

Prepared Statement
of
Ms. Rosemary Freitas Williams
Deputy Assistant Secretary of Defense
(Military Community and Family Policy)

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Thank you, Chairman Wilson and Ranking Member Davis, for your strong support of quality of life programs for military members and their families. Your leadership and emphasis have kept the focus on the programs that help keep our military strong and resilient. Today more than perhaps ever before, the members of our military community need to count on the resolve and commitment you have so consistently displayed over the years for the programs they hold most dear.

I would like to highlight some major recent achievements within the Military Community and Family Policy portfolio. Then I will shift the focus to the current outlook for us and our resale partners in a reduced budget environment. Finally, I will give you a quick preview of some preliminary results from our Task Force on Common Services, as well as some other transformational initiatives that hold great potential for our future.

MILITARY COMMUNITY AND FAMILY POLICY

Our Service members never hesitate to answer the nation's call, whether in combat or here at home. The challenges of military service place members and their families under significant strain. Morale, welfare, and recreation (MWR) programs are critical to their wellness and resiliency. Participation in recreation, fitness, sports, cultural arts and other leisure activities leads to improved personal health and well-being, and helps build strong military families and healthy communities. Active living is known to reduce stress, loneliness, obesity, and depression and builds positive self-esteem and esprit de corps critical to a healthy military environment.

Deployment Support

Over the past year, and as the result of your support, we continued robust programming for deployed service members and their families. Military spouses indicated that being able to communicate with their service member is one of the most important factors impacting their ability to cope with deployments. The 426 free MWR Internet Cafes and 150 portable morale satellite units in the Middle East allowed deployed members and their families to share 4.6 million minutes of talk time each month between January and June of this year. Library online databases supporting continuing education, career development, spouse employment and children's interests had 86 million hits in FY 2012. More than 600,000 tutoring sessions have been conducted for children of deployed service members through Tutor.com, an online 24/7 live homework support network. Through partnership with the Armed Services YMCA, more than 60,000 families and 77,000 children were able to enjoy free YMCA memberships, private fitness memberships and respite child care at more than 1,481 YMCAs and 1,155 private fitness centers across the U.S. The summer reading program at 230 libraries around the world boasted 25 million minutes (that's almost 50 years!) of reading time for our youngest readers.

Military Service MWR Programs

In addition to these impressive accomplishments, the Army, Marine Corps, Navy and Air Force have been equally engaged at ensuring quality of life for their respective service members and families. The Army Warrior Adventure Quest program mitigated risky behaviors for nearly 150,000 soldiers at 46 garrisons as part of the Army reintegration strategy. The Marine Corps High Intensity Tactical Training program complements individualized fitness options, enhances

operational fitness and optimizes combat readiness and resiliency for the Corps. The Navy expanded their train-the-trainer model for MWR fitness professionals in FY 2013, allowing certification of over 2,300 command fitness leaders at Navy installations, doubling training capacity and significantly reducing travel costs. In March of this year, Air Force initiated a test of unmanned, 24/7 fitness access, allowing after-hours access to installation fitness centers, which was extremely well received by the more than 50,000 users without any safety or vandalism incidents. Each of the services operates high-adrenaline adventure programs to address difficulties faced by reintegrating service members as they transition from an energy-charged deployed environment. Adaptive and inclusive recreation programming allows wounded, ill and injured Service members to engage in recreation and sports as an important component of rehabilitation and reintegration. Families with special needs family members also benefit from these adaptive programs.

Child, Youth, and Family Programs

We continue to make great strides in our child development and youth programs. Over 97 percent of our eligible DoD Child Development Centers are nationally accredited, compared to 8-10 percent in the general population. We standardized overarching criteria for child development program inspections that will be implemented during the 2014 inspection cycle. In order to support quality child care for National Guard, Reserves and geographically-dispersed families, we collaborated with the University of Nebraska to improve the quality of off-installation child care. This initiative allowed approximately 2,000 individual staff members to complete more than 11,500 lessons on developmentally-appropriate practices in early care and education. This training represents over 19,000 hours of professional development. Long-term savings and reductions will be realized through the consolidation of training programs and the

centralized purchasing of materials. We also partnered with the Boys & Girls Clubs of America to launch the first ever Military Youth of the Year competition.

Our Family Advocacy staff developed a five-year Strategic Plan for Prevention of Child Abuse and Neglect and Domestic Abuse to target prevention efforts to evidence-based programs relevant to military families. We included our federal partners (the Department of Health and Human Services' Administration for Children and Families, and the Centers for Disease Control Division of Violence Prevention) to ensure alignment with current research and Federal practices. In collaboration with Penn State University, we evaluated the New Parent Support Program and developed core measures and metrics. The study suggested that an early intervention home visiting program that focuses on at-risk expecting and new parents could strengthen families and prevent child abuse and neglect. We also established a Multi-Functional Domestic Violence Data Working Group with the military Departments to address Fiscal Year 2011 requirements for a comprehensive management plan to track command disciplinary actions. The working group identified technical, procedural, and legal limitations in previous attempts to match law enforcement, clinical, and command (administrative and punitive) data concerning domestic violence incidents. The working group report to Congress proposed legislative action to implement key recommendations.

We completed the pilot phase of the Military and Family Readiness Program accreditation, a national objective, independent and reliable validation of military and family support program performance. Accreditation involves a detailed review of the military and family support program administrative management and service delivery functions against national standards of promising practice. Military and family support programs at all six pilot installations have been accredited by the Council on Accreditation. We are expanding to 20

additional installations this year, and are also piloting a National Guard family program and two Army Reserve family program sites.

More than 50,000 military spouses have now found jobs with more than 200 Military Spouse Employment Program partners through our spouse employment program. We also launched the Spouse Ambassador Network with 11 military support organizations that will leverage their established community networks to broaden knowledge about military spouse employment resources. The network will connect our partners and local businesses, community organizations, and local Chambers of Commerce to educate, empower, and mentor military spouses. Finally, our new Spouse Education and Career Opportunities website for military spouses, MySECO, provides a comprehensive online forum with access to essential information and resources, leading career counseling tools, and assessments at no cost; the ability to develop a personal profile allowing spouses to capture and track their personal information and progress as they advance their education or career; and a military spouse scholarship database.

These are just a few examples of the innovative and effective quality of life programs that we and our Service partners provide to promote readiness, resilience, and unit cohesion.

CHANGING TIMES

The Subcommittee's invitation focused this hearing on the impact of the reduced budget environment on military resale, which consists of the commissaries and the military exchanges. The Defense Commissary Agency (DeCA) is now aligned under the Assistant Secretary of Defense for Readiness and Force Management. My office continues to provide policy guidance for the commissaries, as well as for the military exchanges.

My colleagues from the Defense Commissary Agency and the three exchange organizations will expound upon the impacts on their organizations. I do want to offer a couple of observations from my perspective, as well as some similar insights into our MWR operations.

Each of our organizations does a remarkable job of meeting the needs of the military community, a mission that becomes even more challenging in a highly-competitive marketplace, a recovering economy, and an uncertain budget. Our MWR and Resale professionals are highly dedicated to the mission, and focused on the consistent delivery of world-class service.

However, we're seeing indications that things are not the way they used to be—not necessarily better or worse, but at least different. Taken by themselves, any one of these may not be all that significant. However, we do need to pay attention to these indicators and monitor for what they might portend for the future, so that we do not get caught unprepared. Here are some of the factors that have caught our attention.

Customer Satisfaction

The Department has been using the independent American Customer Satisfaction Index (ACSI) survey to measure commissary and exchange customer satisfaction since 2002. The annual ACSI is a system-wide tool for strategic benchmarking and competitive comparisons with the related industry sectors. The ACSI uses exactly the same survey instruments for commissaries and the exchanges as it uses for the private sector companies in their respective industries. We track the results using a balanced scorecard approach. The Department's goal is to meet or exceed the industry average of customer satisfaction.

DeCA improved its 2012 overall ACSI customer satisfaction score by a point from a year ago and is now a significant five points above the supermarket industry average. Only six

percent of DeCA's customers indicated they complained about their experience in the past year, a significant six point decrease from 2011 and below the industry average of eight percent. DeCA's perceived overall quality significantly exceeded customers' expectations. DeCA's customer loyalty score also improved in 2012 and now meets the industry average.

Since 2002, the Marine Corps Exchange has achieved steady improvement in nearly every ACSI measure. Overall customer satisfaction improved by one point from a year ago and is now just above the department and discount store industry average. Customer expectations are equal to overall perceived quality and are significantly above the industry average. Perceived quality, product quality, and service quality scores increased and are well ahead of industry. While customer complaints at all the exchanges are below the industry average, the Marine Corps Exchange is significantly better than the others.

The other two exchange systems, the Army and Air Force Exchange Service (AAFES) and the Navy Exchange Service Command (NEXCOM), achieved standout scores in a number of the areas rated but slipped a bit this year in overall satisfaction, which is now just below the department and discount store industry average. We added additional customer filtering questions this year to explore possible ways to improve customer loyalty scores. Commissary patrons cited distance from the store, and exchange patrons cited selection, distance, and price, as the major factors. Hours of operation, base access, and store atmosphere were not significant factors in their responses.

Building on its experience with the ACSI in the resale community, the Department began to use similar methodology to assess customer satisfaction with MWR programs in 2009. The overall Department-wide customer satisfaction index score did not change from 2009 to 2011,

but there were changes in the individual Service customer satisfaction index scores. Both the Army and Marine Corps MWR overall satisfaction increased an impressive two points, the Navy decreased one point but still had the highest overall satisfaction score, and the Air Force decreased by a statistically significant three points. The survey also rated customer satisfaction within 8 individual MWR program areas, and indicated that improvements in fitness center facilities and outdoor recreation programs would have the highest impact on readiness and overall satisfaction with MWR. Those two areas will remain the Department's top priorities for improvement, followed closely by the Single Service Member Program.

The 2009 survey results suggested that MWR has a critical impact on readiness: if MWR satisfaction increases, readiness increases. The readiness score increased by three points in 2011. In addition to readiness, the survey measured the impact of MWR satisfaction on retention and unit cohesion. The survey also showed that unit participation in MWR programs has a positive effect on program satisfaction, MWR satisfaction, readiness, unit cohesion, and retention. In very practical terms, the Customer Satisfaction Index can be an important tool to rebalance resources within MWR programs for better alignment with our most critical challenges and priorities. We are currently preparing the next update to the MWR Customer Satisfaction Survey.

Appropriated Fund Support to MWR Category A and B Programs

The continued vitality of the MWR program depends on sound management, meeting command and customer needs, a predictable stream of nonappropriated fund (NAF) revenue, and solid appropriated fund (APF) support of Category A and B activities.

The good news is that APF provided a total of \$2.03 billion in direct baseline support for the MWR program in FY 2012, with \$1.01 billion for MWR activities and \$1.02 billion for child and youth programs. However, after 4 years of steady growth, that was \$119 million less than FY 2011 funding. Please keep in mind that sequestration did not go into effect until the middle of FY 2013; the Military Services anticipate further cuts to APF based on current trending.

By Congressionally-approved Department policy, Category A activities (fitness, libraries, recreation centers, single service member programs, and intramural sports) should be entirely funded with appropriations. The Department sets a minimum standard requiring at least 85 percent of total expenses being supported with APF. Department-wide, we dropped two percentage points but continued to meet this standard in FY 2012; however, the Army slipped just below this minimum requirement.

Similarly, in Category B activities (child and youth development programs, outdoor recreation, crafts and automotive skills, and small bowling centers), APF should provide a minimum of 65 percent of the total expense. The Department as a whole dropped eight percentage points and slipped just below the requirement in FY 2012. The Marine Corps percentage held steady, but the other Services experienced considerable reductions; both Navy and Air Force fell well below the required 65 percent.

The Services attributed most of the decrease in funding to competing priorities within installation services and management, and took actions to mitigate the impact including adjusting hours of operation, adjusting personnel requirements, and reducing programs. They prioritized and funded the most critical services, and looked for opportunities for partnering and other methods of delivering programs and services where APF support was no longer available or

sufficient. To sustain delivery of programs to meet customer demand, the Military Services also boosted the use of NAFs; this increased the burden on Service members and families, and could affect the future recapitalization of revenue-generating MWR activities. This is not a sustainable APF/NAF funding model and, if future funding decreases, MWR programs for our Service members and their families will continue to erode.

NAF Financial Performance

The exchange services have not been immune to the recent economic challenges facing the entire retail industry or from the global competition and reduced margins driven by large-scale retailers. Despite those pressures, combined exchange revenues have increased each year and are up 8 percent since 2009. However, earnings and MWR dividend performance have been mixed. Earnings have been steadily down since 2009 and are now 38 percent below that level. MWR dividends rebounded from the drop in 2011 but are still 10 percent below the 2009 level. For their current fiscal year, exchange forecasts now project revenue down nearly 5 percent, earnings up more than 40 percent, and dividends up almost 2 percent. Although the direct impact of sequestration on the exchange services has been minor so far, they have started to see some negative effects of reduced APF base operating support for the sustainment of their existing facilities. There are also persistent concerns about attempts to eliminate APF support for overseas utilities and second-destination transportation costs to ship merchandise for those stationed overseas. We will continue to monitor these indicators and work closely with the exchange services as we navigate the uncertainty of the current budget environment and the pressures from the retail industry.

Similarly, MWR revenue tended to be slightly up in their FY 2012, although Army and Air Force experienced significant reductions in exchange dividends. The Marine Corps was the only service to show positive net earnings—and an improvement from prior year—fueled largely by an increase in APF support. The other Services went from positive net earnings in FY 2011 to losses in FY 2012, a negative swing of over \$140 million. Factors included the impact of force reductions and reduced APF support for personnel, contracts, and facility upkeep. As previously noted, the Services are taking action to close marginal activities and reallocate their resources where they will have the greatest impact. For example, Air Force reported closing 19 activities in FY 2012 (11 leisure travel offices, 3 aero clubs, 2 bowling centers, a club, a community center, and an auto hobby shop); the Navy also closed some under-performing Category C activities and is reviewing others with long-term financial concerns.

When one activity suffers a reduction in APF support, the "domino effect" often spreads the disruption into other activities. One prime example is the APF funding that supports some caregiver positions in the child development centers. When that funding stream is disrupted by an APF reduction or hiring freeze, the base is left with only two alternatives. One option is to shut down child care rooms and reduce capacity; for every caregiver position that is unfilled, up to twelve children will no longer receive child care. However, child care is such a high priority that bases are often reluctant to take that step. The only other option is to keep the child care rooms open by diverting NAF resources from other programs. Those other programs, in turn, have to compensate for the reduction in their NAF resources by cutting back hours or services, increasing prices, deferring needed improvements, or in some cases closing completely. Thus the impact of APF shortfalls, whether due to furlough, sequestration, or other budget issues,

spreads throughout the entire MWR enterprise and affects a much wider variety of programs and services.

In a related matter, the Army reorganized the regional oversight of its installations and reduced the associated staffing levels. Similarly, the Air Force all but eliminated its major command MWR oversight staffs, transferring some of the manpower resources to the headquarters. Measures like these should achieve some short-term economies, but especially in these challenging and turbulent times, it will become even more critical for the remaining staff to provide adequate and timely support and oversight to the installations.

Construction and Facilities

The FY 2014 program that we just submitted is the smallest in recent memory, with a total of 23 projects (down from 38 last year) at a cost of \$289 million (down from \$515 million last year). Commissary and MWR major construction spending is up slightly, even though there are fewer projects; for the second year in a row, the Army submitted no major projects for approval. Exchange projects declined slightly; the Army and Air Force Exchange Service typically submits about 13 major projects but this year is concentrating on e-commerce and sustaining its existing facilities. Lodging projects are down more than 80 percent.

We share the concerns expressed by the Subcommittee in recent years over the declining rate of recapitalizing NAF facilities. Our community currently estimates a \$2.8 billion shortfall for commissary, exchange, and MWR facilities over the next 10 years. However, those shortfall calculations are typically based on status-quo models: the replacement cost for all facilities in the current inventory, the expected useful life of those facilities, and the current level of earnings.

We are now taking a more strategic look at our requirements by asking more fundamental questions:

- ***Will we really need to replace everything we currently have?*** Many of our programs occupy legacy facilities that were built many years ago to accommodate much larger military populations. The patron base back then tended to live on or close to the installation, which truly served as the hub for the military community. The patrons of that day also had different interests than the people we serve today. In addition, on-base facilities and programs may no longer be the best way to serve today's military community, at least two-thirds of whom now live off base. The "build-it-and-they-will-come" philosophy may have worked adequately years ago, but is not consistent with the current dispersion of our patrons. We may be better off in the future sizing our facilities to accommodate those who live on base—for whom the base *is* the community—and find more economical ways to link our off-base members and families with local providers of the services they need.
- ***If we do elect to build a new facility, do we have the right standards?*** We tend to build our facilities to last 30 or more years; many commercial facilities are typically built to recover their investment in much shorter periods, and then be replaced with something more contemporary at that time. We certainly appreciate the need for anti-terrorism and force protection measures, but occasionally hear that our designs are held to the same protective standards regardless of whether the facility will be located in the central part of the protected base enclave or adjacent to the perimeter fence.

We do not yet have the answers, but believe questions like these will provide a more productive approach to meeting the needs of the community in the future. Meanwhile, we will

continue the current emphasis on extending the useful life of current facilities and, where new facilities are required, pursuing multi-purpose multi-use projects as well as public-private ventures.

STRATEGIC TRANSFORMATION INITIATIVES

Over the past several years, it has become increasingly apparent that we would require more than a minor adjustment to meet the future needs of our community. As a result, we embarked on a number of strategic initiatives that don't just tinker around the edges but fundamentally transform the landscape.

Task Force on Common Services

On February 6, 2013, we held the first meeting of the Task Force on Common Services for Service Member and Family Support Programs. Based on the timing, many people wrongly assumed that we had formed this Task Force to cope with the expected effects of sequestration. The idea had actually been working for nearly two years and can be traced back to three key stimuli.

First, a cross-functional Task Force on Military Health System Governance noted that each military department separately managed its own medical treatment facilities, even in multi-service medical markets like the National Capital Region. The Task Force concluded there were opportunities “to accelerate the adoption and implementation of more efficient, common clinical and business processes through reengineered and more streamlined shared services,” and “to more rapidly implement and effectively manage efficiencies than the current organizations are likely to do.” The resulting shared services model anticipated an initial reduction in overhead,

with significant additional cost savings as duplicate services are eliminated. We quickly noted the great potential for similar benefits within the Military Community and Family Policy portfolio.

Then, during one of our normal annual reviews with the Services, it became apparent that all of the Services were doing essentially the same things and faced many of the same challenges, independently coming up with similar solutions. One of the Services voiced a need for more than \$80 million to buy a new NAF accounting system; just days earlier, another Service had commented about the successful implementation of its own new accounting system. We noted that collaboration between those two Services could offer some potential at least to reduce developmental cost, time, and effort, or even for a shared service function to support both of them.

Finally, in a high-level discussion of the Department's direction to maintain funding for family programs, one senior leader suggested further review to determine whether the Services had taken significant reductions with adverse impacts in this area. Instead of another narrowly-focused funding review of specific programs, we got approval for a broader and more comprehensive review of common services and overhead provided to all MWR and family programs, and the Task Force on Common Services was born.

The Task Force consisted of 16 general officer and Senior Executive Service civilians whose mission was to review the total cost and methods of providing common services for military member and family support programs Department of Defense-wide. Membership included key Department oversight offices, the Joint Staff, Reserve Affairs and the National Guard; the military departments were represented both by their Secretariats and by their MWR

and family programs areas. The Task Force received legal support from the Office of the General Counsel.

The Task Force charter contained five objectives:

- Maintain the Department of Defense's strategy and commitment to the well-being of military members and their families, delivering the same or better levels of programs and services.
- Improve effectiveness, efficiency, and economy in the delivery of programs within the purview of the Office of the Deputy Assistant Secretary of Defense for Military Community and Family Policy, along with their related overhead and headquarters functions.
- Drive down both the APF and the NAF unit cost of providing programs and services to military members and their families.
- Through shared services or similar models for common support, enable greater economies of scale than the individual military departments can achieve independently.
- Retain a portion of the initial savings to cover transition costs and offset program shortfalls.

To achieve these objectives, the Task Force concentrated on overhead functions that support field programs, common services across a spectrum of programs, and higher headquarters functions (above the installation level). It focused on processes that should be

transparent and with no noticeable impact to the end user, rather than program content and delivery. It looked for opportunities to collaborate at the Service level, rather than pursuing four independent paths to a similar goal. It recognized the value of improvements in operational management, even if those benefits could not easily be quantified in financial terms.

After receiving baseline briefings from the Services on their operations above installation level, the Task Force initially identified some 31 candidates for further study and then narrowed the list down to the top 12 study areas. An additional area was added to accommodate a timely White House request, and two more high-priority areas were inserted into the schedule as resources became available. In the end, the Task Force studied the overhead functions associated with 15 major areas: child care and youth programs; NAF procurement; management training; NAF accounting; information technology services; exceptional family member program; lodging; NAF employee benefits; Yellow Ribbon reintegration program; information and referral services; NAF banking and investment; school liaison officers; fitness, aquatic, and wellness programs; risk management and NAF insurance programs; and personal financial management training.

The next 4 months were a period of rather intense study. The Task Force launched a different topic each week with Service briefings that covered the management of that week's study area, the services typically provided above installation level, appropriate measures of size and scope, staff and resources, any unique elements, and challenges and opportunities. After those baseline briefings, leading functional experts from each Service gathered for an intense week-long study effort, modeled after Lean Six Sigma rapid improvement events and led by master black belt facilitators from the Office of the Deputy Chief Management Officer. Just four

weeks after the initial baseline briefing for that study area, the team members outbriefed their results to the Task Force.

The Task Force report is still being written, but a number of common themes emerged from the study team briefings. Please note that these conclusions are preliminary and only reflect the positions of the functional experts on the study groups. However, those conclusions did come up with some frequency and are worthy of consideration.

First, there was nearly universal agreement that there is significant room for improvement in cooperation and collaboration. The Services frequently used different providers for essentially the same services. When they used the same provider, it was more by chance than design and typically involved separate solicitations, contracts and possibly pricing. It looked like most functions involved four separate Service offices doing essentially the same thing for people with similar needs spread over the same geographic area. Almost universally, functional areas that did not already have an established collaboration forum recognized the need for one; several of them began to meet regularly almost immediately.

Second, many of the recommendations could have already been implemented by the functional community, without the need for any higher-level involvement or approval. For example, the study group on NAF procurement noted how much simpler life would be—for themselves and for their vendors—if they all used the same standard contract clauses. The current contract clauses were established within each Service’s functional community and presumably could be changed by them without any involvement by the Task Force or senior Department leadership. Many of the study groups identified similar recommendations that could

be implemented within their existing authority and started flagging them as “JDI”—for “Just Do It”!

Third, the study groups recognized that success did not necessarily require 100 percent participation. For example, it would be difficult for the Marine Corps MWR function to collaborate with any of the other Services on NAF accounting, since their finances are already integrated with the Marine Corps Exchange. If we look at this as an “all or nothing” proposition, we might lose the opportunity for significant improvements in efficiency and cost for the other three Services.

We are currently compiling the final report of the Task Force’s work, which we expect to complete by the end of the year. We have also embarked on a parallel effort by an independent organization to determine whether there is a supportable data-driven business case for some of the major changes that were proposed by individual study groups, along with any necessary change management recommendations. It is too early to calculate the payoff from this effort. However, for comparison, the Task Force on Military Health System Governance that I mentioned earlier estimated in April that its shared services model would conservatively save 23 percent of the medical community’s current overhead cost. In our case, the Services reported spending a total of \$4.6 billion to provide MWR and family programs, including \$812 million in overhead. Any savings from that overhead, whether APF or NAF, would free up resources that could be used to preserve and enhance needed programs at no additional cost.

Military Compensation and Retirement Modernization Commission

Another area of transformation began in February 2013, when the Department also launched a comprehensive review in support of the Military Compensation and Retirement

Modernization Commission that was directed in the FY 2013 National Defense Authorization Act. The statutory objectives of the Commission include sustaining the All-Volunteer Force, achieving fiscal sustainability, and enabling the quality of life of Service members and their families. This initially seemed to overlap or even duplicate the functions of the Task Force, but we saw a clear distinction. The Commission's role is to determine *what* should be provided to entice high-quality people to join the military, to remain for a period of productive service, and to ease their transition back to civilian life. The Task Force, on the other hand, is not so much concerned with *what* is in the package, but rather *how* those components would be supported above the installation level.

The Department's review was broken into three major working groups. My organization chaired the working group on quality of life (QoL) programs supporting military members, retirees, and their families. Since we also chaired the Task Force, we were in the perfect position to deconflict these two efforts while ensuring the crossfeed of useful information.

Many complex challenges are involved in selecting QoL programs to be offered, not the least of which is the sheer number and diversity of potential offerings. In addition, the expansive target demographic profile includes single Service members in a wide age group, members with dependents and young families, and a robust retiree population. Compounding the challenge is the geographic dispersion of active duty Service members, 68 percent of whom now live off the installation, as well as reservists and National Guard personnel, many of whom live 20 miles or more from the nearest installation.

The Working Group found that many of the Department's QoL program offerings and associated models for service delivery date back to the Cold War era (from the 1950s through the

1980s). As such, they may not be serving today's Service members and families as effectively as they did in the past. In particular, working group members questioned whether the 1987 "Category A-B-C" funding model adequately provides for contemporary needs and drives the programs to support them. This area will require considerable additional study and we recognize the role you play in considering any potential changes.

Healthy Base Initiative

The Healthy Base Initiative grew from the National Prevention Strategy that the President released in 2010 to promote good health for all Americans. In 1997, the World Health Organization formally recognized obesity as a global epidemic. This is a major concern for the Department; a 2010 estimate indicates that 27 percent of potential military candidates cannot qualify for military service because of their weight, and failure to maintain acceptable weight and fitness standards remains a leading cause for dismissing members from the Service. The Department spends \$1.6 billion a year on illnesses associated with obesity (like diabetes, heart diseases, and osteoarthritis). A 2009 report by the Institute of Medicine puts a similar price tag—an additional \$1.6 billion a year—on the Department's tobacco-related medical costs, hospitalization, and lost days of work.

We are partnering with the Department's Health Affairs community to sponsor the transformative Healthy Base Initiative, a demonstration project to create an environment which encourages sustainable healthy lifestyles; its initial focus is on reducing obesity and tobacco use. Existing health and wellness initiatives as well as promising new practices are being measured for their efficacy at 14 locations across the Department and the Coast Guard. The Healthy Base Initiative team has already engaged numerous internal and external stakeholders to build a

strategic roadmap. The roadmap provides a systems-based approach to promote healthy living, including food, active living, schools, families, health and wellness, physical environment, and tobacco control for the entire military community. Initiatives and measures were developed for each component of the system.

Multi-disciplinary teams have completed baseline assessments at each pilot location focusing on the environment and population health, with several major findings. Food is a major challenge, as few healthy options exist on base. Military dining facilities continue to face challenges with customer satisfaction, cost, and participation; many have significantly cut back their hours of operation or closed completely. The only other choice at most installations is fast food. Junior military personnel who live on base and have no transportation are often out of luck, since the dormitories are typically not designed for cooking. On the other hand, the assessment teams found that active living, fitness, and child and youth programs at the pilot installations are very well operated and promote health and wellness. On-base schools provide health-focused programs for the children, though opportunities exist to improve food and wellness policy implementation. Health and wellness programs are well done, especially when embedded in the units. The physical environments of the pilot locations vary widely in terms of promoting active living.

The Healthy Base Initiative team is currently working on implementation and measurement plans, with the goal of beginning a rolling implementation this month. In addition to population health and operational measures, financial metrics will be included. Opportunities clearly exist to increase the efficiency of programs provided, as well as realigning funding where it has the most positive impact.

As a popular spin-off benefit from this initiative, several bases have established farmers markets through DeCA, MWR or private entities, increasing the access to fresh locally-grown fruits and vegetables. Initial results have been positive, and we expect more farmers markets across the Department as the different concepts mature.

Air Force Food Transformation Initiative

As mentioned above, our Healthy Base Initiative assessments indicated that on-base food service operations, both military essential feeding and NAF concepts, need considerable attention across the Department to provide healthy options that are convenient to the needs of our customers, at an appropriate cost. The Air Force had already come to a similar conclusion in 2008, when it developed the business case and secured the funding for its Food Transformation Initiative. The focus was to enhance food service quality, variety, and availability across the installation dining facilities (to include the MWR NAF activities), and sustain the training platform for military cooks. The concept was to use a NAF instrumentality memorandum of agreement to operate APF military dining facilities and MWR NAF food service operations (like snack bars and clubs) under a single contract; the Air Force relied upon section 2492 of title 10, United States Code to provide the necessary authority. The initiative launched in 2010 with Congressional support and oversight from the Government Accountability Office. The initial results have been overwhelmingly positive with significant increases in customer usage, customer acceptance, purchase of healthy options, and operational savings for both APF and NAF activities. This past year, the Air Force moved into the next phase of this initiative; however, a bid protest concerning the procurement process put the initiative on hold temporarily. The Government Accountability Office decision to uphold the bid protest centered around their contention that the Air Force is not authorized under section 2492 of title 10, United States Code

(or any other statute) to purchase services from a NAF instrumentality via a memorandum of agreement. Instead, it determined that any purchase of services from a NAF instrumentality could only be made competitively via a procurement contract in accordance with the rules and procedures of the Federal Acquisition Regulation. This position appears to ignore the NAF status as an instrumentality of the Federal government, and also seems to be at odds with our understanding of the Congressional intent behind that provision. To preclude any further disruption to processes that depend on this authority, the Department will continue to seek clarification of the Congressional intent of section 2492 of title 10, United States Code. This Food Transformation Initiative shows great promise in addressing the challenges of improving and enhancing Air Force food service, and could serve as the model for similar improvements across the Department. We appreciate the Subcommittee's continuing support of this initiative and, as requested, we will continue to keep you informed of its progress.

CONCLUSION

As you well know, these are trying times for our military community. Our people face the same challenges as the rest of the nation: an economy that is slowly recovering from recession, homes that aren't worth what many occupants still owe on them, and a job market that offers few opportunities, especially for spouses and teens. On top of those pressures, our people face the additional burdens associated with their military service: over a decade of engagement in hostile operations overseas, frequent deployments, many for extended periods of time, uprooting the family for a move to a different location for the needs of the Service, and the continued uncertainty about the budget and funding levels. Our civilian members have not been spared, but feel the stress in other ways: furloughs that cut into the family paycheck, hiring freezes, and elimination of pay raises and awards. Keep in mind that sequestration has only been

in effect for half a year. Without some relief, the Department faces nine more years of steeper funding cuts and ever more unprecedented fiscal uncertainty. At the very time of our people's greatest need, these funding cutbacks pose great risks to the programs and services on which our military members and their families depend.

I look forward to working with this Subcommittee to meet the needs of our military community, and thank you for your continued support. I welcome your questions.