$100 million per year and growing.

These costs eat away the MWR dividends, which are vital in supporting quality of life programs for military families. We urge Subcommittee Members to oppose any repeal of the Durbin amendment.

Conclusion

In conclusion, the view of the Armed Forces Marketing Council is that the military resale benefit continues to work well. It's honest, efficient and responsive. Its success derives from the unfailing commitment that exchange and commissary operators have made to customer service, patron savings and an unfailing commitment to continued process improvements and efficiencies to keep costs and, thus, prices low.

Credit is also due to this Subcommittee and its staff for its well-informed, non-partisan oversight and support. The members of the Armed Forces Marketing Council are grateful for the subcommittee's efforts, as are other segments of the supplier community. But more importantly, given the chance, military members and their families appreciation if they fully understood your pivotal role.

Chairman Wilson, again I thank you for allowing the Armed Forces Marketing Council to participate in today's hearing. I look forward to answering your questions.

Exhibit I

Thomas T. Gordy
Curriculum Vitae

Tom Gordy serves as the President of the Armed Forces Marketing Council, a position he has held since March 2008. In this role, he works to support and enhance the military resale benefit for military families by engaging with congressional and military resale industry leaders to address issues of concern to the members of the Council.

Prior to being appointed to his position at AFMC, Tom worked as a Sr. Strategic Communications Consultant for The Wexford Group/CACI supporting the congressional and public affairs directorates of the Joint Improvised Explosive Device Defeat Organization.

In January 2001, Tom began a six-year career on Capitol Hill, serving as a Communications Director, Defense Policy Advisor, and Chief of Staff to two successive Members of Congress representing Virginia's Second Congressional District.

Tom is a native of Monroe, Louisiana, and alumni of the University of Louisiana at Monroe, graduating in May 1995 with a Bachelors of Business Administration.

While in college, Tom served as a minister of youth and pastor at churches in northeast Louisiana. Following graduation, he and his wife Theresa moved to Juneau, Alaska where he served as Associate Pastor at Glacier Valley Baptist Church. Living in Juneau, the state capitol, Tom became involved in politics, which led to a career change in 1998.

In June 1998, Tom and his family moved to Virginia Beach, VA where he enrolled in the Master of Arts in Political Management program at Regent University. He completed his degree in December 2003.

In November 2002, Tom was commissioned as a U.S. Navy Reserve Public Affairs Officer. From March 2009 to February 2010, Tom was mobilized to active duty and served in Iraq as the Legislative Affairs Officer and Deputy Public Affairs Officer to U.S. Army Gen. Ray Odierno, Commander, Multi-National Forces-Iraq.

Tom's awards include Army Commendation Medal, Joint Service Achievement Medal, Joint Meritorious Unit Award, National Defense Service Medal, Iraq Campaign Medal, Global War on Terror Service Medal, Sea Service Deployment Ribbon, Armed Forces Reserve Medal with "M" Device, and Navy Expert Pistol Marksmanship Medal.

**DISCLOSURE FORM FOR WITNESSES
CONCERNING FEDERAL CONTRACT AND GRANT INFORMATION**

INSTRUCTION TO WITNESSES: Rule 11, clause 2(g)(5), of the Rules of the U.S. House of Representatives for the 112th Congress requires nongovernmental witnesses appearing before House committees to include in their written statements a curriculum vitae and a disclosure of the amount and source of any federal contracts or grants (including subcontracts and subgrants) received during the current and two previous fiscal years either by the witness or by an entity represented by the witness. This form is intended to assist witnesses appearing before the House Armed Services Committee in complying with the House rule. Please note that a copy of these statements, with appropriate redactions to protect the witness's personal privacy (including home address and phone number) will be made publicly available in electronic form not later than one day after the witness's appearance before the committee.

Witness name: Thomas T. Gordy

Capacity in which appearing: (check one)

Individual

Representative

If appearing in a representative capacity, name of the company, association or other entity being represented: Armed Forces Marketing Council

FISCAL YEAR 2011

federal grant (s) / contracts	federal agency	dollar value	subject(s) of contract or grant
None			

FISCAL YEAR 2010

federal grant (s) / contracts	federal agency	dollar value	subject(s) of contract or grant
None			

FISCAL YEAR 2009

Federal grant (s) / contracts	federal agency	dollar value	subject(s) of contract or grant
None			

Federal Contract Information: If you or the entity you represent before the Committee on Armed Services has contracts (including subcontracts) with the federal government, please provide the following information:

Number of contracts (including subcontracts) with the federal government:

Current fiscal year (2011): 0 ;
 Fiscal year 2010: 0 ;
 Fiscal year 2009: 0 .

Federal agencies with which federal contracts are held:

Current fiscal year (2011): N/A ;
 Fiscal year 2010: N/A ;
 Fiscal year 2009: N/A .

List of subjects of federal contract(s) (for example, ship construction, aircraft parts manufacturing, software design, force structure consultant, architecture & engineering services, etc.):

Current fiscal year (2011): N/A _____;
Fiscal year 2010: N/A _____;
Fiscal year 2009: N/A _____.

Aggregate dollar value of federal contracts held:

Current fiscal year (2011): N/A _____;
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Federal Grant Information: If you or the entity you represent before the Committee on Armed Services has grants (including subgrants) with the federal government, please provide the following information:

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Current fiscal year (2011): N/A _____;
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Fiscal year 2009: N/A _____.

List of subjects of federal grants(s) (for example, materials research, sociological study, software design, etc.):

Current fiscal year (2011): N/A _____;
Fiscal year 2010: N/A _____;
Fiscal year 2009: N/A _____.

Aggregate dollar value of federal grants held:

Current fiscal year (2011): N/A _____;
Fiscal year 2010: N/A _____;
Fiscal year 2009: N/A _____.

Exhibit II

The Armed Forces Marketing Council was incorporated on April 25, 1969 as a non-profit business league. It is comprised of firms representing manufacturers who supply consumer products to military resale activities worldwide. The purpose of the Council is to:

- Promote unity of effort through a cooperative working relationship among the Congress, the military, and industry.
- Provide a forum for addressing industry issues.
- Encourage worldwide availability of quality consumer products at the best possible prices and value.
- Encourage continued congressional support and funding of the resale system.
- Assist in maintaining the resale system as an integral part of military life.
- Promote awareness of sales and marketing agency services to the military resale system.

Council firms also subscribe to a code of ethics requiring that each member firm maintain the highest level of integrity and professional conduct and consider this to be critical to its credibility.

Some firms serving on the Council have been providing service to the resale system for over sixty years. For the most part, member firms are small, privately-held businesses formed in response to the need for quality, specialized sales representation to the unique worldwide military resale market. These firms have developed marketing and merchandising programs tailored specifically to deliver efficient support to military resale operations.

Through the link they form between the resale services and the manufacturers, these firms assure continuous availability of the complete array of consumer products normally found in the civilian marketplace. They offer services in a more efficient manner than all but the very largest manufacturers can provide using their own resources. If that were not the case, the firms belonging to the AFMC would not exist.

AFMC firms collectively represent several hundred manufacturers, both large and small. Together, our firms have nearly 3,000 people working directly in the stores, with the various resale services headquarters, and with the manufacturers to assure that the right products are on the shelf at the right time, in the right quantities and at the best prices and value. By so doing, they have played a significant role in maintaining the resale system as a vital part of the fabric of military life.

It is important to note that AFMC members see themselves as:

- "Stakeholders" in the military resale system.
- Interested in contributing to the continued viability and health of the resale system.
- Having expert perspective based on many decades of experience in servicing the military resale system.

Member Firms of the Armed Forces Marketing Council

Acosta Military Division

8031 Hampton Blvd.
Norfolk, VA 23505

Dixon Marketing, Inc.

301 Darby Avenue
PO Box 1618
Kinston, NC 28503

Dunham & Smith Agencies

8220 Elmbrook Dr.
Dallas, TX 63103

Overseas Service Corporation

1100 Northpoint Parkway
West Palm Beach, FL 33407

S&K Sales Co.

2500 Hawkeye Ct.
Virginia Beach, VA 23452

Specialized Marketing International

8220 Elmbrook Dr.
Dallas, TX 75247

QUESTIONS SUBMITTED BY MEMBERS POST HEARING

FEBRUARY 10, 2011

QUESTIONS SUBMITTED BY MR. WILSON

Mr. WILSON. Currently, Armed Services Exchange Regulations authorize service members to purchase cars from exchanges overseas when the car is U.S. name-plated manufactured in the United States or foreign name-plated with at least 75 percent U.S. or Canadian content. Advocates for an expanded policy that eliminates or reduces the 75 percent content requirement argue that the international nature of the car industry and its parts suppliers and the impact of trade agreements such as the North American Trade Agreement have confused the manufacturing environment. Such advocates contend that the confusion has made the car content argument and the 75 percent content rule outdated and irrelevant in the context of the original objective to promote American products.

Mr. Gordon, how valuable is this overseas car purchase benefit and is DOD inclined to seek Congressional approval to change the eligibility rules?

Mr. GORDON. The Exchange New Car Sales Program (ENCS) dates to 1961, when Congress recognized the need for Service Members and their families to be able to purchase American made automobiles while on overseas assignments. It is a valued program designed to enhance the quality of life of our Service Members serving overseas. In consultation with the congressional oversight committees, the current policy in DoD Instruction 1330.21, "*Armed Services Exchange Regulations*," states that "orders may be taken for U.S.-made automobiles, foreign name-plated vehicles with at least 75 percent U.S. or Canadian content, and motorcycles." DoD is considering clarifications to the ENCS policy. Should the review determine that modifications to the content requirement are necessary, we would consult with the Committee.

Mr. WILSON. A simple review of the math suggests that the 5 percent surcharge may not generate sufficient cash to support a facility recapitalization program for the Defense Commissary Agency. Mr. Gordon, what is the DOD perspective on the need to increase the surcharge?

Mr. GORDON. While the surcharge has been 5 percent since 1983, the Department does not believe an increase in the rate is appropriate at this time. As such, there are no plans to request an increase to the surcharge rate above the 5 percent currently paid by commissary customers.

Mr. WILSON. Are the services stepping up to pay for commissary new construction and expansion when justified by base realignment and closure or force restationing decisions?

Mr. GORDON. Yes, generally, the Services have been very supportive in making BRAC and MILCON dollars available for commissary construction. However, with the competition for these resources, they are challenged in prioritizing funding requirements.

Mr. WILSON. The Subcommittee received complaints that MWR activities were inappropriately engaged in providing personal information services to service members when private sector vendors were available to provide the services. Congress became aware of the issue when the problem surfaced as a point of friction between the Army and Air Force Exchange Service and Army MWR. Although Congress subsequently placed restrictions on the ability of government agencies to provide the services, the friction between the exchange and Army MWR continued.

General Casella, we understand that the differences between Army MWR and Army and Air Force Exchange Service over unofficial information services has been resolved—are you satisfied with the results? Have you agreed to a schedule to transfer contracts to AAFES and establish a profit sharing plan?

General CASELLA. AAFES and FMWRC signed a Memorandum of Understanding to create a telecom partnership on 23 Feb 2009, and the partnership was activated in Apr 2009. The partnership creates a non-competitive environment to provide common levels of Personal Information Services (PIS), and allows us to grow the business opportunity. These "unofficial" telecom services include for-fee Internet, TV and Telephone. The partnership is managed by AAFES with participation by and in coordination with FMWRC. This means AAFES will manage the providers of for-fee Internet, TV and Telephone services on Army installations worldwide, and continue

to deliver these services through contractual agreements with commercial providers consistent with current regulations and legislative guidance.

We are pleased with how the partnership has progressed. The initial action was the transfer of existing CONUS Army Recreation Machine Program for-fee Internet locations to a contracted provider, which was completed ahead of schedule prior to 31 December 2010. A European PIS support model is currently being developed. AAFES has also assumed responsibility for managing the Franchise Agreement process for the provision of cable TV services on post.

Income from the partnership is distributed in accordance with the current telecom dividend agreement; that is, 80% to the garrison, 10% to Army MWR and 10% used to fund operations.

Mr. WILSON. General Casella, it appears that after the opening of the Lifestyle Center at Ft Bliss that only 34 percent of the third party floor space has been occupied. What is the status of the lifestyle center at Fort Bliss and is AAFES moving forward with lifestyle center options at other locations?

General CASELLA. It's important to remember that AAFES activities occupy 62% of the Lifestyle Center's available space. This mitigates risk for the project. AAFES activities and the leased third party space brings the overall centers occupancy to 73%. We are on track to have the third party space 50% leased by this summer (81% of the overall center). We are on a leasing glide path consistent with commercial industry in today's market. Tenants in the Lifestyle Center are performing well. Even more encouraging is the success we are seeing with the Lifestyle Center being the social gathering place for the Ft. Bliss Community. The amenities and offerings have created a sense of place that is positively impacting quality of life.

We are moving forward with design of our Lifestyle Centers at JBLM and JBSA. JBLM is next in the queue and our intent is to seek approval to proceed on that project later this summer.

Mr. WILSON. Currently, Armed Services Exchange Regulations authorize service members to purchase cars from exchanges overseas when the car is U.S. name-plated manufactured in the United States or foreign name-plated with at least 75 percent U.S. or Canadian content. Advocates for an expanded policy that eliminates or reduces the 75 percent content requirement argue that the international nature of the car industry and its parts suppliers and the impact of trade agreements such as the North American Trade Agreement have confused the manufacturing environment. Such advocates contend that the confusion has made the car content argument and the 75 percent content rule outdated and irrelevant in the context of the original objective to promote American products.

General Casella, what is your perspective on this issue?

General CASELLA. Army and Air Force Exchange Service agrees that the car content of 75 percent is outdated and irrelevant based on the globalization of the current automobile manufacturing environment. In November 2010, we forwarded a request to change DoD policy to permit AAFES to sell any automobile assembled in North America to authorized patrons who are stationed or assigned overseas for 30 consecutive days or more.

With globalization, the long standing terms U.S. name-plated, and foreign name-plated, are less clear given the Committee focus on American jobs. The current policy favored Canadian as well as U.S. industry and their workers in its part content standard for "foreign name-plated vehicles"; and, the exchanges have been selling Canadian made automobiles for decades. Thus, AAFES believes Canadian assembly of automobiles, as well as Canadian assembly of parts, to be well within the Committee's intent. In the past few years, final assembly of some traditional U.S. brands has drifted to Mexico. Many of the most popular models of U.S. specification automobiles that the Exchange patrons want to buy are currently assembled in Canada and Mexico. Without adjustment to policy wording, the Exchange New Car Sales Program could not offer its patrons the following models: the Ford Edge and Flex, the Lincoln MKX, and the Chrysler 300 and Challenger, which are assembled in Canada, and the Ford Fusion and Fiesta, the Lincoln MKZ, and the Chrysler Journey, which are assembled in Mexico. In addition, many foreign plated brands have entered the U.S. market with manufacturing plants creating jobs for the American workforce and we are currently restricted by the part content from offering these vehicle models to our patrons overseas. Our current contractors tell us that, if they cannot offer our overseas patrons all of the popular models of U.S. specification automobiles, the Exchange New Car Sales program will likely lose financial viability.

In short, the program may collapse and the Exchange could no longer provide its authorized patrons overseas the opportunity to purchase quality automobiles with U.S. specifications at competitive prices. Therefore, if the exchanges are to continue to provide this valuable service to our service members and their families overseas,

it is essential that the program include all automobiles assembled in North America—to include Canada, Mexico and the U.S.

Mr. WILSON. Currently, Armed Services Exchange Regulations authorize service members to purchase cars from exchanges overseas when the car is U.S. name-plated manufactured in the United States or foreign name-plated with at least 75 percent U.S. or Canadian content. Advocates for an expanded policy that eliminates or reduces the 75 percent content requirement argue that the international nature of the car industry and its parts suppliers and the impact of trade agreements such as the North American Trade Agreement have confused the manufacturing environment. Such advocates contend that the confusion has made the car content argument and the 75 percent content rule outdated and irrelevant in the context of the original objective to promote American products.

Admiral Robillard what is your perspective on this issue?

Admiral ROBILLARD. NEXCOM supports expanding the program, as this change would be beneficial to military members. The overseas car purchase program is a good benefit for military members and their families offered through our overseas Navy Exchanges and Ships Stores.

Mr. WILSON. Mr. JEU, a simple review of the math suggests that the 5 percent surcharge may not generate sufficient cash to support a facility recapitalization program for the Defense Commissary Agency.

Mr. JEU. While the surcharge has been 5 percent since 1983, I do not believe an increase in the rate is appropriate at this time. With our Service Members and their families being asked to sacrifice so much, the stress of which has been further adversely impacted by today's economy, I fear the additional burden caused by even a slight increase in the surcharge rate would send the wrong message as to the value we place on their service. While the ten-year projection of surcharge backlog was reported to be \$549 million in 2008, a number of economic and policy decisions have caused us to revise the estimated commissary surcharge funding shortfall downward to \$148 million. In my opinion, that shortfall is manageable and I would not recommend an increase in the commissary surcharge.

Mr. WILSON. Mr. JEU, have we reached a point where we now can see that the 5 percent surcharge on purchases will have to be increased to ensure high quality stores?

Mr. JEU. I do not believe so. While we have not eliminated the surcharge shortfall, we are able to maintain a healthy surcharge construction program. This is principally due to three factors.

- The re-emphasis on the funding policy which called for the use of appropriated funds to build the first commissary on an installation and those that require the construction of new store or significant expansion of an existing store because of BRAC or global re-stationing decisions.
- The change in scope of an information technology project which made the appropriate source of funding the defense working capital fund, rather than surcharge; and
- In this economy, bids for new projects are showing reduced construction costs.

Mr. WILSON. A recent review of products sold in commissaries revealed that some brand name products are only sold in commissaries and currently fail to meet the requirement to sell the same brand name in the private sector. The Defense Commissary Agency (DeCA) has taken action to have the vendors in question demonstrate that they meet the requirements of the DeCA brand name rules. While most vendors are complying with the DeCA rules, at least one has challenged the requirement. DeCA fears that a break with the brand name standard will threaten some of the advantages of a brand name system, to include: a single pricing system throughout the world, a simplified low cost acquisition system, and the popularity of brand name products with military patrons.

Mr. JEU. We are pleased that the vendor who "challenged" the requirement was able to demonstrate that their products are carried in the commercial market place. Consequently, their products continue to qualify for sale in commissaries.

Mr. WILSON. Mr. JEU, the subcommittee understands that there is a challenge to the DeCA rule and the underlying law about only selling brand name products that are also sold under that brand in private sector markets. What is the status of negotiations with vendors that are not inclined to comply with DeCA rules?

Mr. JEU. All products currently carried in the commissary system are in compliance with the special rule for brand name commercial items contained in 10 U.S.C. § 2484(f). We determined that there were a total of 641 line items within DeCA's stock assortment for which we could not positively determine that the items met the Title 10 requirements. In May of 2010, DeCA published a notice to industry—complete with a list of the 641 items in question—requiring manufacturers to dem-

onstrate that their product were fully compliant with the statutory requirements. We validated that 537 of the original 641 items are fully compliant or the vendor requested the item to be phased out. The vendors for the 104 items that were phased-out on March 21, 2011, did not address the appropriateness of their product remaining in the commissary system. There are no outstanding issues regarding compliance with the statutory requirements.

Mr. WILSON. Currently, Armed Services Exchange Regulations authorize service members to purchase cars from exchanges overseas when the car is U.S. name-plated manufactured in the United States or foreign name-plated with at least 75 percent U.S. or Canadian content. Advocates for an expanded policy that eliminates or reduces the 75 percent content requirement argue that the international nature of the car industry and its parts suppliers and the impact of trade agreements such as the North American Trade Agreement have confused the manufacturing environment. Such advocates contend that the confusion has made the car content argument and the 75 percent content rule outdated and irrelevant in the context of the original objective to promote American products.

Mr. Larsen, what is your perspective on this issue?

Mr. LARSEN. The Marine Corps supports eliminating the 75% content requirement and a change to the policy that would delete "U.S.-made" and substitute "North American-manufactured U.S. nameplate automobiles."

