

**Defense Commissary Agency
(DeCA)**

**FISCAL YEAR (FY) 2008/2009
BUDGET ESTIMATES**

OPERATING AND CAPITAL BUDGET



FEBRUARY 2007

DEFENSE COMMISSARY AGENCY (DeCA)

**Fiscal Year FY 2008/FY 2009
Budget Estimates
February 2007**

OPERATING AND CAPITAL BUDGET

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DEFENSE COMMISSARY AGENCY - CORPORATE OVERVIEW
DeCA WORKING CAPITAL FUND
COMMISSARY RESALE STOCKS AND COMMISSARY OPERATIONS

This is the Defense Commissary Agency (DeCA) submission of the Fiscal Year 2008 and 2009 President's Budget. As the administrator of the commissary benefit, the Defense Commissary Agency (DeCA) operates a worldwide system of stores that sell food and related household items at cost to active, reserve and guard members of the Military Departments, their families, retirees, and other authorized patrons. The commissary system is considered an integral component of the military compensation package, providing the military community stationed throughout the world significant savings on recognizable American products in a safe and secure environment. Since the beginning of the War on Terror, providing a safe and secure location where military members and their families can shop has grown in importance for military families. That security interest has expanded to military installations worldwide including those located in the United States.

The items sold in the commissaries are priced to only recover product cost providing the commissary patron on average, a savings of more than 30 percent on purchases. Using U.S. Department of Agriculture statistics, this provides almost \$3,000 in annual savings for an average family of four. Currently DeCA operates 263 commissaries, 10 joint venture locations (9 with the Navy Exchange Service Command (NEXCOM) and 1 with the Army and Air Force Exchange Service (AAFES)), 10 central distribution centers (CDC), and 1 central meat processing plant (CMPP). The workforce consists of 5 military members and 14,839 civilian full time equivalents. DeCA's mission is to deliver a premier commissary benefit to the Armed Services community that:

- Encourages an exciting shopping experience;
- Satisfies customer demand for quality grocery and household products;
- Delivers exceptional savings while enhancing quality of life;
- Fosters recruitment, retention and readiness; and
- Supports the warfighters' peace of mind, knowing their families have secure and affordable access to American made products.

The submission projects sales of over \$5.4 billion annually and requests appropriation for FY 2008 of \$1,250.3 million and \$1,264.8 million for FY 2009 to fund the operating costs of providing this valuable benefit. This budget reflects an extensive reengineering effort for above store structure, and other cost savings measures that are being implemented throughout the Agency. In addition, the effects of base realignment and closure (BRAC), as well as global restationing, are included in this submission, even though the final decisions regarding store closures have not been made.

Following is the summary of this budget submission:

(Dollars in Millions)

	FY 2007	FY 2008	FY 2009
Sales	5,429.7	5,447.0	5,455.0
Expenses	1,205.0	1,266.8	1,301.1
Unit Cost	.2219	.2326	.2373
Surcharge Obligations	361.3	279.4	279.8
Appropriation	1,179.4	1,250.3	1,264.8
Number of Stores (beginning of FY)	264	263	262
Civilian FTE's	14,839	14,696	14,665
Direct Hire	13,364	13,221	13,190
Foreign National Indirect Hire	1,475	1,475	1,475
Military FTE's	5	5	5

Efforts to reduce operational costs included a reduction in costs for above store level operations through the realignment of support functions from DeCA East and DeCA West to Fort Lee. Additional measures to reduce operational costs by \$52.5 million in FY 2007 minimized store reductions except for holiday openings at 66 stores.

It is DeCA's goal to increase the value of the commissary benefit without increasing its cost. This submission reflects that goal by increases in sales, while costs in constant dollars are decreasing. We have an extensive Lean Six Sigma program reviewing a number of our processes. We are continuing to expand our efficiency initiatives; examples include identifying savings in the interservice support provided to the stores, pursuing increased efficiency in providing meat and produce to customers, increasing the use of self-checkout systems (SCO) with the deployment of the new front end system Commissary Advanced Resale Transaction System (CARTS), and implementing the Workforce

of the Future concept that will provide flexibility in scheduling store employees to work in various areas.

We will be implementing a number of new ventures, with the objective of increasing customer satisfaction, increasing sales, and reducing costs. These include systems automation efficiencies, such as the Defense Commissary Agency Enterprise Business System (DEBS). Above store reengineering, which has focused on CONUS, will now emphasize Europe and the Far East. We continue to work with the Exchanges to identify ventures that improve the effectiveness and efficiency of both operations, such as consolidating the distribution centers in Europe in one location and acquiring the common food and household items for both systems, which would increase savings to customers. We are expanding 'Virtual Commissary' from the current offered gift pack selections to patrons ordering individual products for delivery. We are also seeking to make on line ordering applicable to truck sales at remote locations, such as Reserve and National Guard centers. Truckload sales have been extremely popular and successful sales events, especially for those patrons who may not have easy access to the benefit.

Our Surcharge Collections trust fund, whose sources and uses are governed by 10 U.S.C. §2484, is primarily funded by the 5 percent surcharge applied to patron sales at the checkout counter. By paying the surcharge on their purchases, authorized patrons share responsibility for the commissary benefit by bearing the infrastructure cost of the commissary facilities, including the information technology (IT) integral to the operation of the stores. This fund also receives revenue from prompt payment discounts, collection of fees for dishonored patron checks, the sale of recyclables such as cardboard and plastic, disposal of equipment, and services provided to others. In FY 2006, we experienced major construction cost escalation that affected the surcharge program, as major construction projects at Fort Drum, Robins AFB, Dyess AFB, and Keesler AFB were not awardable in FY 2006, due to construction costs that exceeded the congressionally approved threshold. We plan to award these contracts in FY 2007.

DeCA's Balanced Scorecard (BSC) maps the corporate strategies using the Norton and Kaplan risk management framework, which complements the DoD risk management framework. DeCA continues to further develop performance metrics to establish linkage between resource requirements and outputs. This effort provides meaningful information for program evaluation and decision-making processes. It also assists DeCA with strategic planning and focuses on improving the quality of goods and services we provide the patrons while developing cost effective business practices. The Financial Perspective tracks the Resale

Stocks (sales), Commissary Operations (DeCA Working Capital Fund), and Surcharge execution. DeCA's results were "green" in all these areas during FY 2006 by judiciously managing resource. The Internal Business/Process Perspective contains the Facility Condition Index (FCI), Major Construction Project Execution, Competitive Sourcing, Internal Controls over Financial Reporting, and Audit Results of Financial Statements. DeCA scored green in these areas also in FY 2006 by investing wisely in infrastructure and information technology and ensuring all of DeCA's financial statements and the lines of financial reporting were in full compliance with DoD criteria as spelled out in the Office of Management and Budget revised Circular A-123, Management's Responsibility for Internal Control and the Chief Financial Officer's Act of 1990. The Customer Perspective quadrant of the BSC addresses the Commissary Customer Service Survey (CCSS), the American Customer Satisfaction Index (ACSI), and sustaining Customer Savings at 30 percent annually. DeCA's performance exceeded the goal for both the CCSS and customer savings in FY 2006. The ASCI score for CY 2006 will be announced in February 2007. The Learning and Growth Perspective performance measures also scored all green in FY 2007 and encompass Succession Planning (Leadership/Managerial Development), Implementation of the Workforce of the Future (WOF), and the Above Store Level Reengineering initiative. DeCA is committed to employee satisfaction, employee retention, and employee productivity, all with the purpose of increasing the value of the commissary benefit without increasing operating costs.

The following President's Management Agenda (PMA) performance measures are also used to determine how well DeCA is achieving its strategic plan goals and objectives and implementing the five initiatives under the PMA:

a. Strategic Management of Human Capital. DeCA scored green in all four quarters of FY 2007 by meeting Office of Personnel Management (OPM) aggressive hiring timelines goals and standards for hiring. DeCA tracked fill time rates using the event coding in the Defense Civilian Personnel Data System (DCPDS). DeCA established separate standards for an internal commissary store fill rate, an external commissary store fill rate, and a region and headquarters fill rate. DeCA's 1st quarter, FY 2007 fill rate was 16.47 days against the DoD standard for green of 30 days or less.

b. Competitive Sourcing. DeCA was on track to meet our goal to study 50 percent of the FAIR inventory by the end of FY 2008. However, the NDAA 2006 stated, "Until December 31, 2008, the Defense Commissary Agency is not required to conduct any cost comparison study under the policies and procedures of Office of Management and Budget Circular A-76 relating to the possible

contracting out of commissary store functions." While we have delayed studies involving stores pending the deployment of the WoF model, we are continuing with above store-level studies. The Resale Accounting function of DeCA's Accounting Directorate containing 141 positions were announced on June 13, 2006. As an alternative to store level A-76 studies, DeCA is implementing WoF and the projected savings in labor costs are included in this submission.

c. Improved Financial Performance. DeCA again received an unqualified audit opinion on all its financial statements for FY 2006 equating to five unqualified opinions in a row. We expect another unqualified opinion in FY 2007. DeCA's travel card delinquency rate for FY 2006 was 1.38 percent against the DoD mandate of less than 2 percent. Beginning FY 2006, DoD mandated a DoD wide change in the Government Purchase Card cycle end date. DeCA's cycle end date changed from the 5th of every month to the 19th of every month. In the implementation month, this created two cycle end dates instead of the one date, and this resulted in impacts on delinquency rates in November and December of 2005. Due to new system startup, and associated impediments, data for the 1st quarter was skewed and was not included for consistency purposes; therefore, DeCA's Government Purchase Card rate for January through September 2006 was 0 percent against the DoD mandate of 0 percent.

d. Expanded Electronic Government. OMB requires all major systems investments have an acceptable business case (security, measures of success linked to the modernization blueprint, program management, risk management, and cost, schedule, and performance goals. The business case for point of sale replacement - Commissary Advanced Resale Transaction System (CARTS) has been completed. The CARTS program is an ACAT 1AC system with Assistant Secretary Defense (Networks and Information Integration) (ASD(NII)) as the Milestone Decision Authority (MDA). The MDA has been delegated to DeCA. CARTS received a green score based on the score on Exhibit 300 for September 2006 input of 5. The CARTS contract was awarded December 31, 2005, earlier than the projected 2^d quarter FY 2006. The award is an indefinite delivery/indefinite quantity (ID/IQ) (firm fixed price) contract. The 4th quarter, FY 2006, Defense Acquisition Executive Summary, dated August 25, 2006, shows cost, schedule, or performance variances are less than 10 percent giving CARTS a green rating in this area. DeCA also supports the other E-Gov initiatives and has no redundant IT initiatives or Lines of Business. DeCA has implemented processes supporting: (1) government-to-business (transactions with business partners via Electronic Commerce/ Electronic Data Interchange) and (2) government-to-citizen transactions (Virtual Commissary and other services available through commissaries.com that provide benefit

to the benefit). Additionally, DeCA has realized internal efficiencies and effectiveness by using DoD systems applicable to the Agency, such as Defense Travel System (DTS), Defense Property Accountability System (DPAS), Defense Civilian Personnel Data System (DCPDS), and Defense Civilian Pay System (DCPS).

e. Budget and Performance Integration. DeCA submitted its Program and Assessment Rating Tool (PART) to OMB as part of the Annual 2006 Agency/Services PART Assessment. The PART was developed to assess and improve program performance so that the Federal government can achieve better results. DeCA's PART looked at all factors that affect and reflect program performance including program purpose and design; performance measurement, evaluations, and strategic planning; program management; and program results. DeCA identified 12 efficiency measures in the 2006 PART with goals and targets through FY 2011. DeCA scored Moderately Effective and we will receive the finalized PART in February 2007. DeCA's PART can be located at the Expect more gov website.

DeCA's performance as articulated in the PMA initiatives, PART, and the Balanced Scorecard (BSC) process indicates positive progress in meeting our deliverables. This business-based approach articulates the expectations for DeCA's performance while investing wisely in technologies, programs, and product support necessary to achieve and provide the commissary benefit to the military personnel and their families. DeCA is committed to utilizing best business strategies to increase business productivity and increase customer satisfaction by operating effectively and efficiently and honoring DeCA's commitment for the prudent stewardship of taxpayer funds.

**DEFENSE COMMISSARY AGENCY
DECA WORKING CAPITAL FUND
COMMISSARY RESALE STOCKS**

FUNCTIONAL DESCRIPTION

The Defense Commissary Agency (DeCA) Commissary Resale Stocks account finances resale inventory sold in the commissary system. DeCA's product assortment includes perishable and non-perishable food items such as, meat, poultry, fruits, vegetables, dairy products, grocery and household goods, as well as health and beauty aids, batteries, pet foods and picnic supplies. Sales of commissary products generate revenue DeCA uses to replenish the resale inventory. DeCA Commissary Resale Stocks account is self-sufficient, requiring no appropriated fund support, except for recovery of inventory losses due to natural disasters.

DeCA continuously strives to enhance customer service and offer greater product selection in an effort to improve operations while providing one of the top-rated military non-pay benefits. Taxpayer's dollars invested in DeCA provides essential services and a touch of home in many areas of the world where the patrons have little or no alternative to obtain U.S. grocery and household items.

By statute, Title 10, United States Code - Armed Forces, directs a five percent surcharge on purchases at the point of sale. By paying the surcharge, commissary patrons share in the responsibility of the overall operational costs of the commissary system. Authorized commissary patrons include active duty military members, guard and reserve component members, retired personnel, and their families. DeCA sells products to military dining halls, officers and enlisted military members clubs as well as to designated government civilian employees overseas, appropriated and non-appropriated fund activities, and U.S. State Department activities. DeCA's total authorized patron base is approximately 11.8 million personnel per the Defense Manpower Data Center in July 2005. DeCA customer transactions were over 92 million in FY 2006.

The five percent surcharge from sales of stock inventory finances categories of commissary store infrastructure, such as information technology, store equipment, and construction and maintenance costs. Additionally, the Surcharge Collections Trust fund manages revenue from prompt payment discounts, the sale of

recycled cardboard and surcharge purchased equipment, as well as the proceeds from the transfer or disposal of commissary facilities on Base Realignment and Closure (BRAC) installations.

BUDGET HIGHLIGHTS

FY 2006 sales increased .9 percent over previous year. DeCA sales have increased for the fourth consecutive fiscal year. Sales are projected to increase approximately 1 percent through FY 2009. DeCA has successfully maintained operating costs within budget while increasing sales.

Revenue from the sale of commissary products of approximately \$5.4 billion consists primarily of cash representing over 99 percent of total resale stocks revenue, as well as charge sales, and manufacturer coupons. During FY 2006 DeCA Resale Stocks received \$2.9 million supplemental funding to replenish inventory losses sustained as a result of Gulf Hurricanes in calendar year 2005.

The unit cost goal for this activity group is \$1 per dollar of sales, since resale products sold must recoup all costs to make the Commissary Resale Stocks fund whole.

In the October 2005, DeCA Commissary Customer Service Survey (CCSS), 55 percent of patrons selected the commissary as their number one benefit. The commissary benefit fosters a sense of community and is a core military family support element in quality of life enhancements.

CHANGES IN OPERATIONS

Department of Defense right-sizing efforts and efficiency reviews from FY 1992 through FY 2009 will result in the net closure of 150 commissaries or a reduction of approximately 36 percent. During this time, commissary sales projections decline by 10 percent.

DeCA sales projections for FY 2008 and the ensuing years reflect an increase based on projected troop movement resulting from BRAC and Overseas Restationing deployment plans. Current and future facility projects include full-scale review as joint ventures with military exchanges.

Initiatives high on DeCA's dashboard are on-line shopping for patrons, establishing concessions such as coffee shops or

seasonal specialty food kiosks within commissary stores, offering choice ground beef at \$1.29 a pound, as well as a full line of Natural Beef offerings in the meat departments. Availability of products along with lower cost to the customers will bring such initiatives into DeCA commissaries with implementation scheduled in FY 2008. Meat and Seafood Truckload Sales are now under study for geographical areas supported by multiple stores where a contract vendor can guarantee necessary quantities. All of these bring the best we can offer to the DeCA patron, the military troops and their families.

DeCA's continual efforts to improve the quality of goods and services offered at lower cost to the taxpayer include:

a. Buying Process: The Product Support Sales Process in DeCA is a key player in efforts to keep customer prices at commissaries significantly below those found in the commercial sector. This process area performs centralized category management reviews for new, national brands, and regional/local products. Reviews serve as the basis for refining product selection for product plans, plan-o-grams, and store resets to ensure right sized product facing is available for commissary patrons.

b. Produce: A FY 2005 initiative resulted in direct produce contract purchasing by DeCA was implemented in FY 2006 with the primary goal to provide the freshest possible produce at a reduced price along with the higher quality DeCA customers requested. Offering the freshest quality produce on a daily basis to the customers with faster delivery direct from the growers has resulted in increased sales in the produce departments. Primary goal is to optimize produce sales movement and cost data to ensure win-win price negotiations for both the customers and local grower/vendors.

c. Inventory Management: Through the deployment of information technology computer assisted ordering, DeCA has effectively reduced its on-hand inventory. Inventory levels are expressed in days of supply based on average daily sales. Average daily sales for FY 2008 and FY 2009 are projected at \$14.9 million with 21 days of supply. In comparison, average daily sales for FY 1991 were \$16.5 million with 27 days of supply. This is a 22 percent reduction in days of supply from FY 1999 through FY 2009. On-hand inventory has declined 30 percent from the level maintained by the Military Departments at FY 1990 year-end close out.

d. Sustain Customer Savings. 'Manager's Specials' provide the patrons' greater savings for a shorter period of time than the already low prices offered in the commissary. 'Savings You've Earned' program, introduced in May 2004, indicates an item is on sale at an everyday low price. Other special sales programs include 'Value Savings' and 'Extra Savings' for a limited time with lower pricing and limited availability. These sales programs were designed specifically for single shoppers, military families, and/or retirees, allowing them to realize an increase in their personal disposable income if used wisely.

e. Global Data Synchronization (GDS): Synchronization of warehoused data is a global, internet-based initiative used by commercial industry leaders such as Associated Food Stores, Supervalu, Wal-Mart, and Wegman's to exchange accurate, up-to-date, standards-compliant supply chain information. The GDS will allow DeCA to streamline functions such as inventory management and replenishment, order reconciliation and speed up new product introductions. Within DeCA, GDS will provide increased effectiveness and efficiency through disciplined integration of technology, infrastructure, and business process improvement. GDS is one of the building blocks in the DeCA foundation required for future transition to Radio Frequency Identification (RFID).

f. Improve Convenience and Shopping Time of Customers: DeCA continuously studies shopping patterns and patron surveys to determine time wasters and traffic delays. DeCA's goal is to continually improve the customers shopping experience. Providing popular and nutritious grab and go meals as well as introducing new products at the same time as commercial retailers are only two areas of major improvement. Redesigning the stores to allow customers quicker access to desired products and enable them to checkout within a goal of 20 minutes or less has enhanced customer satisfaction responses.

DeCA productivity is best illustrated by comparing workload data to commercial supermarkets. The following comparison clearly demonstrates that commissaries are cost effective and highly used by their patrons.

The source for Commercial Supermarket Data below is Supermarket Facts Industry Overview 2005. DeCA Commissary Data used in this comparison is calendar year 2005 for stateside locations.

<u>WORKLOAD DATA - AVERAGES</u>	<u>DeCA COMMISSARIES</u>	<u>COMMERCIAL SUPERMARKETS</u>
Weekly Sales per Store	\$502,783.00	\$297,496.00
Weekly Sales Per Square Foot	\$16.04	\$10.98
Sales Per Customer Transaction	\$61.12	\$27.34

<u>WORKLOAD INDICATORS</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Number of Commissaries (begin year)	268	264	263	262
Resale Stocks Sales (\$ Millions)	\$5,416.9	\$5,429.7	\$5,447.0	\$5,455.0
Ending Inventory (\$ Millions)	339.0	340.5	342.0	342.5

In accordance with the President's Management Agenda, Budget and Performance Integration initiative, this program has been assessed using the Program Assessment Rating Tool (PART). Remarks regarding program performance and plans for performance improvement can be located at the ExpectMmore.gov Web site.

Performance Measures	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Inventory Turns	17.9	17.7	17.7	17.7
Customer Savings	32%	30%	30%	30%
Commissary Customer Satisfaction Survey (CCSS)	4.61	4.55	4.56	4.56
American Customer Satisfaction Index (ACSI)	Meet or Exceed Industry Average (results not available)			

FINANCIAL RECAP (\$ IN MILLIONS)

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
<u>RESALE STOCKS</u>				
Appropriation	2.9	0.0	0.0	0.0
Revenue	5,421.5	5,431.2	5,448.5	5,456.5
Expense	5,410.7	5,447.3	5,464.4	5,456.5
Net Operating Results (NOR)	10.9	-16.1	-15.9	0.0
Accumulated Operating Results (AOR)	32.0	15.9	0.0	0.0
Collections	5,431.0	5,431.2	5,448.5	5,456.5
Disbursements	5,423.3	5,447.3	5,464.4	5,456.5
Net Outlays	(7.7)	16.1	15.9	0.0
Ending Cash Balance	60.5	44.4	28.5	28.5
Unit Cost	1.00	1.00	1.00	1.00

FY 2006 Revenue and Collections reflect \$2.9 million Appropriation received for hurricane recovery in the Gulf coast commissaries.

ACTIVITY GROUP ANALYSIS
 DEFENSE COMMISSARY AGENCY/COMMISSARY RESALE STOCKS
 SOURCE OF NEW ORDERS AND REVENUE

(Dollars in Millions)

	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>
1. New Orders				
a. Orders from DoD Components:				
Army	1.0	0.1	0.1	0.1
Navy	0.0	0.4	0.4	0.4
Air Force	0.0	0.1	0.1	0.1
Marine Corps				
Other	0.1	0.2	0.2	0.2
b. Orders from Other Fund Activity Groups				
c. Total DoD	1.1	0.8	0.8	0.8
d. Other Orders:				
Other Federal Agencies	0.8	1.0	1.0	1.0
Trust Fund				
Non Federal Agencies	5,419.4	5,427.9	5,445.2	5,453.2
Foreign Military Sales				
Total New Orders	5,421.3	5,429.7	5,447.0	5,455.0
2. Carry-in Orders				
3. Total Gross Orders	5,421.3	5,429.7	5,447.0	5,455.0
4. Revenue	5,421.5	5,431.2	5,448.5	5,456.5
5. End of Year Work-in-Progress				
6. Direct Contract Obligations				
7. Non DoD, BRAC, FMS, and DWCF Orders				
8. Funded Carry-over				
9. Months of Carryover				

DeCA WORKING CAPITAL FUND
 COMMISSARY RESALE STOCKS
 REVENUE AND EXPENSES
 (Dollars in Millions)

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Revenue:				
Gross Sales	5,416.9	5,429.7	5,447.0	5,455.0
Operations	5,416.9	5,429.7	5,447.0	5,455.0
Capital Surcharge	0.0	0.0	0.0	0.0
Depreciation excluding Major Construction	0.0	0.0	0.0	0.0
Other Income ⁽¹⁾	2.9	0.0	0.0	0.0
Refunds/Discounts	1.7	1.5	1.5	1.5
Total Income:	5,421.5	5,431.2	5,448.5	5,456.5
Expenses:				
Cost of Material Sold from Inventory	5,410.7	5,447.3	5,464.4	5,456.5
Salaries and Wages:				
Military Personnel Compensation & Benefits				
Civilian Personnel Compensation & Benefits				
Travel & Transportation of Personnel				
Materials & Supplies (for Internal Operations)				
Equipment				
Transportation of Things				
Depreciation				
Printing & Reproduction				
Advisory & Assistance Services				
Rent, Communication, Utilities, & Misc. Charges				
Other Purchased Services				
Total Expenses	5,410.7	5,447.3	5,464.4	5,456.5
Operating Result	10.9	(16.1)	(15.9)	0.0
Less Cash Surcharge Reservation	0.0	0.0	0.0	0.0
Plus Appropriations Affecting NOR/AOR	0.0	0.0	0.0	0.0
Other Adjustments Affecting NOR	0.0	0.0	0.0	0.0
Net Operating Result	10.9	(16.1)	(15.9)	0.0
Other Changes Affecting AOR	0.0	0.0	0.0	0.0
Accumulated Operating Result	33.7	32.0	15.9	0.0
Non Recoverable Adjustment Impacting AOR ⁽²⁾	(12.6)	0.0	0.0	0.0
Accumulated Operating Result for Budget Purposes	32.0	15.9	0.0	0.0

⁽¹⁾ Other Income for FY06 reflects \$2.9M Hurricane Katrina Supplemental funding for Resale Inventory l

⁽²⁾ AOR is reduced for non recoverable gain recorded in 4K00 that is properly chargeable to the 5K00 l

FY 2006 BUDGET			DIVISION		
			February 2007		
DEFENSE COMMISSARY AGENCY SUPPLY MANAGEMENT			Commissary Resale Stocks		
INVENTORY STATUS		TOTAL	MOBILIZATION	PEACETIME OPERATING	PEACETIME OTHER
1.	INVENTORY BOP	329.4		329.4	
2.	BOP INVENTORY ADJUSTMENTS				
	a. RECLASSIFICATION CHANGE (Memo)				
	b. PRICE CHANGE AMOUNT (Memo)				
	c. INVENTORY RECLASSIFIED AND REPRICED				
3.	RECEIPTS AT STANDARD	5,417.3		5,417.3	
4.	SALES AT STANDARD	5,416.9		5,416.9	
5.	INVENTORY ADJUSTMENTS				
	a. CAPITALIZATIONS + or (-)				
	b. RETURNS FROM CUSTOMERS FOR CREDIT +				
	c. RETURNS FROM CUSTOMERS WITHOUT CREDIT				
	d. RETURNS TO SUPPLIERS (-)				
	e. TRANSFERS TO PROPERTY DISPOSAL (-)				
	f. ISSUES/RECEIPTS WITHOUT REIMBURSEMENT + or (-)				
	g. OTHER (LIST/EXPLAIN)	9.2		9.2	
	h. TOTAL ADJUSTMENTS				
6.	INVENTORY EOP	339.0		339.0	
7.	INVENTORY EOP, REVALUED (LAC, DISCOUNTED)				
	a. ECONOMIC RETENTION (Memo)				
	b. CONTINGENCY RETENTION (Memo)				
	c. POTENTIAL DOD REUTILIZATION (Memo)				
8.	INVENTORY ON ORDER EOP (Memo)	7.2		7.2	
9.	NARRATIVE (Explanation of unusual changes)				
5g. Net inventory allowance gains or loss					

FY 2007 BUDGET			DIVISION	February 2007	
DEFENSE COMMISSARY AGENCY SUPPLY MANAGEMENT			Commissary Resale Stocks		
INVENTORY STATUS	TOTAL	MOBILIZATION	PEACETIME OPERATING	PEACETIME OTHER	
1. INVENTORY BOP	339.0		339.0		
2. BOP INVENTORY ADJUSTMENTS					
a. RECLASSIFICATION CHANGE (Memo)					
b. PRICE CHANGE AMOUNT (Memo)					
c. INVENTORY RECLASSIFIED AND REPRICED					
3. RECEIPTS AT STANDARD	5,447.3		5,447.3		
4. SALES AT STANDARD	5,429.7		5,429.7		
5. INVENTORY ADJUSTMENTS					
a. CAPITALIZATIONS + or (-)					
b. RETURNS FROM CUSTOMERS FOR CREDIT +					
c. RETURNS FROM CUSTOMERS WITHOUT CREDIT					
d. RETURNS TO SUPPLIERS (-)					
e. TRANSFERS TO PROPERTY DISPOSAL (-)					
f. ISSUES/RECEIPTS WITHOUT REIMBURSEMENT + or (-)					
g. OTHER (LIST/EXPLAIN)	(16.1)		(16.1)		
h. TOTAL ADJUSTMENTS					
6. INVENTORY EOP	340.5	341.4	340.5		
7. INVENTORY EOP, REVALUED (LAC, DISCOUNTED)					
a. ECONOMIC RETENTION (Memo)					
b. CONTINGENCY RETENTION (Memo)					
c. POTENTIAL DOD REUTILIZATION (Memo)					
8. INVENTORY ON ORDER EOP (Memo)	7.2		7.2		
9. NARRATIVE (Explanation of unusual changes)					
5g. Net inventory allowance gains or loss					

FY 2008 BUDGET			DIVISION			
			Commissary Resale Stocks		February 2007	
DEFENSE COMMISSARY AGENCY SUPPLY MANAGEMENT						
INVENTORY STATUS			TOTAL	MOBILIZATION	PEACETIME OPERATING	PEACETIME OTHER
1.	INVENTORY BOP		340.5		340.5	
2.	BOP INVENTORY ADJUSTMENTS					
	a. RECLASSIFICATION CHANGE (Memo)					
	b. PRICE CHANGE AMOUNT (Memo)					
	c. INVENTORY RECLASSIFIED AND REPRICED					
3.	RECEIPTS AT STANDARD		5,464.4		5,464.4	
4.	SALES AT STANDARD		5,447.0		5,447.0	
5.	INVENTORY ADJUSTMENTS					
	a. CAPITALIZATIONS + or (-)					
	b. RETURNS FROM CUSTOMERS FOR CREDIT +					
	c. RETURNS FROM CUSTOMERS WITHOUT CREDIT					
	d. RETURNS TO SUPPLIERS (-)					
	e. TRANSFERS TO PROPERTY DISPOSAL (-)					
	f. ISSUES/RECEIPTS WITHOUT REIMBURSEMENT + or (-)					
	g. OTHER (LIST/EXPLAIN)		(15.9)		(15.9)	
	h. TOTAL ADJUSTMENTS					
6.	INVENTORY EOP		342.0	342.3	342.0	
7.	INVENTORY EOP, REVALUED (LAC, DISCOUNTED)					
	a. ECONOMIC RETENTION (Memo)					
	b. CONTINGENCY RETENTION (Memo)					
	c. POTENTIAL DOD REUTILIZATION (Memo)					
8.	INVENTORY ON ORDER EOP (Memo)		7.2		7.2	
9.	NARRATIVE (Explanation of unusual changes)					
5g. Net inventory allowance gains or loss						

FY 2009 BUDGET			DIVISION			
			February 2007			
DEFENSE COMMISSARY AGENCY SUPPLY MANAGEMENT			Commissary Resale Stocks			
INVENTORY STATUS			TOTAL	MOBILIZATION	PEACETIME OPERATING	PEACETIME OTHER
1.	INVENTORY BOP		342.0		342.0	
2.	BOP INVENTORY ADJUSTMENTS					
	a. RECLASSIFICATION CHANGE (Memo)					
	b. PRICE CHANGE AMOUNT (Memo)					
	c. INVENTORY RECLASSIFIED AND REPRICED					
3.	RECEIPTS AT STANDARD		5,456.5		5,456.5	
4.	SALES AT STANDARD		5,455.0		5,455.0	
5.	INVENTORY ADJUSTMENTS					
	a. CAPITALIZATIONS + or (-)					
	b. RETURNS FROM CUSTOMERS FOR CREDIT +					
	c. RETURNS FROM CUSTOMERS WITHOUT CREDIT					
	d. RETURNS TO SUPPLIERS (-)					
	e. TRANSFERS TO PROPERTY DISPOSAL (-)					
	f. ISSUES/RECEIPTS WITHOUT REIMBURSEMENT + or (-)					
	g. OTHER (LIST/EXPLAIN)		(1.0)		(1.0)	
	h. TOTAL ADJUSTMENTS					
6.	INVENTORY EOP		342.5		342.5	
7.	INVENTORY EOP, REVALUED (LAC, DISCOUNTED)					
	a. ECONOMIC RETENTION (Memo)					
	b. CONTINGENCY RETENTION (Memo)					
	c. POTENTIAL DOD REUTILIZATION (Memo)					
8.	INVENTORY ON ORDER EOP (Memo)		7.2		7.2	
9.	NARRATIVE (Explanation of unusual changes)					
5g. Net inventory allowance gains or loss						

**DEFENSE COMMISSARY AGENCY (DeCA)
WORKING CAPITAL FUND
COMMISSARY OPERATIONS**

FUNCTIONAL DESCRIPTION

Commissary Operations finances 263 commissaries, 10 central distribution centers, 10 joint ventures with the Exchanges, and one meat processing plant. Areas of significant cost include U.S. and foreign national civilian labor, commercial activities for self stocking and other support contracts, operating supplies, utilities, transportation of commissary goods overseas and in-theater, DoD service providers such as the Defense Finance and Accounting Service (DFAS), the Defense Information Systems Agency (DISA), and base operations support.

Items sold in the commissaries are priced to only recover product cost and, as a result, provide the commissary patron direct savings while maintaining high standards for products, service, quality, and operating facilities. A direct appropriation received from Congress, is the foundation that allows military members and their families to receive direct savings of approximately 30 percent below the typical commercial market basket purchase. The commissary is an integral part of the non-pay compensation package used in recruiting and retaining military members and in a recent Commissary Customer Service Survey (CCSS), approximately 55 percent of patrons selected the commissary benefit as their number one benefit.

BUDGET HIGHLIGHTS

Appropriated funds are used to cover approximately 98 percent of the required revenue to operate the commissaries. The remaining revenue is obtained through other sources such as fees paid by grocery manufacturers for redemption of manufacturers coupons, cost recovery fees for selling tobacco in commissaries and from the Governments of Korea and Japan as part of their burden sharing agreement to share costs for commissaries located in these countries.

The Services, who provide oversight of the commissary system, have committed to retaining the commissary benefit. Below is a synopsis of the program.

(Dollars in Millions)

	FY 2007	FY 2008	FY 2009
Sales	5,429.7	5,447.0	5,455.0
Expenses	1,205.0	1,266.8	1,294.4
Unit Cost	.2219	.2326	.2373
Appropriation	1,179.4	1,250.3	1,264.8
Number of Stores (beginning of FY)	264	263	262
Civilian FTE's	14,839	14,696	14,665
Direct Hire	13,364	13,221	13,190
Foreign National Indirect Hire	1,475	1,475	1,475
Military FTE's	5	5	5

DeCA's efforts to reduce operational costs continue. We have reduced our costs for above store level operations by the realignment of support functions from two regions to Fort Lee. We are also implementing other efficiencies, such as produce and meat transformation, increasing self-checkout systems, deploying the Commissary Advance Resale Transaction System (CARTS) and expanding the Workforce of the Future concept. DeCA will also explore future initiatives (i.e. system automation, joint ventures, virtual commissary, reengineering etc.) to reduce operating costs. It is our goal to increase the value of the commissary benefit without increasing its cost.

ACTIVITY GROUP ANALYSIS
 DEFENSE COMMISSARY AGENCY/COMMISSARY OPERATIONS
 SOURCE OF NEW ORDERS AND REVENUE
 (Dollars in Millions)

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
1. New Orders				
a. Orders from DoD Components:				
Army Operations and Maintenance	0.0	0.0	0.0	0.0
Navy Operations and Maintenance	0.0	0.0	0.0	0.0
Marine Corps Operations and Maintenance	0.0	0.0	0.0	0.0
Air Force Operations and Maintenance	0.0	0.0	0.0	0.0
OSD Burdensharing Contribution, Defense	8.3	7.0	7.2	7.2
Other Reimbursements (Non-Appropriated Funds and Trust Funds)	5.0	5.4	5.4	5.3
b. Orders from other Fund Activity Group	0.0	0.0	0.0	0.0
c. Total DoD	13.3	12.5	12.6	12.5
d. Other Orders:				
Other Federal Agencies	0.9	2.1	2.2	2.3
Non Federal Agencies	9.9	12.4	12.9	13.0
Total New Orders	24.1	27.0	27.7	27.8
2. Carry-In Orders	0.0	0.0	0.0	0.0
3. Total Gross Orders	24.1	27.0	27.7	27.8

Note: \$6.6 M is included in FY 2009 as an expense and revenue, based upon guidance from OSD®, as a "Grow the Force" initiative. This will be reflected in the out years budget as approved by the Commissary Operating Board (COB) in the next budget cycle

DeCA WORKING CAPITAL FUND
 COMMISSARY OPERATIONS
 REVENUE AND EXPENSES
 (Dollars in Millions)

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Revenue:				
Operations				
Services Reimbursement	0.0	0.0	0.0	0.0
Army			0.0	0.0
Navy			0.0	0.0
United States marine Corps			0.0	0.0
Air Force			0.0	0.0
Other Income	24.1	27.0	27.7	27.8
Total Income:	24.1	27.0	27.7	27.8
Expenses:				
Salaries and Wages:				
Military Personnel Compensation & Benefits	0.5	0.5	0.5	0.5
Civilian Personnel Compensation & Benefits	705.1	719.8	740.2	759.3
Travel & Transportation of Personnel	8.4	10.0	10.6	8.3
Materials & Supplies (for Internal Operations)	58.4	51.0	52.2	53.3
Other Purchases from Revolving Funds	31.1	31.1	38.7	39.0
Transportation of Things	103.6	103.4	118.1	120.7
Depreciation - Capital	11.2	7.8	7.5	7.8
Printing & Reproduction	0.5	1.3	1.3	1.0
Advisory & Assistance Services	(0.1)	0.0	0.0	0.0
Rent, Communication & Misc. Charges	60.2	60.1	61.3	62.4
Other Purchased Services	223.9	220.2	236.6	248.8
Total Expenses	1,202.8	1,205.0	1,266.8	1,301.1
Operating Result	(1,178.8)	(1,178.0)	(1,239.2)	(1,273.3)
Plus Other Appropriations Affecting NOR/AOR	1,155.9	1,179.4	1,250.3	1,264.9
Net Operating Result	(22.8)	1.4	11.2	(8.4)
Accumulated Operating Result	(24.9)	(23.5)	(12.4)	(20.8)

**Changes in the Costs of Operation
 Defense Commissary Agency/Commissary Operations
 February 2007
 (Dollars in Millions)**

	<u>Expenses</u>
1. FY 2006 Actual	1,202.8
2. FY 2007 President's Budget	1,186.4
3. Pricing Adjustments	
Foreign Currency Fluctuations	17.2
Other Pricing	3.7
4. Program Changes:	
Store Closure	(5.7)
BRAC (DeCA, Virginia Beach, San Antonio)	1.2
Restationing/Transformation	2.2
5. FY 2007 Current Estimate:	1,205.0
6. Pricing Adjustments	
Annualization of Prior Year Pay Raise	3.7
FY 2008 Civilian Pay Raises	11.6
General Purchase Inflation	9.8
Department of Labor Wage Rate	5.3
Transportation Fuel Rate Increase	10.8
7. Productivity Initiatives and Other Efficiencies:	
Process Reengineering - Workforce of the Future	(2.6)
VSIP/VERA/Severance - Overseas Restationing	11.5
8. Program Changes:	
Store Closure	(3.0)
Store Opening	2.3
Restationing/Transformation	0.5
9. Other Changes:	
Non-Baseline Adjustment (FY 2007 Only)	11.9
10. FY 2008 Current Estimate:	1,266.8
11. Pricing Adjustments	
Annualization of Prior Year Pay Raise	5.1
FY 2009 Civilian Pay Raises	9.6
General Purchase Inflation	12.7
Department of Labor Wage Rate	4.1
12. Productivity Initiatives and Other Efficiencies:	
Workforce of the Future	(0.9)
HROD to DLA Relocation	(1.2)
A76 Savings	(0.2)
Travel Initiative	(2.6)
13. Program Changes:	
Store Closure	(5.0)
Store Opening	1.4
Restationing/Transformation	3.1
Restationing OCONUS to CONUS	2.1
Market Ready	(0.7)
Support the Force	6.6
14. FY 2009 Current Estimate:	1,301.0

Commissary Operations Capital Investment Summary
 Defense Commissary Agency
 Commissary Operations
 February 2007
 (\$ in Millions)

Line Number	Item Description	FY 2006		FY 2007		FY 2008		FY 2009	
		Quantity	Total Cost	Quantity	Total Cost	Quantity	Total Cost	Quantity	Total Cost
1000	Software Development>\$100K								
2000	ADPE and Telecommunications>\$100K								
3000	Non-ADPE & Telecommunication Equipment>\$100K								
3001	Enterprise Data Warehouse	1	2.0	1	3.0	1	3.0	1	3.0
3002	Corporate Server III	1	1.0	1	2.2	1	3.2	1	1.0
3003	Telephone Modernization			1	4.0				
3004	ADP Equipment (\$500K-999K) - Located at DeCA HQ	15	1.4	1	0.7	2	1.4	1	0.8
4000	Minor Construction>\$20K and equal to or less than \$750K								
4001	New Roof - DeCA HQ Building	1	0.2	1	0.8				
4002	Refurbish HQ's Computer Room			1	1.4				
	TOTAL CAPITAL PURCHASE PROGRAM	18	4.7	6	12.0	4	7.6	3	4.8
	Total Capital Outlays		5.8		7.1		9.2		7.6
	Total Depreciation Expense		6.8		6.8		7.3		7.6

COMMISSARY OPERATIONS CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)							A. FISCAL YEAR (FY) 2008/2009 BUDGET ESTIMATES						
B. DeCA / Working Capital Funds February 2007		C. Line No. & Item Description 3001. Enterprise Data Warehouse			D. Activity Identification								
		FY 2006			FY 2007			FY 2008			FY 2009		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	
ADP Equipment (Productivity) > \$1M	1	2,000	2,000	1	3,000	3,000	1	3,000	3,000	1	3,000	3,000	
<p>Narrative Justification: The Enterprise Data Warehouse (EDW) provides a single, logical view of product and sales data across DeCA allowing end users to make informed business decisions accomplish a competitive advantage and achieve parity with industry. EDW obtains data from DeCA business systems and transforms the data into an appropriate data warehouse format using business rules defined by functional experts. The transformed data is maintained in a Teradata database in a format that provides quick access to required raw data, summary data and reports. The EDW currently receives data from the DeCA Point of Sale - Technology Refresh (POS-TR) and the DeCA Interactive Business System (DIBS) but will soon be receiving, storing, transmitting and transforming Commissary Advanced Resale Transaction System (CARTS) data. The EDW will serve as the translator for CARTS data requiring an interface with legacy systems. DeCA is mandated and committed to becoming a net-centric environment and is utilizing a Teradata platform to support that effort. For this reason \$2.0M in FY06 was needed to fund the final Lease-To-Purchase (LTOP) payment on the current configuration. In FY07, \$3M is required to initiate a contract action for a hardware/software refresh, with delivery following contract award. The refresh effort will allow continued growth in the net-centric environment and support the CARTS and DEBS interface requirements.</p> <p>Economic Analysis Summary: The recommendation is based on a comparison of current hardware maintenance and operating costs versus a technology refresh with maintenance. DeCA requires EDW hardware, software and support services to upgrade its obsolete and aging production, test, and development environments that become cost prohibitive to support. This will facilitate DeCA's objectives for business continuance, legacy migration, and net-centric data storage while providing additional capacity for testing and production.</p> <p>Impact of Project Disapproval: Disapproval of the funding to initiate a technology refresh of the EDW hardware, software and support services and Teradata COOP solution would result in an increased risk to operations and maintenance of critical DeCA systems. As the equipment reaches the end of its life cycle, maintenance costs will increase annually and spare parts will become difficult to acquire. Aging systems and outdated technology will severely limit our ability to adapt to changes in DoD and support a secure, net-centric environment. Our ability to continue to perform mission critical functions such as sales, bill paying, inventory management and electronic commerce could be imperiled. Additionally, the Agency will be unable to provide disaster recovery or COOP capability for additional applications to address new business requirements within the net-centric environment. Not approving this funding will greatly compromise DeCA's ability to comply with the DoD mandate to become net-centric and maintain the architecture for disaster recovery and continuity of operations of the Commissary benefit in the event of a disaster. Our ability to leverage technology to provide the cost saving benefit to our Armed Services Patrons would be at significant risk.</p>													

COMMISSARY OPERATIONS CAPITAL INVESTMENT JUSTIFICATION
(\$ in Thousands)

A. FISCAL YEAR (FY) 2008/2009 BUDGET ESTIMATES

B. DeCA / Working Capital Funds February 2007	C. Line No. & Item Description 3002. Corporate Server III			D. Activity Identification								
	FY 2006			FY 2007			FY 2008			FY 2009		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
ADP Equipment (Productivity) > \$1M	1	1,000	1,000	1	2,200	2,200	1	3,200	3,200	1	1,000	1,000

Narrative Justification: DeCA is planning enterprise hardware and software upgrades to enable compliance with the DoD Enterprise Architecture Framework, the DeCA Enterprise Architecture Plan and the DeCA Strategic Plan. We have embarked on a program to provide continual technical refresh and seamless Continuity of Operations (COOP) capability. With the migration and consolidation of enterprise servers completed in FY 2005, we increased the processing throughput of current applications while providing COOP capability, migrating legacy systems, and adhering to a net centric data management strategy. We completed the planned migration of applications to the new enterprise servers based on the criticality of the application and the urgency to utilize new technology features to improve functionality or efficiency of the applications. These mission essential systems include DeCA's Interactive Business System (DIBS), Computer Assisted Ordering, bill paying, electronic data interchange, data warehousing, and item movement. The corporate servers are the backbone of DeCA's enterprise computing initiative. Efficient upgrades and a four year refresh cycle will allow us to continue to adopt and utilize the most efficient technological enhancements while maintaining low maintenance costs. During FY 2005, we began and will complete in FY2007 a technology refresh of the corporate servers, and the tape backup archiving system. The refresh of the backup and archiving system will use state of the art technology to enhance disaster recovery preparedness, provide a reliable means to archive historical data, and provide a restore capability to the corporate servers, in the event of data corruption.

Economic Analysis Summary: The recommended alternative is based on a comparison of current hardware maintenance and operating costs versus a technology refresh with maintenance. DeCA requires corporate server hardware and software to upgrade its obsolete production, test, and development environments that can no longer be supported. During FY 2005 through FY 2007, DeCA intends to acquire data replication hardware, replace the backup and archiving system, and refresh corporate servers. This will accomplish DeCA's objectives for business continuance, legacy migration, and net centric data storage while providing additional capacity for testing and production. This equipment will be located at the Agency's headquarters and Western Pacific processing centers. DeCA will also enhance the backup capabilities at the alternate processing center in the event of a disaster. During FY 2007 through FY 2010, DeCA will be repeating the technology refresh cycle initiated in 2003 and 2004 replacing the Corporate / Enterprise Server environment with state of the art technology.

Impact of Project Disapproval: Disapproval of the technology refresh of the corporate servers, COOP solutions, and storage and archiving systems, would result in an increased risk to operations and maintenance of critical DeCA systems. As the equipment reaches the end of its life cycle, maintenance costs will increase annually and spare parts will become difficult to acquire. Aging systems and outdated technology will severely limit our ability to adopt to changes in DoD and the net-centric environment. Our ability to continue to perform mission critical functions such as bill paying, inventory management and electronic commerce could be imperiled. Additionally, the Agency will be unable to provide disaster recovery or COOP capability for additional applications to address new business requirements. Not approving FY 2005 through FY 2007 funding will greatly compromise DeCA's ability to comply with the OSD mandate to implement and maintain the architecture for disaster recovery and continuity of operations of the Commissary benefit in the event of a disaster at either of DeCA's two processing centers. Our ability to leverage technology to provide the cost saving benefit to our Armed Services Patrons would be at significant risk.

COMMISSARY OPERATIONS CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)						A. FISCAL YEAR (FY) 2008/2009 BUDGET ESTIMATES						
B. DeCA / Working Capital Funds February 2007		C. Line No. & Item Description 3003. Telephone Modernization				D. Activity Identification						
Element of Cost	FY 2006			FY 2007			FY 2008			FY 2009		
	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
ADP Equipment (Productivity) > \$1M				1	4,000	4,000						
<p>Narrative Justification: The HQ and Region HQ Telephone System Replacement Project will provide the following for HQ (3 buildings), the East, West and Europe Region Headquarters, and possibly the Midwest and Far East Support Centers.</p> <ol style="list-style-type: none"> 1) replacement of core telephone system switches 2) replacement of all telephone sets 3) an integrated call director to allow trouble calls to be distributed between the HQ, West & EU support centers 4) an integrated voice mail system that is part of the telephone system <p>Economic Analysis Summary: We have done a preliminary market analysis of possible solutions from several vendors. The DeCA HQ phone system is 12 years old and utilizes a standalone voice mail system. Replacement of this system is in keeping with the 10 year life cycle management (LCM) program for Agency telephone systems and is estimated to cost \$2,500,000. The DeCA West phone system is 5-6 years old with 4-5 years of useful life left. The DeCA East phone system is 3-4 years old with 6-7 years of useful life left. The DeCA Europe phone system is 4-5 years old with 5-6 years of useful life left. Replacement of these 3 phone systems is estimated to cost \$500,000 each, for a total of \$1,500,000. The monetary cost for replacing these 3 phone systems prior to the end of their 10 year life-cycle will be offset by two factors: 1) money received for the trade-in and/or auction value of the old phone systems, and more significantly, 2) the money saved by migrating the Agency to voice-over-IP (VOIP) technology. Current costs for replacing commissary telephone systems run from \$35,000 to \$45,000 per store, depending on the store size. With a VOIP implementation, the Agency will realize a reduced operations cost by maintaining a primary cable plant and perhaps a very limited scope contingency cable plant. Further costs savings will be realized by eliminating the need to maintain both a telephone system and network hardware at all locations. For example, the FY05 telephone system replacement budget, using traditional replacement technology, will replace approximately 30 telephone systems at an average cost of \$39,000 each. If a VOIP implementation were in place, the FY05 budget would allow the replacement of approximately 45 phone systems at an average cost of \$25,000 each. The Agency would realize a conservative savings estimate of approximately 10,000 per phone system replaced. Replacement of the remaining 190 phone systems with VOIP would result in a conservative estimated program savings of \$190,000. Numerous other operational efficiencies will be realized by the Agency that cannot be easily quantified. For instance, all internal Agency telephone calls will be carried on the existing network infrastructure; consequently, there will be no long distance charges for this traffic. Commercial long distance calls outside the Agency will be centrally managed through the server and support centers; only local and possibly DSN calls will be permitted from the local commissaries. VOIP will permit voicemail to be incorporated on desktop PCs along with email. Part of this implementation will include an automatic call director (ACD) to support "follow the sun" help desk support that will allow calls to be passed on to other support centers. If this technology were implemented by itself, it would cost \$350,000 to \$450,000. It is important to note, however, that none of these operational efficiencies can be realized without the replacement of the core phone systems at HQ, DeCA East, DeCA West, and DeCA Europe, as requested by this project.</p> <p>Impact of Project Disapproval: Failure to comply w/ public law 107-314. All DSN connected telephone systems must operate on certified switches. DeCA uses DSN to communicate with all commissary stores. If we do not migrate to certified switches, DeCA will lose the ability to use DSN for voice communications with all commissaries, worldwide. Project was submitted for Carryover in August 2006 because of reconfiguration of the system due to reengineering and relocation of personnel.</p>												

COMMISSARY OPERATIONS CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)							A. FISCAL YEAR (FY) 2008/2009 BUDGET ESTIMATES						
B. DeCA / Working Capital Funds February 2007		C. Line No. & Item Description 3004. Various ADP Equipment \$500- \$999K			D. Activity Identification								
		FY 2006			FY 2007			FY 2008			FY 2009		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	
HP Replacement (5-year life cycle)	1	239	239										
Dell Farm Replacement (5-year life cycle)	1	0	0										
Web Server (PD2-V4.2.2)	1	0	0				1	700	700				
HP Unix servers for DCPDS	2	207	418										
Microsoft Windows servers for CHRIS	9	20	184										
DeCA Electronic Records Management & Archive	1	600	600	1	664	664	1	711	711	1	762	762	
<p>Narrative Justification: Procurement Desktop - Defense (PD2) which is a DoD mandated system provides automated strategic and streamlined contract management support for the procurement professional within a complete workflow management solution. PD2 is an integral part of the Department of Defense's (DoD) Standard Procurement System (SPS) which is integrating acquisition, logistics, and financial management within one end-to-end enterprise business system. As SPS has been deployed throughout DoD contracting communities, it is providing the technology and business process foundation necessary for DoD to achieve its procurement business goals by eliminating multiple outdated legacy systems and automating manual business processes. Facilitating the standardization of efficient business processes to improve management across the enterprise; and expanding the software functionality necessary to effectively award and manage contracts in the rapidly evolving eCommerce environment.</p> <p>DCPDS - The hard disk space, RAM, memory, number of processors and speed specifications of the current hardware will not be adequate to meet system growth and requirements. DCPDS is DoD's personnel database system of record. The number of database records grows by 2-5% every day. Growth of the database; processor and memory intensive application processing and database queries; changes to the DCPDS software applications and system architecture; hardware limitations for expansion; DoD guidance to consolidate HW; and costs for hardware/software and operating system maintenance require this hardware to be refreshed. FY06 CHRIS Server Refresh: The hard disk space, RAM, memory, number of processors and speed specifications of the current hardware will not be adequate to meet system growth and requirements in FY06. These users will be competing for processors, memory and space with running processor intensive database queries. The Business Objects server software has been re-engineered with a different architecture and provides new features that use more server resources. Currently space to store required EEO statistical documents is limited. More hard disk space or fiber connection to a storage unit will be required in this refresh.</p> <p>Narrative Justification for Web Server: This is a Technical Hardware Refresh to replace existing hardware and operating platforms. The current hardware and operating platform is almost 10 years old. Reliability of this equipment has become an issue. Maintenance calls are becoming common place. This equipment supports DeCA's internet, intranet and e-commerce platforms. Replacement of existing hardware and an upgrade to current technology will support DeCA's Strategic Objective to increase sales and make the benefit available to more customers.</p> <p>Although the reason for this planned capital investment purchase was documented along with its expected benefits, to the best of our knowledge, we cannot ascertain if a pre-investment economic analysis was performed. As the capital investment is under the \$1,000,000.00 threshold, our understanding of the process is that the pre-investment economic analysis was not required.</p> <p>DeCA has projected that our e-commerce business will be self sustaining in FY09. Without a Technical Hardware Refresh in FY08 the growth of this business will be in jeopardy. To grow DeCA's e-commerce business a responsive and reliable foundation must be present. In an economic analysis of the Virtual Commissary, sales are projected at \$267.2 (thousands) in FY09, \$1,399.2 (thousands) in FY10 and \$3,905.0 (thousands) in FY11. An unreliable hardware platform greatly affects the projected increase in sales and further increases DeCA's cost of sustaining an outdated, antiquated hardware and operating platform.</p> <p>Narrative Justification for DERMAS: As a federal entity, DeCA must maintain a records management (RM) program in compliance with 44 United States Code Chapter 13 and 36 Code of Federal Regulations National Archives and Records Administration (NARA). To this end, DeCA Electronic Records Management and Archival System (DERMAS) will serve as the repository for paper documents throughout DeCA. DERMAS will replace the legacy DeCA Document Management System (DDMS) by deploying a secure, NARA certified commercial off the shelf records management solution with growth potential. When fully implemented, DERMAS will be a practical records management system, that meets federal and DoD RM requirements, brings commercial best practices to DeCA operations while providing valuable services to DeCA's customers and employees.</p> <p>To the best of our knowledge and based on the requirement for planned capital investment purchases over \$1,000,000.00 requiring a pre-investment economic analysis, we surmise the analysis was performed.</p> <p>DERMAS will provide the agency immediate savings on hardware and software maintenance. The hardware and software of the legacy system, DDMS, are antiquated and costly to maintain. The deployment of DERMAS will allow the agency to retire the non-compliant software and expensive hardware maintenance contracts. DERMAS will also provide a cost avoidance to expanding the paper warehousing storage. Projected savings/cost avoidance should begin FY 2007 with the implementation and deployment.</p>													

COMMISSARY OPERATIONS CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)						A. FISCAL YEAR (FY) 2008/2009 BUDGET ESTIMATES							
B. DeCA / Working Capital Funds February 2007		C. Line No. & Item Description 4001. New Roof			D. Activity Identification								
		FY 2006			FY 2007			FY 2008			FY 2009		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	
Minor Construction	1	236	236	1	750	750							
<p>Narrative Justification: The flat rubber roof at the DeCA Headquarters building has developed significant leaks over the past several years. Patching and sealing of the roof have stemmed some of the leaks but new leaks materialize with each rainfall. The leaks have caused personnel movements and damage to office equipment and furniture.</p> <p>Economic Analysis Summary: As noted above, the present roof continues to develop leaks with each rainfall. Additionally, the leaks cause damage to the office furniture, equipment, carpets, and wall systems. These areas are continually requiring remodeling and replacement due to the water damage.</p> <p>Impact of Project Disapproval: Funds to remodel, replace and repair equipment will continue to be spent to return the office space to condition whereas the employees can continue their mission.</p>													

COMMISSARY OPERATIONS CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)							A. FISCAL YEAR (FY) 2008/2009 BUDGET ESTIMATES						
B. DeCA / Working Capital Funds February 2007		C. Line No. & Item Description 4002. Computer Room Refurbishment, 2nd Floor, Nichols Bldg.					D. Activity Identification						
		FY 2006			FY 2007			FY 2008			FY 2009		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	
Refurbish Computer Facility				1	1,375	1,375							
<p>Narrative Justification: Computer facility has exceeded original designed capability and must be upgraded to accommodate new and existing systems requirements.</p> <p>Economic Analysis Summary: Continued costly piecemeal repairs and modifications to computer facility have resulted in an inefficient system that can no longer meet requirements. Cooling capacity of the facility has been exceeded and will not meet the requirements of new equipment. Accommodation of equipment in the existing facility has resulted in a disorganized and inefficient layout. Failure to refurbish the facility will result in limited ability to support replacement of more efficient systems. Upgrade of HVAC is necessary and has been completed in FY2005 to ensure proper operating environment and preclude premature system failures.</p> <p>Impact of Project Disapproval: Premature system failures due to insufficient HVAC. Inability to support system upgrades or replacement components due to power constraints. Negative impact on daily business operations. Project was submitted for Carryover in August 2006 due to a delay caused by the unavailability of qualified contractors.</p>													

Defense Commissary Agency
 Commissary Operations
 FY 2006
 FY 2008/2009 BUDGET ESTIMATES

PROJECTS ON THE FY 2008/2009 PRESIDENT'S BUDGET

(Dollars in Millions)

<u>FY</u>	<u>Approved Project</u>	<u>Reprogs</u>	<u>Approved Proj Cost</u>	<u>Current Proj Cost</u>	<u>Asset/ Deficiency</u>	<u>Explanation</u>
2006	Software Development>\$100K	0.000	0.000	0.000	0.000	
2006	ADPE and Telecommunications>\$100K	0.000	0.000	0.000	0.000	
2006	Non-ADPE & Telecommunication Equipment>\$100K	0.000	4.967	4.441	0.526	*
2006	Minor Construction>\$20K and equal to or less than \$750K	0.000	0.675	0.236	0.439	**
	Total FY 2006	0.000	5.642	4.677	0.965	

*Project came in for less than projected.

**Planned Command Conference Room remodel was cancelled.

Defense Commissary Agency
 Commissary Operations
 FY 2007
 FY 2008/2009 BUDGET ESTIMATES

PROJECTS ON THE FY 2008/2009 PRESIDENT'S BUDGET

(Dollars in Millions)

<u>FY</u>	<u>Approved Project</u>	<u>Reprogs</u>	<u>Approved Proj Cost</u>	<u>Current Proj Cost</u>	<u>Asset/ Deficiency</u>	<u>Explanation</u>
2007	Software Development>\$100K	0.000	0.000	0.000	0.000	
2007	ADPE and Telecommunications>\$100K	0.000	0.000	0.000	0.000	
2007	Non-ADPE & Telecommunication Equipment>\$100K	0.000	9.864	9.864	0.000	
2007	Minor Construction>\$20K and equal to or less than \$750K	0.000	2.125	2.125	0.000	
	Total FY 2007	0.000	11.989	11.989	0.000	

Defense Commissary Agency
Commissary Operations
FY 2008
FY 2008/2009 BUDGET ESTIMATES

PROJECTS ON THE FY 2008/2009 PRESIDENT'S BUDGET

(Dollars in Millions)

<u>FY</u>	<u>Approved Project</u>	<u>Reprogs</u>	<u>Approved Proj Cost</u>	<u>Current Proj Cost</u>	<u>Asset/ Deficiency</u>	<u>Explanation</u>
2008	Software Development>\$100K	0.000	0.000	0.000	0.000	
2008	ADPE and Telecommunications>\$100K	0.000	0.000	0.000	0.000	
2008	Non-ADPE & Telecommunication Equipment>\$100K	0.000	7.611	7.611	0.000	
2008	Minor Construction>\$20K and equal to or less than \$750K	0.000	0.000	0.000	0.000	
	Total FY 2008	0.000	7.611	7.611	0.000	