

STATEMENT BY:
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WELFARE PROGRAMS
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Madam Chair and Distinguished Members of the Subcommittee:

The American Logistics Association (ALA) is most grateful to this subcommittee for its strong leadership in preserving and improving the commissary, exchange and MWR benefits for service members, military retirees and their families.

It is an honor to be here today as Chairman of the American Logistics Association representing nearly 250 of America's leading manufacturers, nearly 60 brokers and distributors, service companies, media outlets and more than 1400 individual members who are actively engaged in providing goods and services to the military resale and MWR activities.

ALA is a modern, best practice trade association that is a critical supporter and tireless advocate promoting a world class quality of life for America's military and their families.

Our primary goal is to enhance the quality of life for active duty, Guard and Reserve, and retired military personnel and their families. The member companies that make up the American Logistics Association demonstrate the wide expanse of the business base we represent. At the large end of the spectrum our members include some of the largest consumer package goods companies in the world such as Procter & Gamble, Johnson & Johnson, Kraft Foods, Inc., Coca-Cola and Brown-Forman Beverages. Our members are also small businesses such as Veterans Imaging Service with a focus on improved MWR programs. Our member firms include brokers such as C. Lloyd Johnson Company, Dunham & Smith Agencies, Overseas Service Corporation and Military Sales and Service (MSS) whose representatives provide a unique service in the military resale industry. Also, the association has distributors such as Coastal Pacific Food Distributors, Inc., and SUPERVALU, Inc., who provide a valuable service to the industry and lastly information technology facilitators like Empower IT.

It would be a misnomer to characterize the association as one of representation only. One of the key attributes of the ALA is the focus on win-win-win business opportunities for our members, resale partners and the military patron. Examples like Keeworld Trading Company run by an Asian American military spouse, Ms. Jacqueline Kim, who had a dream to bring Korean products and a taste of the Korean culture to the military resale system. Through her hard work and determination and a sound business plan provided by the association, her company now finds it self on the DeCA Million Dollar Vendor list. ALA Member Company Military Sales and Service (MSS) is located in the shadow of the AAFES Headquarters in Dallas, Texas. MSS virtually grew from a fledgling company through its hard work and perseverance and alliance with the association to be the largest single broker for AAFES with over 500 employees many of whom are military spouses and dependants representing over \$500 million in business.

ALA members supply goods and services to the military community and employ several thousand military spouses, family members and retired service members. ALA member firms, including brokers, manufacturers and distributors, offer employment opportunities through a wide range of full-time and part-time positions located on or near U.S. military installations around the world. Many military spouses have found career opportunities with our member companies.

Not only am I here today to speak to the relevance and engagement of ALA members within the military resale and MWR community, but more importantly, I am here today as an advocate for enhanced quality of life for our nation's military service members, retirees and their families. The activities of organizations like ALA continue to give hope that there are watchdogs present to protect and promote the benefit and to

speak on behalf of service members and their families. The unwavering support of this subcommittee is another reason to have confidence that the benefit will be protected.

Many of the issues I will address today will be similar to issues raised in prior years. In virtually every instance progress has been made but there is more to do. Specifically, I will address the state of commissary surcharge dollars, Armed Services Exchange Regulations (ASER), base access, Guard and Reserve outreach efforts, the outlook for future budgets and finally I will provide comments on some pending legislation.

Madam Chair, I am pleased to convey to the subcommittee a huge "well done" on the issue of finding relief for limited commissary surcharge dollars. For the past several years the members of this subcommittee have voiced concern in unison about the challenges facing DeCA with the increased burdens being placed on the surcharge account by BRAC and restationing construction requirements. The subcommittee requested DOD provide a 10 year construction report to identify the impacts these new requirements would force on the already overburdened surcharge account. Your leadership and persistence along with the determination of this association elevated the issue to the Secretary of Defense and in a recent ruling by the DOD General Counsel, the determination was made that commissary construction projects that are necessitated by BRAC or restationing can not be paid out of surcharge but must come from BRAC or MILCON funding. The two immediate projects impacted are the requirements for new commissary construction at Fort Bliss and Fort Riley. These projects will be built with BRAC and MILCON funding freeing surcharge dollars for other needed uses.

I am proud to be ALA's spokesman and to reaffirm ALA's strong commitment to maintaining and improving the commissary and exchange benefit as an integral part of the total, non-pay compensation package for service members and their families. We support these dynamic programs; they provide a broad range of consumable products, goods and services for military personnel and their families, including essential financial support to MWR programs which benefit the entire military community.

Our association actively supports and promotes programs that enhance the quality of life for our military service members, retirees and their families. Exchanges are a key component of DOD's quality of life programs. Unfortunately, authorized patrons continue to be limited in their choice and selection of merchandise sold in exchanges. The Armed Services Exchange Regulation (ASER) delineates who is authorized to use the exchange benefit and what can or cannot be sold by the exchanges. Madam Chair, it is ALA's position that shoppers should have a choice without restrictions on merchandise sold in exchanges. Our members want and deserve access to all products and services that meet their families' needs at the reasonable price typical of the exchanges. ASER restrictions may well drive authorized patrons away from the exchange, negatively impacting their tendency to utilize the commissary and the exchange.

Also, the exchanges should be able to provide services outside the base to further support the products they provide. Today's technology requires services that go beyond mere installation.

ALA appreciates this subcommittee's support for limited changes to ASER. While these proposals were not fully approved by Congress, ALA considers the effort to be a step in the right direction. Specifically, the subcommittee supported elimination of the prohibition on the sale of projection televisions and an increase in the cap on the unit cost to the exchanges on the sale of televisions from \$3,500 to \$4,000. In addition, the committee supported an increase in the cap on the unit cost to the exchanges on the sale of finished furniture from \$900 to \$1,100 and for a study to examine the demand for jewelry within the military market.

However, with regard to a revised unit wholesale cost price limitation for furniture, the exchanges would need a price of \$2,000 in order to overcome not just inflation, but all of the variables affecting the cost of furniture. While this figure might seem high, our research and contact with the services indicates that this figure would allow them to satisfy all of their different customer segments. Moreover, any figure less than \$2,000 precludes the sale of many quality brands and, in some cases, full suites (bedroom, family or dining room) cannot be made available because one item within the suite may exceed the limitation.

However, while an increase in the cost price limitation would allow those exchanges to stock a larger selection of furniture where space is available, the overwhelming need is for some relief from the construction and renovation restrictions. These rules prevent many exchange stores from stocking any furniture and, in stores that do have cramped space, the selection is severely limited. Therefore, many military families who need to purchase furniture at reasonable prices are forced to shop "outside the gate" where they encounter significantly higher prices. Also, families encounter much higher interest rates.

These higher prices and interest rates are of particular concern with regard to BRAC and force realignments which will accelerate the relocation tempo for military families and initiate the need for increased furniture purchases.

To reiterate, the subcommittee's recommendations were a good beginning; however, the most equitable way to provide this benefit to deserving military families is to lift all ASER restrictions. Elimination of the furniture restrictions would permit greater availability of furniture, afford service members the opportunity to receive the best possible value, and therefore provide a true non-compensation benefit with absolutely no burden on taxpayers. Military patrons would not be forced to shop higher priced private sector stores to meet their needs, especially at a time when military members and their families are sacrificing so much to defend our freedom. Also, use of the Military Star Card offers a lower interest rate and payment terms especially for deployed troops.

Base access is an area that continues to challenge the entire military resale system. The ALA fully understands the role of the base commander and the individual responsibility commanders have for the security of their base. We appreciate the request forwarded by the subcommittee to DOD requesting a report on the issue of base access as it relates to the military resale system and while that report is due later I would like to update the subcommittee on the actions taken by this association. ALA has been working closely with the Defense Data Manpower Center (DDMC) and private industry to craft a solution that meets the needs of industry and DOD. The Defense Data Manpower Center and most recently the Northern Command (NORTHCOM) -- the command responsible for all DOD base security issues in the continental United States - - have expressed interest in a third party federated credential that meets the needs of DOD and Homeland Security Presidential Directive-12 (HSPD-12) as a solution to physical and logical access to bases and systems. ALA is a member of The Federation for Identity and Cross-Credentialing Systems (FIXS) whose sole purpose is to develop the type of credential and process that DOD requires to meet the base security responsibilities of base commanders. NORTHCOM on 12/5/07 issues "Installation Access Control Guidance in the Area of Responsibility" in which they stated the desired long term solution for base access is the very business model being addressed by FIXS and approved by DMDC. The timeline according to NORTHCOM is to reach the desired end-state within 2-5 years. ALA will be participating in a test of third party cross-credentialing to take place at Fort Belvoir in the near future. It is hoped that this test will

fine tune a solution that can be implemented system wide. Once again we appreciate the assistance of the subcommittee in this matter.

ALA supports the primacy of exchange and commissary stores on all military installations and in military housing areas to include privatized housing areas. We believe that the current policy regarding this issue is appropriate. Civilian retail outlets should not have authority to operate in military housing areas or on military installations.

The exchanges are deployed with our service members fighting the Global War on Terror and support the war-time military communities at home. AAFES operates exchanges down-range, with manpower assistance from the Marines, in OIF/OEF. NEXCOM operates ships stores afloat in all theaters. In the Operations Iraqi and Enduring Freedom theaters, there are Tactical Field Exchanges, exchange supported/unit run field exchanges, and an average of 156 Navy ships' stores providing quality goods and services necessary for day-to-day living and to provide a piece of "home."

As evidenced by the cooperative efforts here and abroad, exchanges are working together like never before to ensure their joint ventures contribute substantially to military quality of life and readiness. For example, NEXCOM is currently utilizing the AAFES distribution center in Stockton, CA to cross-dock and load oceangoing containers with vendor direct surface shipments of goods originating in CONUS and destined to NEXCOM facilities in Japan. Also, cross acceptance of Gift Cards has improved customer service by allowing customers to redeem exchange Gift Cards at any AAFES, NEXCOM or MCX, regardless of where the military gift card was purchased. And finally, the exchanges executed a joint contract for PCs, Laptops and Servers last year that achieved an average 17.6% savings or over \$1.37 million annually. The exchanges continue to seek best practice business opportunities to improve operations. In particular, we commend NEXCOM for the retailer, manufacturer, distributor business model test they have embarked on with the McLane Company. The desire to reach better in-stock levels and simplified bill paying will result in better service to the military patron and as a result have a positive impact on quality of life. The ALA will continue to monitor test results to make sure this new business model does not result in any additional costs being born by the military patron.

Exchange merchandise sales are the major source of funding for DOD's MWR programs. Each year exchanges provide hundreds of millions of dollars in dividends that are returned to military communities. In FY 07, for example, the exchanges provided more than \$250 million in dividends. Without these dividends, MWR activities would not be able to fulfill their mission, and as a result, many worthy programs such as child-care centers, youth activities and other quality of life programs would be negatively impacted.

Madam Chair, as ALA views exchanges and the MWR dividend resulting from sales, our members are increasingly concerned about program funding given today's realities. Added to that, exchange dividends in the aggregate will certainly decline when troops and military families return from Europe to be CONUS-based. In today's troubled world, service members and their families are being asked to endure ever-greater workloads and ever-greater sacrifices. Frequent, repeated deployments, often nearly back-to-back, greatly stress the force and every military family. In addition, Guard and Reserve operational tempo has placed enormous strains on Reservists, their family members and their civilian employers. At these times, the presence of vibrant MWR activities is crucial.

The exchanges deserve an enormous amount of credit for the millions of dollars contributed to service MWR programs. To ensure the well being of these important quality of life activities, DOD has made a commitment to provide appropriated fund support to Category A and Category B programs. However, budget pressures are

causing the military services to reconsider this obligation. In the end, the troops and the families suffer and the nation loses.

ALA urges Congress to ensure that DOD honors its commitment to the troops to fund these programs at least to the 85 percent level for Category A and 75 percent for Category B Requirements. These programs are especially critical to the readiness of our forces and the support of their families during this period of conflict and extended unpredictable separations.

ALA applauds Congress for passing a provision in the National Defense Authorization Act that mandates appropriated funds be used to ship goods for sale in overseas commissaries and exchanges. ALA strongly supports continued Second Destination Transportation (SDT) funding for goods shipped for resale by the Army and Air Force Exchange Service (AAFES) to overseas locations. Given ALA's concerns for the welfare of military families, we strongly urge Congress to sustain its aggressive oversight role and to continue opposing the Army's regular effort to duck its responsibility. The Army is the Executive Agent here and reductions to the SDT account that would result in the increased costs of exchange goods is being borne by service members. Of the many accounts within the budget of the Army, there are very few that have such a direct affect on the quality of life of service members and the communities in which they live. It is a clear and present danger when responsibility for quality of life programs are placed in the hands of individuals who view this role more as a burden, then a privilege.

Madam Chair, ALA is committed to preserving the value of the commissary benefit that is widely recognized as the cornerstone of quality of life benefits and a valued part of the service members' total compensation package. ALA is grateful for the continued strong support of this subcommittee in preserving this top rated benefit. ALA supports efforts to improve cost savings, ensure effective oversight and management of the commissary benefit, and improve responsiveness to the needs of beneficiaries. However, we are concerned about the unrelenting pressure on DeCA to cut spending and squeeze additional efficiencies from its operations – despite years of effective reform initiatives and recognition of the agency for instituting improved business practices. Of special concern to ALA is any budget shortage in FY 2009. At some point budget reductions will negatively impact customers by necessitating reduced store hours, fewer employees or other cost saving initiatives. ALA asks the subcommittee's leadership to authorize adequate funding and ensure that this highly valued benefit is sustained and not evaluated solely on the basis of appropriated dollars.

As a result of DeCA's outstanding job managing the military commissaries, shoppers continue to save on average of over 30 percent on groceries when compared to the retail grocery stores. Savings like these, combined with other agency improvements, equate to important savings for junior enlisted personnel who struggle with expenses, especially in high-cost duty locations. The commissary benefit and savings have become increasingly more important to the National Guard and Reserve members and their families. When called to active duty and there is a reduction in pay because of the difference between their civilian and military salary, savings from the commissary benefit are critical. And, the benefit continues to be highly valued by military retirees and survivors with limited incomes. In a recent initiative DeCA and the ALA partnered to provide close to \$100,000 in DeCA CertifiChecks to needy Guard and Reserve families just prior to Christmas. In addition, DeCA has set out an aggressive schedule for increased outreach efforts to support the Guard and Reserve. The ALA supports this initiative and will provide support and resources where needed. The longer term need to provide a more permanent solution to affording better access to the resale

benefits for the Guard and Reserve may require some out of the box thinking and support from the subcommittee.

DeCA's outreach effort to beneficiaries is impressive. The agency provides opportunities for customers to give feedback through surveys and a great deal of information about the benefit is posted on the DeCA website (www.commissaries.com). DeCA sponsors and collaborates with its business partners to provide special events, lot sales, information, single service member events, and special activities for families and deployed troops. These initiatives not only educate more active duty personnel about the benefit, but also foster a community of cohesion between the military beneficiary communities. Through the support provided by commissary vendors, the Scholarships for Military Children program eases the financial burden faced by many families who send a child to college. This program has provided nearly \$6 million in scholarships to more than 3,500 applicants over a seven-year period. DeCA has received over 40 thousand applications since 2001.

ALA urges Congress to oppose any initiative that would reduce benefits or savings for members, and strongly supports full funding of the benefit in FY 2009 and beyond to sustain the current level of service for all beneficiaries. ALA requests this subcommittee's support in closely monitoring commissary funding and policies and scrutinizing store closures, privatization, staff reductions, or other initiatives that may diminish the scope and quality of the benefit for all beneficiaries.

Overseas rebasing and Base Realignment and Closure (BRAC) issues also are of significant concern to our members. ALA continues to be concerned about the potential impact on every quality of life program during the Defense Department's transformation, global repositioning, Army modularity, and BRAC initiatives. ALA wants to ensure that necessary family support/quality of life program dollars and services are in line with DOD/Military Services rebasing plans, including critical family support/quality of life programs, such as MWR, child care, exchanges and commissaries, housing, TRICARE programs, health care, education, family centers, and other traditional support services.

Given the current fiscal environment and long-term financial challenges of war, ALA continues to express strong concerns about the importance of sustaining vital support services and quality of life programs. Madam Chair, no longer do we have to anticipate that these programs may be at risk, we know from military officials and current news reports that cutbacks in base operation accounts and reduction in base services because of funding shortfalls are real and are expected to get worse.

Either DOD will need to continue to ask for supplemental funding, or the military services will have to fund transformation out-of-hide through program cuts that likely would hurt readiness. The most troublesome alternative is to fund changes by shifting the burden to service members and their families. That is, allowing them to come home to the United States or relocate to military and civilian communities that are unprepared, therefore threatening to degrade the quality of life for troops and families at a time of unprecedented stress on the all-volunteer force.

ALA urges Members of Congress to protect the interests of all beneficiaries as the military community continues to respond to heightened operations tempo and anticipates the movement of service members and families due to transformation initiatives, global rebasing, and base closure and realignment. ALA will continue to stay actively engaged in monitoring and reporting discrepancies related to the implementation of BRAC, not only to ensure the full impact of BRAC initiatives are realized, but to make sure that any fallout from other transformation initiatives like global repositioning and Army modularity are considered within each beneficiary community

and to advocate for support services and infrastructure at both closing and gaining installations throughout the entire transformation process.

I would like to take a moment to address two legislative initiatives we are tracking. The first is H.R. 1974 – Federal Employee Combat Zone Tax Parity Act. We support this initiative to provide tax relief for service in a combat zone by civilian employees of the United States. As you are aware, there have been years of tireless service by exchange associates to man field exchange operations under extremely dangerous conditions to support the quality of life of our deployed troops. Next, we express our support for H.R. 4071- The Disabled Veterans Right to Commissaries and Space Available Travel Act. The proposal would extend benefits to service-disabled veterans with a rating of 30 percent or more and to their families. We approach this with the realization that it is an uphill struggle and that the stovepipe view of DOD benefits versus Veterans benefits will be postulated. The ALA feels it is time to adopt a modern approach to taking care of our troops that reflects the nature of their service, the nature of their injuries and the desires of most Americans. The same arguments about overcrowding and costs will be raised that were faced when full shopping privileges were being considered for the Guard and Reserve. It did not happen, the sky did not fall. In a recent interview with Adm. Michael Mullen, Chairman of the Joint Chiefs he laid out one of his key initiatives for 2008 to “take care of servicemen and women when in uniform and afterwards...” This initiative goes in that direction. The nature of injuries today and the technology in treatments has changed the nature of disabilities. We support this initiative.

Thank you, Madam Chair, and Members of the subcommittee for providing industry the opportunity to present its views on these critically important topics. More importantly, thank you for your stewardship of these important benefits that are essential to our military families' quality of life.