



## AMERICAN LOGISTICS ASSOCIATION

1101 Vermont Avenue N.W. Suite 1002 Washington D.C. 20005

Phone: (202) 466-2520 Fax: (202) 296-4419

[www.ala-national.org](http://www.ala-national.org)

# Do not privatize commissaries & exchanges

Items for consideration by Defense and Congressional policy makers

## Senate Armed Services Committee proposal

The Senate version of the Fiscal Year 2016 National Demezne Authorization Act contained a proposal to implement privatization of commissaries at a minimum of five major Defense installations

In a floor amendment to the NDAA, the Senate voted to have a GAO review prior to implementation. A GAO review requirement of both commissary and exchange privatization was adopted by in the Conference Report on the final version of the FY 2016 NDAA. This review is on going by GAO.

DoD is suggesting that it will issue a “Request for Information” from industry to gauge private sector interest in operating commissaries.

ALA and several of our member companies have met with the GAO and expressed our concerns with the outright privatization proposal.

## ALA position

Outright privatization should be rejected.

## Concerns and background

### **ALA agrees with outsourcing where it makes sense but not outright privatization:**

- Major commissary functions already are outsourced.
  - Distribution for commissaries was outsourced in 1996 and nearly \$500 million was returned to the DoD’s stock funds when this transition took place.
  - Several in-store functions including bakeries and delis are outsourced as is shelf stocking, produce distribution, and myriad other functions.
- Exchanges have a special status as instrumentalities of the United States government whereby they already adopt commercial business practices while enjoying the immunities of being a Government entity.
- The cost of operating a privatized commissary or exchange will be higher in that some current roles and functions in commissaries and exchanges are provided by private industry. Distribution, promotions, and shelf stocking are already performed by private entities and helps

to reduce the cost of operations. A private entity will be required to pay for those functions, thus increasing the cost of operations.

**The Department of Defense and the Administration is opposed to privatization.**

**The Department would need definitive scope, requirements, benchmarks, and performance standards in its contracts to ensure continued savings, proximity, and consistency across providers.**

**Commercial companies offer other capabilities such as loyalty programs and analytics that are not of much use in the Defense commissary program.**

**Delivering 30 percent savings in an industry where gross margins are 25% to 28% would be impossible without continued appropriations from the government.**

**These stores are required to operate where the troops are, even when it would not be profitable.**

**More than two-thirds of the stores operate where it would not be profitable.**

**Large stateside stores support smaller remote and overseas stores.**

**The taxpayer would be left holding the bag for these remote and overseas areas.**

**Without large US operations, the price of goods at the overseas and remote locations would increase 20 percent.**

**Store level costs would increase 5 percent.**

**Privatization will result in higher prices on groceries for military families. DeCA and the exchanges already receive best pricing from most manufacturers, so regardless of which private contractor operates the commissaries, the price they receive from manufacturers will not be lower than what commissaries and exchanges currently receive.**

**ALA believes the current mix of outsourced functions and government-operated functions should be maintained:**

- It affords the DoD the immunities and protections of a Government entity while providing the advantages of outsourced functions where they make sense.

**Under current law, private entities that operate on base as concessionaires to military exchanges are required to collect sales tax. That means military families would be required to pay sales taxes on groceries purchased in a privately operated commissary.**

**Outright privatization of commissaries has been considered by the Department of Defense and actually tested on one occasion:**

- The test didn't work.
- The Military Compensation and Retirement Modernization Commission, chartered by the Senate, surveyed the private sector and found no interest among major retailers to operate on military bases.
- The Commission determined commissaries were worth preserving and did not recommend privatization.

**When the DoD privatized lodging in the Army, temporary lodging rates skyrocketed and facilities were not capitalized as promised**

**It would be difficult to find a private operator to deliver the same level of benefit:**

- If prices are increased, what private operator would come on base and only serve the limited on-base market where no patrons choose to come to parity priced grocery store on base.
- When the DoD privatized lodging in the Army, temporary lodging rates skyrocketed and facilities were not capitalized as promised.
- Contractors would seek Government guarantees as a backstop against base closures and force structure reductions. These guarantees would "Score" against the DoD budget.
- Many commissaries and exchanges are located in areas where other shopping options do not exist will never generate enough sales revenue to offset their cost of operation. There is great concern the contractor will cherry-pick profitable stores while abandoning stores that do not generate a profit leaving military families with no source of meeting their basic needs.

**A private operator would probably cherry pick the high volume stores and set the small and remote stores adrift.**

**Contractors would seek Government guarantees as a backstop against base closures and force structure reductions. These guarantees would "Score" against the DoD budget.**

**What would happen to the billions of dollars of facilities that patrons themselves invested in?**

- Military patrons have invested \$12.5 Billion in their own stores.
- Would they be compensated for these investments?
- If privatization is even being considered, shouldn't there be a moratorium on charging patrons a capitalization surcharge until the issue is resolved?

**Privatization will result in higher prices on groceries for military families:**

- DeCA and the exchanges already receive best pricing from most manufacturers.
- Regardless of which private contractor operates the commissaries, the manufacturers they receive will not be lower than what commissaries and exchanges currently receive.
- In 2014, more than \$84 million worth of food stamp benefits were spent at military commissaries. Some service members and their families can't even afford to pay for groceries at stores on military bases, where items are already barely above cost, what will happen to these families when prices go up?

**Under current law, private entities that operate on base as concessionaires to military exchanges are required to collect sales tax:**

- That means military families would be required to pay sales taxes on groceries purchased in a privately operated commissary.

**Would lose ancillary industry support, valued at nearly \$250 million.**

**Many commissaries and exchanges are located in areas where other shopping options do not exist:**

- They will never generate enough sales revenue to offset their cost of operation.
- There is great concern a private operator will cherry-pick profitable high volume stores while abandoning stores that do not generate a profit
- Military families will be left with no source of meeting their basic needs.

**Vivid reminder of what can happen in a privatization scenario:**

- Walmart is closing 154 stores around the country, many in small towns and rural areas with few other shopping options.
  - "Communities are finally getting a look at not only the effects of when Walmart comes into town, but also when they leave."
  - "They chose to come here and then when they put the other grocery store out of business, they want to close down and leave. I'm mad."
- Walmart's nationwide closures will also impact thousands of employees.

**The cost of operating a privatized commissary or exchange will be higher:**

- Some current roles and functions in commissaries and exchanges are provided by private industry.
- Distribution, promotions, and shelf stocking are already performed by private entities and help to reduce the cost of operations.
- A private entity will be required to pay for those functions, thus increasing the cost of operations.

**Privatization will disrupt existing system synergies:**

- The current system is integrated worldwide.
- Carving out some stores to be operated by the private sector will disrupt a working supply chain.

**Any privatization must take into account DoD-unique factors:**

- Changing threats, announced and unannounced deployments of large units of troops, re-stationing of forces, and adaptive force protection measures must be considered.
- The need to offer the same benefit worldwide, wherever military serve is tantamount in considering privatization of commissaries.

**Need to consider the impact on the workforce from privatization:**

- Loss of critical jobs for military family members
  - 62 percent of commissary employees are military family members or veterans
  - Nearly 30 percent of commissary employees are military spouses
- Currently commissary employees have the opportunity to rotate between stateside and overseas locations. This rotation ability would be removed.

**What would happen to the billions of dollars of facilities that patrons themselves invested in? Would they be compensation for these investments? If privatization is even being considered, shouldn't there be a moratorium on charging patrons a capitalization surcharge until the issue is resolved?**

**What happens to the myriad social programs that commissaries and exchanges support?**

- Small business mandates
- Javits Wagner O'Day benefits
- Ability One program
- Equal opportunity programs
- It would necessitate the termination of over \$220 million in service and supply contracts, including many with small business and AbilityOne

**What if privatization fails?**

- Once dismantled, it will be difficult to reconstruct the existing working capability.

**There is consensus in Congress on commissaries. The consensus is to preserve the benefit, not destroy it:**

- When moving directly to a privatization pilot was introduced by the Armed Services Committee into the Senate, it was flatly rejected with over 33 co-sponsors and a unanimous vote.
- In 2015, months before it called for privatization and elimination of the commissary appropriations, the SASC said:

*“Commissaries have a major positive impact on the quality of life of all service members--active, reserve, and retired--and their families. Commissaries, on average, afford savings of more than 30 percent on items purchased. Additionally, commissary patrons frequently use base exchanges when they come on post to shop at the commissary. Increased usage of the base exchanges results in additional dividends that are returned to the military community for morale, welfare, and recreation activities. The cumulative effect of all of these benefits from commissary patronage is particularly important to junior enlisted service members”.*

*“The committee is concerned that consequences of the Department of Defense proposal to increase costs to patrons of the commissary benefit in order to reduce appropriated fund support for the Defense Commissary Agency have not been fully evaluated, and that other business models that may not have the same detrimental impact were not considered.”*

Enclosures

- AFGE testimony for the record,, House Armed Services Committee January 13, 2016
- ALA testimony, House Armed Services Committee, January 12, 2016
- AFMC testimony, House Armed Services Committee, January 13, 2016
- Military Coalition Testimony, House Armed Services Committee, January 13, 2016
- NMFA testimony, House Armed Services Committee, January 13, 2016