AFGE
Congressional
Testimony

TESTIMONY OF

AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL-CIO

BEFORE HOUSE ARMED SERVICES SUBCOMMITTEE ON MILITARY PERSONNEL

ON COMMISARY REFORM

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The American Federation of Government Employees (AFGE), AFL-CIO, which represents more than 650,000 federal employees in almost 70 different agencies who serve the American people across the nation and around the world, including in the Defense Commissary Agency (DeCA), is submitting testimony for the record for today's hearing. As the representative of a significant stakeholder, AFGE regrets that it was not given an opportunity to present the views of DeCA's workforce at the hearing.

AFGE is proud to represent civilian employees who work for DeCA, which provides groceries and household goods through more than 250 commissaries to active-duty, Guard, Reserve, and retired members of all seven uniformed services of the United States as well as eligible members of their families.

Authorized customers buy items at cost plus a 5% surcharge, which covers the costs of building new commissaries and modernizing existing ones. Shoppers save an average of more than 30 percent on their purchases compared to commercial prices—savings that amount to thousands of dollars annually when shopping regularly at commissaries.

It has been reported that the commissaries provided military households with $2.7 billion in price savings and another $200 million in income for military family members employed by DeCA; 90% of active-duty military families used the commissaries in 2012, helping to rack up 100 million customer transactions at DeCA annually. As a core military family support element, and a valued part of military pay and benefits—according to surveys of military personnel—commissaries enhance the quality of life for America's military and their families, and help to recruit and retain the best and brightest men and women to serve our country.

Thanks to Senators Jim Inhofe (R-OK) and Barbara Mikulski (D-MD), the Senate's FY16 NDAA was stripped of a provision that would have led to the privatization of the commissaries. However, having saved the commissaries from abolition and privatization, now the commissaries face a new threat—loss of almost all appropriations funds and conversion of DeCA to a non-appropriations funded (NAF) agency, which would have severe consequences for the agency's workforce and the long-term viability of the commissary benefit.

The FY16 NDAA included a provision that requires the Department to report how it would provide the commissary benefit as revenue neutral. In other words, the substantial benefit that DeCA provides to military families would somehow have to pay for itself—with no subsidies. DoD had earlier hired a business consultant, the Boston Consulting Group (BCG), to provide recommendations for how to take DeCA "off budget".

The three most important recommendations made by BCG are to

1. Introduce private labels, which many retail experts say is not feasible because DeCA's sales are not significant enough;

2. Use variable pricing, which is code for increase prices, and which many fear will drive away military families and lead to the end of the commissaries; and

3. Convert DeCA from appropriations fund status to NAF status, which would have a severely adverse impact on the workforce.

With respect to the third recommendation, conversion to NAF status would cut the pay of DeCA workers by as much as one-quarter, force them to pay significantly more for health care insurance, render them ineligible for retirement benefits, and make it easier to fire them and privatize their jobs. Here are relevant excerpts from BCG's report:

> *"The primary cost-saving benefit of NAF conversion for DeCA would be tangible reduction in labor costs...the NAF environment tends to provide for lower and more flexible wage schedules compared to APF. We estimate that annual run-rate savings in wages and benefits combined could be $95-155M."*
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> *"Our analysis suggests that NAF conversion could enable 15-25% wage savings for in-store positions, while maintaining the same level of pay for above-store positions. Beyond differences in pay, there are also potential cost savings from benefits."*
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> *"Furthermore, DeCA would become more agile in terms of personnel actions. DeCA would be able to more speedily hire and separate employees, use business-based actions to adjust the size of the workforce, increase the use of flexible employees who do not receive benefits..."*
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> *"DeCA's share of full-time store level employees is greater than what we see in private sector grocers. Today, 63% of DeCA's in-store employees are part-time, which is 7-12% less than the 70-75% range we typically see in the private sector. Furthermore, all DeCA employees receive pro-rated benefits, even when working fewer than 30 hours per week. By shifting the labor mix towards industry levels and shifting some part-time employees to a flexible, non-benefitted status, DeCA could reduce store labor costs by $10--25M."*
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> *"DoD instructions that govern NAFIs constrain employers significantly less in defining employment terms than OPM regulations which cover APF entities. Major categories of differences include reduction and realignment, employee relations, and staffing. First, NAFIs are able to use Business Based Actions (BBA) to reduce force, which use more flexible criteria than Reduction in Force (RIF) procedures that APF entities must follow. For example, whereas RIFs are restricted to specific purposes such as reorganization, lack of funds, and elimination of duties, BBA procedures can be used for a wider range of reasons including business realignments and a need to be competitive with the local labor market. Moreover, NAFIs have greater flexibility in determining which employees*

to separate because the primary factor in the BBA selection process is performance, whereas the APF RIF process is seniority-focused. Additionally, APF employees tend to have more formal recourse for grievances and appeals. For example, they are able to appeal adverse actions to the Merit Systems Protection Board (MSPB), and APF employers have the burden of proving that their actions were justified. In contrast, NAF employees only have the right to appeal to MSPB for issues concerning retirement portability and specific violations of their employment rights."

Various rationales will be offered to justify robbing the employees to keep the commissaries running:

"If we don't do this, they will privatize the system or get rid of the commissaries." However, stripping the commissaries of their subsidies makes it more likely that prices will have to be increased—which will drive off customers and lead to DeCA's demise.

"Commissaries are losing money on every sale—we have no choice!" Commissaries provide a substantial benefit to military families, one which just about everybody acknowledges is vital to personnel retention and the creation of military culture, so why shouldn't taxpayers pay for it? Such subsidies certainly better support the Department's mission than the billions upon billions of taxpayer dollars wasted annually on bad service contracts.

"Somebody has to sacrifice to keep the commissaries running, so why not the employees?" No DeCA employee is living large on her modest paycheck. In fact, many DeCA employees are veterans and military spouses whose families depend on their jobs.

"Well, maybe the cuts will only apply to future workforces, and we can grandfather current employees. But let's remember, DeCA employees earn more than their counterparts in the exchanges and the private sector." Why should the Congress arbitrarily pay workers significantly less for doing the same work? Why should the Congress engage in beggar-thy-neighbor economics and race-to-the-bottom politics? Why shouldn't the Congress be building up the middle class, as opposed to tearing it down?

A senior DoD official has already acknowledged that it would be "impossible" for the commissary benefit to continue to be meaningful for military families if DeCA were required to be revenue neutral, and that appropriations for the agency would continue to be necessary. The question is: how much funding will DeCA continue to receive?

DeCA should continue to strive to achieve efficiencies in the provision of the commissary benefit. However, there is no shame in taxpayers continuing to subsidize this important earned benefit, as just about anything of real value must ultimately be paid for. And although the commissaries have attracted extraordinary attention from policymakers in the legislative and executive branches, it must also be acknowledged that DeCA's $1.4 billion appropriation is a tiny fraction of the Department's budget.

Lawmakers should reject proposals to use the FY17 National Defense Authorization Act (NDAA) to reduce the cost for the provision of the commissary benefit through the imposition of extraordinary sacrifices on DeCA's already modestly compensated workers, many of whom are veterans and military spouses. Given the undeniable and substantial benefit provided to military families by the commissary benefit, it is imperative that we proceed carefully with proposals such as the introduction of a private label, use of variable pricing, and conversion of DeCA to non-appropriations funded status. The FY16 NDAA provided the Department with pilot project authority, and it makes sense to use that authority before attempting to implement major reforms.