



## AMERICAN LOGISTICS ASSOCIATION

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# Military commissaries and exchanges

## Unpacking the Administration's Fiscal Year 2017 Proposal

Items for consideration for Defense and Congressional policy makers

### DoD proposal

Over the past three years, the DoD has proposed major funding reductions for commissaries. These reductions have been rejected by the Congressional defense committees, which called for DoD to propose reforms to be deliberated and validated by Congress.

The Administration's 2017 budget and legislative proposal for these programs does the following:

- Funds commissaries at a level of \$1.2 billion, \$221 million short of requirement. \$221 million made up from \$40 million in requirement reduction due to efficiencies (planned store closures, staffing reductions), \$40 million from reducing funding for shipment of produce to the Far East (local sourcing). Remaining requirement funded from carrying over funding from Fiscal Year 2016. This is good news and represents recognition on the part of DoD and the Administration that the commissary benefit is worth maintaining.
- DoD has committed to placing reforms ahead of budget cuts.
- DoD proposes to provide the Secretary of Defense with expanded authority to generate revenue for both commissaries and exchanges.
- DoD proposes to have authority to move forward with initiatives on private label, variable pricing, converting DeCA to a nonappropriated fund instrumentality.
- DoD proposes to use revenue from these programs to be used to offset operations by converting commissaries to nonappropriated fund that are funded with revenue from sales rather than appropriations.
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- DoD commits to backfill any shortfalls in revenue-generating capability with appropriations if they fall short or realizing revenue.
- Over the next five years, however, the DoD plans to reduce commissary funding by nearly \$1 billion. The 2017 budget states that DoD wants to maintain the current level of savings for patrons and seeks legislative authority to allow for reforms to the commissary and exchange program to make it operate more efficiently and thereby not diminish the benefit while it seeks to achieve these reform-driven savings.

This reform process began in 2016 where the House and Senate Armed Services Committees:

- Authorized DoD to proceed with pilot programs to test reforms.
- Asked DoD for a plan to eliminate all appropriations for these programs by fiscal year 2018.
- Commissioned the General Accounting Office to review privatization

### ALA position—Look before you leap

*The ALA is putting forth its positions below on the multitude reform proposals. These positions are summarized below and substantiated by several attached position papers offering further specifics data and background.*

- Support the President's budget with regard to appropriations levels for commissaries.
- Ensure that reforms are placed ahead of any funding reductions that would affect existing benefit levels.
- Look closely before you jump in with both feet. Ensure that any pilot programs are limited in scope (to minimize damage if flawed), and objectively validated, and reviewed by responsible Congressional oversight committees.
- Provide for regular reports and reviews by Congressional oversight committees.
- Support continued overseas transportation funding.
- Place reforms ahead of budget cuts and have a deliberative and measured approach to reforming the military resale programs. Reduce the budget only after these reforms demonstrate there is no degradation of the benefit.

- In making DeCA a NAF program, DoD would have the authority to mix exchange and commissary funding for resale programs. Safeguards need to be in place to preserve the integrity of exchange earnings. Exchange earnings belong to patrons and should not be used to underwrite a larger DoD resale enterprise or to achieve funding reduction targets. We have learned that DoD is proposing nearly \$1 billion in contributions from the exchanges in the form of these revenue offsets.
- Commissaries should not be privatized. Massive downsides need to be fully reviewed and vetted.
- Pilot programs should clear parameters and success measure, be reviewed by Congress, and validated by GAO before being allowed to proceed and patron impact should be reviewed prior to implementation.
- DoD should not be allowed to make the commissary system a nonappropriated fund instrumentality until revenue-generating measures can be validated and workforce impact is properly assessed.
- DeCA should run a parallel test of private label and value brand expansion.
- Do not outright merge exchanges but pursue a structured approach to collaboration.
- Recognize the value of exchange systems in providing direct mission and readiness related services.
- Expand the exchange online retail channel to all honorably discharged veterans.
- Expand use of the exchange credit card into commissaries.
- Expand exchange offerings to reflect services and products found in commercial retail and service outlets.
- Expand collaborative opportunities between exchanges and commissaries to include establishment of the Defense Resale Business Optimization Board.
- Work to break down legislative, bureaucratic, cultural, and regulatory barriers to patron convenience and choice.
- Offer what off base retailers already recognize: today's military is more tech savvy, better paid, more educated, and more sophisticated and discerning.

- Break down the barriers to product assortment restrictions between exchanges and commissaries in manner that does not disadvantage either entity to allow a broader array of products and services to be offered in a one-stop shopping facility.
- Unchain the system from archaic restrictions on personnel and management and give resale leaders and managers the tools they need to be more agile and market responsive.

ALA has prepared a number of papers with more specifics on these issues. These papers are attached.

Enclosure 1 – Views on introducing private label programs in commissaries (with legal and regulatory considerations)

Enclosure 2 – Views on introduction of modifications to the current cost plus 5% surcharge pricing model (with legal and regulatory considerations)

Enclosure 3 – Views on the privatization proposal for exchanges and commissaries

Enclosure 4 – Views on using exchange proceeds to offset appropriated fund obligations

Enclosure 5 – Views on reducing overseas transportation funding

Enclosure 6 – Converting commissaries to nonappropriated fund instrumentalities

Enclosure 7 – Patron’s views for commissaries, exchanges, and reform proposals

Enclosure 8 – DoD’s Fiscal Year 2017 Legislative Proposal

Enclosure 9 – Consultant Report on reforming DoD resale programs

Enclosure 10 – ALA report on Costs and Benefits of the DoD Resale System

### **Congressional 2017 Defense budget deliberation schedule**

House Armed Services Committee

April 20—Personnel Subcommittee markup

April 27—Full Committee markup

Senate Armed Services Committee

May 10—Personnel Subcommittee markup

May 11—Full Committee markup

House Appropriations Committee

TBD—Committee/Subcommittee allocations

TBD—Defense Subcommittee markup

TBD—Full Committee markup

Senate Appropriations Committee

April 14—Subcommittee (302b) allocations

TBD—Defense Subcommittee markup

TBD—Full Committee markup

ALA Public Policy Forum and Congressional Caucus—Capitol Hill

June 15, 2016