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**STATEMENT
OF
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(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."

