



## AMERICAN LOGISTICS ASSOCIATION

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The Honorable Mac Thornberry  
Chairman  
Committee on Armed Services  
U.S. House of Representatives  
2216 Rayburn House Office Building  
Washington, D.C. 20515

April 12, 2016

Dear Mr. Chairman:

As you proceed with deliberations on the Fiscal Year 2017 National Defense Authorization Bill, we wanted to bring to your attention several concerns with regard to reforms being contemplated to the Department of Defense commissary and exchange programs that would have a major impact on the management of these programs and ensuing impact on the benefits provided to the millions of patrons.

The Department of Defense has proposed that the law governing these programs and protecting these benefits be either repealed or waived to allow DoD to immediately proceed with implementation of changes to products, pricing and funding mechanisms that have served the system well over the past 30 years.

We urge adherence to the process set forth in the Fiscal Year 2016 National Defense Authorization Act that provided a deliberate process wherein DoD would conduct what we assumed would be limited pilot programs. Also, the description of these pilot programs to include laws that DoD intended to be waived would be provided to the Congress in advance. Congress, and we hoped affected patrons, would then have a chance to determine the wisdom of proceeding, before any pilots took place and any changes to permanent law would be considered. We understand that DoD is proposing a fast track that would enable these changes to be applied system-wide, including changes to funding mechanisms, commissary variable pricing, and introducing private label products, without limitations and a deliberative process to assess the pilot program's viability. This fast track includes altering the manner in which baseline savings are measured that would serve as a fundamental parameter in the conduct of these pilots.

This process of putting in place a multitude of changes is proceeding without the ability of ourselves or any of the many beneficiary groups, that represent millions of patrons, having the ability to review the specifics of the DoD proposals to include information that has yet to be presented in the "*Report on Plan to Obtain Budget Neutrality for the Defense Commissary System and the Military Exchange System*" that was mandated in the Fiscal Year 2016 Conference Report.

We testified to these concerns on January 13, 2016 and upon reviewing DoD's proposals have developed a series of position papers on the specifics of our views that need to be considered. We originally anticipated that we would be able to provide these positions and information to the Congress during the established deliberative process and during the conduct of limited pilot programs. We now fear that if these proposals are fast-tracked, have no process for review and patron and affected industry input, are applied system-wide with no limitations on duration, and leapfrog the minimal deliberative

process that was set forth, that outside views will not have a chance to be considered. As the organization representing suppliers, which constitute nearly 90 percent of the supply chain, we strongly urge you to enable a process that takes these matters into consideration.

We are concerned about implications of establishing the Defense Commissary Agency as a nonappropriated fund instrumentality, particularly on Congressional oversight of the use of the nearly \$1.4 billion in operation and maintenance funds and the nearly \$6 billion in annual revolving stock fund expenditures. Establishment of this entity as a nonappropriated fund instrumentality also has major implications on the workforce and the dedicated service of these commissary employees needs to be taken into consideration in any move in this direction. We also have concerns about legislation that would enable reductions to overseas transportation funding that is critical to ensuring the continued promotion of U.S. manufactured products and the normalization of pricing for our military, no matter where they serve.

We urge you to support commissary and exchange funding levels that were presented in the President's Budget. We are gratified that DoD has set forth a process to put reform proposals ahead of cuts to these vital programs and has delayed any major reductions to commissaries to the out years of the Future Years Defense Plan in order to enable reforms to be put in place ahead of any cuts. And, we understand that DoD has specifically proposed that if the reforms do not materialize as expected, any reductions that hurt patron savings would be restored. However, we are concerned that DoD is using the legislative authority that it is seeking in its proposal to break down the traditional barriers to funding exchange and commissaries thereby potentially enabling exchange funding to be siphoned off to fund shortfalls across the Defense resale enterprise. We urge that any legislation serve to protect exchange ability to generate funds for community MWR programs and recapitalization and allow these exchange patron-generated funds to be used for the purpose for which they were generated.

As stated in our January 13, 2016 testimony to the Committee, ALA stands with you in implementing positive, responsible reforms to these programs and we hope that you will take our views on the impact of these major changes into consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Patrick B. Nixon", written in a cursive style.

Patrick B. Nixon

Cc: The Honorable Adam Smith, Ranking Member  
The Honorable Joseph Heck, Chairman, Subcommittee on Personnel  
The Honorable Susan Davis, Ranking Member, Subcommittee on Personnel