



## **AMERICAN LOGISTICS ASSOCIATION**

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# Do not balance the Defense budget on the backs of the exchanges and their patrons

Items for consideration by Defense and Congressional policy makers

## DoD proposal

DoD is proposing to have exchanges directly and indirectly contribute to savings to the tune of \$1 billion over the next five years. This is part of an overall effort to save \$2 billion over the next five years for both commissary and exchange programs.

### ALA position

Military exchanges already greatly contribute to the Defense mission, are inherently efficient and should not be subjected to making contributions to offset legitimate appropriation obligations to support military families.

## Concerns and background

Military exchanges operate thousands of retail outlets and services on installations. They funding largely as nonappropriated fund programs but do derive some appropriations in the form of offsetting costs to transport products to overseas bases and base operations support services primarily at remote and overseas sites. In effect, this system is owned by shareholders (the military and their families) who have effectively formed a co-op to provide for their own well being.

Risks for DoD and Congress and military and their families include:

- Killing a Golden Goose" (funding MWR and capitalization)
- Shaking the foundation that supports ancillary missions" (MWR base support, bakeries, school lunches, uniforms, water plants, TRANSCOM/DTS, etc.).
- Punishing success or dis-incentivizing progress.
- Tampering with a fragile system that has served DoD and the Nation well.
- Convergence of factors all at once would be devastating

- Too far, too fast
- "Risk sacrificing a great system at the altar of short-sighted and political expedient efficiency.

This siphoning off of exchange earnings (generated from sales to the troops and their families) and legitimate and necessary appropriated funding will seriously damage the exchanges' ability to provide earnings for vital community support (MWR) programs and earnings that are plowed back into the exchange systems to fund investments in technology and facilities to power the exchanges ability to continue to be a viable source of programs and services.

Along with reducing appropriated funding for transportation of products overseas and for base operating support, DoD is also proposing to enable mixing of appropriations and nonappropriated fund to operate the resale system. While this may generate significant needed flexibility in operations, Congress needs to be vigilant over demands being placed on the exchanges to provide for a \$2 billion reduction to commissary and exchange funding over the next five years. DoD and Congress need to prevent patron-generated surcharge and nonappropriated funds to be used for obligations that traditionally have been assumed by the taxpayer and not the troops and their families.

Exchanges already have reduced their operating costs. Any contributions will essentially be "killing the golden goose" that provides extraordinary value to the Department of Defense.

The Navy Exchange Command, Army and Air Force Exchange Service and the Marine Corps Exchange have taken major costs out of their programs. As revenue generating entities, all decisions are inherently business based and efficient. Asking them to contribute more funding beyond what they already do or are capable of and reducing appropriations will cause major harm.

Exchanges are not just retailers. They are a living, breathing part of the Defense mission. They are embedded in the fabric of the Service and DoD mission.

Consider that exchanges:

- Support in remote and deployed locations such as Djibouti, Africa or Afghanistan.
- Operate DoD's school lunch programs.
- Support Women, Children and Infant program overseas.
- Operate hundreds of stores that deliberately operate at a loss to support troops and families at far reaches and obscure corners of the globe.
- Are limited by recent changes in policies limiting tobacco and alcohol consumption on base.
- Operate bakeries and water plants for DoD personnel.
- Employ tens of thousands of veterans and family members.
- Provide disaster relief.

- Provides uniforms, lodging, Wi-Fi and stores aboard ships.

On the other hand, exchanges are being sucked into the resale “reform” vortex in the Congress and DoD and have been hit with a \$1B bogie over the FYDP as well. Not fair, when you consider that the exchanges have worked hard to cut costs and improve shareholder value in recent years. DoD’s legislative proposal and five year plan holds great risk for the exchanges to include blurring and encroachment of the lines of funding that have delineated and protected the system over the years. Congress and DoD need to preserve the integrity of the NAFIs and preserve their independence and their prerogatives in this evolving environment.

The American Logistics Association has published a report outlining the support that exchanges commissaries provide to the DoD and the Nation. This report is enclosed.

Enclosure

ALA report on *Costs and Benefits of the Military Resale System*, December 2012