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To the Honorable Chairman, Ranking Member and Distinguished Members of the Subcommittee:

The American Logistics Association (ALA) is pleased and honored to appear before you today. For over 90 years ALA has worked to promote, protect and enhance the military resale and quality of life benefits on behalf of our members and the military community.

The ALA is proud to represent 250 of America's leading manufacturers, numerous brokers and distributors, service companies, media outlets and more than 1400 individual members who are actively engaged in providing goods and services to our resale customers, MWR activities for our military, Coast Guard, and Veterans.

It may go without saying that we appreciate this Subcommittee's support for these vital benefits over the years. But, I'm going to say it again: Thank you Mr. Chairman and members of the Subcommittee for your steadfast efforts on behalf of our men and women in uniform and their families.

Just in the past year there have been several key issues addressed by this subcommittee that have had significant positive impacts on the military resale programs. You took action to eliminate the 1099 reporting requirement, the 3 percent withholding, reduced financing costs for the exchanges by allowing access to federal bank financing

and, most importantly, you have supported full funding for these programs along with consistently calling for protection of these benefits in Congress.

We especially appreciate the opportunity to appear before you along with distinguished DoD leaders like Secretary Gordon, our business partners—the leaders of the commissary, exchange, and morale, welfare and recreation programs of the Department of Defense and our colleagues from the Armed Forces Marketing Council. We commend DoD's commitment to reaching out to the private and non-profit sectors to create partnerships to improve the quality of life for our military people, especially with even darker budget clouds on the horizon.

The military resale partnership represents the best that America offers and is a shining example of what can be accomplished when Government and American business get together for a common purpose.

We are grateful to you Mr. Chairman, the Subcommittee and full Committee for your efforts to ensure that we have a measured reduction in Defense spending. Sequestration is looming and this Committee has been at the forefront of working to ensure that Defense is not gutted by this threat. We are educating our members and encouraging them to join the fight to keep this from happening.

Just the existing budget levels have resulted over the past year in repeated assaults on these vital benefits from suggestions by the Deficit Reduction Panel to individual and

Committee-passed measures taking place in the Congress to degrade and diminish the benefit.

In many cases, these assaults have at their core what we believe to be a dangerously flawed report by the Congressional Budget Office that is fraught with flawed assumptions that – on the surface – could lead some to believe that savings can occur without a cost.

We unequivocally challenge this report, its assumptions, and findings. There is a cost, **a major cost**, to their suggestions. And, not only are their assumptions flawed, they conveniently ignore a multitude of factors that clearly demonstrate that unraveling this system and upsetting the equilibrium will have a devastating reverberating effect on the very core of the military community.

In the aggregate and on the surface, the CBO report may have some appeal in some uninformed sectors. But carefully and methodically dissect its component parts and one can begin to see just how dangerous it is.

Item: The military resale benefit is the only benefit that increases its value to the Department of Defense the more it is used. The infrastructure exists. The taxpayers and patrons have sunk nearly \$40 billion into this existing infrastructure. Every family that uses these benefits saves \$7,000.00 a year by using the benefits. That's \$7,000.00 that goes directly to the bottom line of military households. It's real money in their pockets.

It's a new car. It's a college education. It's money for furniture or a house payment. Collectively, the savings by shopping at these stores throws nearly \$4 billion a year to the bottom line of military family households. For each 100,000 additional families that use the benefit, DoD gains in compensation value \$700 million.

Item: CBO says that you can convert the current commissary workforce to nonappropriated fund employees. The savings projected by the CBO are on a specific time line yet by the existing rules the initial conversion would be at the current levels of salary and benefits and the transition would be implemented by attrition. The report does not take into account the careers of these valued employees and nowhere do they quantify or substantiate how these savings would materialize.

Item: They say that consolidation would eliminate duplicative functions. Yet they ignore a wide body of evidence to the contrary that show that savings from consolidation are illusory. There have been numerous studies and evaluations discussing consolidation and in every case the finding was made that there would be a significant cost associated with such an event. There is no evaluation of this conclusion.

Item: CBO says that budget authority to operate the combined system would drop by \$2 billion. Hard to believe, especially when you consider that the entire appropriation is less that \$1.6 billion.

Item: The CBO formula calls for a third of the \$2 billion to be returned to active-duty service members in the form of a tax-free grocery allowance. Where would this grocery allowance be spent—at higher cost grocery outlets, thereby negating the benefit of doing it in the first place.

Item: CBO would have patrons paying 7 percent more for their groceries and other merchandise. This does not take into account the most basic rule of patron draw and the elasticity in impactful pricing models. With the majority of patrons living off base the support for the system would wane with a higher price formula and the impact on families would go far beyond any of the projections contained in the report. This would effectively decrease patronage and reduce the economies-of-scale of the entire enterprise with a residual additional cost increase.

Item: CBO says that active duty members and families would pay about \$400 more per year, offset by the grocery allowance. We believe the cost would be far higher and would not approach being offset by the allowance.

It gets worse:

Item: CBO says that families would benefit from longer store hours—difficult to understand when funding for store hours would be sharply curtailed.

Item: The grocery allowance would be provided only to active-duty enlisted personnel. This completely disenfranchises all officers, all retired personnel, all Medal-of-Honor Winners, all disable Veterans and a whole host of other deserving beneficiaries.

Item: They say that the system would be better able to compete with civilian alternatives. How is this possible? – when prices would be higher.

I have to say that there is one area where CBO was accurate: There would be “greater certainty inherent in a military shopping benefit that did not depend on the annual appropriation process.” This is true because without appropriations, the benefit would *certainly* cease to exist.

We understand CBO’s motivation. They are trying to save money. And, if they want to have a debate, it’s one we gladly take on. Because, on the economics, the value of this system stands tall. But, this Subcommittee - more than any other body-know that there is much more to it. Besides the economic case, there is a compassionate case. And, besides the economic and compassionate case, there is a National security mission case. And, there is a compelling issue of fairness.

Let’s look at the economic case:

- Military families shopping at exchanges and commissaries are exempt from state and local sales taxes. This alone is worth \$1.4 billion.

- Patrons realize savings of nearly \$4 billion at the cash register with the average family of four saving over \$7,000 a year by shopping at these stores.
- There is hundreds of millions of dollars in cost avoidance to the DoD in cost of living allowances in high cost and overseas areas.
- Nearly \$20 billion in infrastructure improvements added to the Government's inventory over the past twenty years.
- The system provides employment for 30,000 military family members adding \$900 million to their pocketbooks.
- Industry partners employ nearly 20,000 family members adding another \$600 million to military household incomes.
- \$500 million is contributed from earnings provided to community morale, welfare and recreation programs with further employment of family members in MWR programs that are paid by these dividends.
- The industry that serves these programs generates thousands of jobs and greatly contributes to the economy of our Nation and the balance of payments.

- The system builds nearly \$600 million in facilities each year generating thousands of construction jobs in the private sector
- Industry members provide manufacturing jobs and the system supports a large number of small businesses that are vital to the future growth of our economy.
- 100,000 jobs for military family members—billions in additional household income

Let's look at the compassionate case:

- Our military coming off fighting two wars and service men and women and their families are under great stress.
- In recent years, there has been over a 70 percent increase in food stamp redemption in these stores as military families struggle to make ends meet
- Military compensation is being squeezed in other areas including pay and health care.
- This system provides much needed care and peace of mind for those deployed and for those left at home.

- A multitude of benevolent causes are supported through this system including USO, Fisher House, military families, scholarships, Veterans jobs, and wounded warriors.
- The system fosters Veteran and wounded warrior hiring.

And, let's look at the National Security Case:

- The military resale system is ingrained in OSD fabric and is not inextricable without a major cost.
- It adapts to force structure and basing changes to the military at a cost to the capital investments that the patrons have made.
- It underpins transportation system, aiding in economies of scale for the shipment of all DoD products to overseas locations.
- The system helps military living off base to maintain ties with installations.
- The resale system support deployed forces, often in forward combat areas with over 95 sites in theater. Many workers in the resale system have deployed in

harms way. This includes tactical exchanges and ship stores ashore and afloat for our forward deployed Navy folks.

- The system has to be all things to all people world-wide 24-7. It is a key element of installation support and a focal point for community well-being.
- The resale benefit helps keep good people in the service aiding in retention—no small contribution considering that it costs \$150,000 to \$200,000 to train a troop and over \$1 million for pilots, doctors, specialists.

If CBO wants efficiencies—we've got them:

Item: DeCA already has greatly reduced its operating budget through many initiatives including nearly \$1 billion in annual cost reductions associated with:

- Consolidation of the commissaries from separate service systems.
- Reduced inventory and warehousing costs from supply chain improvements.
- Closing of nearly 100 stores associated with base closures and realignments stateside and abroad.

Through these major structural changes and myriad on-going efficiency initiatives, DeCA's budget has been contained while costs of other DoD family support programs

have doubled or even tripled. In fact, DeCA has taken nearly \$1 billion in annual costs out of its system over the years in real dollars.

Exchanges have greatly reduced costs and overhead and have been able to greatly reduce costs and keep prices low and earnings high while maintaining a complex and difficult mission of meeting the needs of millions of patrons both at home and abroad—and in many dangerous combat areas. Exchange management is constantly slashing overhead to ensure value to their patrons

And, let's talk about fairness:

Resale patrons not only earned this benefit through their sacrifice in service to the Nation, they have contributed heavily to it. These contributions come in the shape of increased prices they pay at the cash register—five percent on each dollar spent at the commissary and through mark-ups on products sold at the exchanges.

They are – in effect – shareholders with equity in their own system. This equity builds at the annual rate of nearly \$1 billion each year and cumulatively over the past 20 years at nearly \$20 billion. That's \$20 billion that is donated to the Federal property inventory. Effectively, management runs the system but patrons own it and are represented by the respective agency's boards of directors. This is their equity and any suggestion to dismantle the system must take this into account.

They have already sacrificed much of their equity as they assume the capital loss as facilities close in connection with base closures and are asked again to contribute capital to build new stores or expand operations at expanding and realigned bases. This was recently manifested in the announced closure of more bases in Europe, realignment of forces from Okinawa to Guam and Hawaii and re-stationing for forces in Korea. As with the service to their Nation, they step forward, salute and make these contributions. These contributions simply must be factored into any effort to disrupt, dismantle or reshape this system.

ALA is active in support of the benefit

We value and appreciate your support. This Subcommittee, the Administration, the Department of Defense, and the branches of the Armed Services have traditionally been staunch advocates of this benefit. Over the past year and going forward, ALA is working hard to bolster this advocacy. Under the leadership of our past year's Chairman, Mr. Peter Murphy of S & K Sales Co. and the current Chairman, Mr. David Sisk of Procter and Gamble, ALA member companies have stepped forward with their time and resources to advance the resale mission. It is a remarkable effort.

We have established the Coalition to Save Our Military Shopping Benefits. This organization, under the auspices of the ALA is comprised of a group of volunteers who contribute funding and time toward ensuring that patrons and other advocacy groups are galvanized to ensure the expanded use and preservation of the benefit. Joe Olding,

President of Webco General Partnership has pulled together several organizations to ensure patrons are aware of the benefit and what it takes to ensure that it is protected. These organizations include the National Military Family Association, The Fleet Reserve Association, Armed Forces Marketing Council, The Coalition of Military Distributors, National Industries for the Blind, and others. The ALA Board is grateful for their support and advocacy. Every military family and veteran is our partner in this important undertaking. A website has been established – www.saveourbenefit.org -- that promotes the use of the benefit and provides information on any threats to the system.

A major initiative of the Association in the past year has been the commitment ALA and its member companies to hire 25,000 Veterans and family members. At a ceremony on October 21, 2011 at Langley Air Force Base, the President and First Lady praised the Association. President Obama cited ALA for helping the Administration get a full 25 percent to its goal of hiring 100,000 veterans and spouses by October 2013. And, Mrs. Obama said that the ALA commitment was “the largest coordinated effort by the private sector to hire Veterans and family members we’ve seen in years, maybe ever.” This week, we set up a website –www.alajoiningforces.org -- that will provide resources for hiring Veterans and family members including information on tax breaks and incentives passed by the Congress in the Three Percent Withholding Repeal and Job Creation Act of 2011. Here again, we are grateful for all of the companies and organizations that have stepped forward to make this happen. This includes the volunteer work of Ms. Robbie Rich, the Executive Director, ALA-Joining Forces who is working

with the ALA and member companies to help Veterans and family members get good paying jobs in this industry. This was a significant development for the ALA as it represented the first time that the Commander in Chief acknowledged the contributions to the Nation of the military resale agency and industry partnership.

In the coming months, the ALA and the Coalition will be undertaking an economic analysis of the system to document, model, and quantify the multitude of benefits that accrue to the Nation, to the Department of Defense, and to the men and women in uniform and their families. The analysis will be used to counter any economic and budgetary assessments that are put forward that would be used to diminish this benefit. We realize that in these tough budget times, Defense programs are going to be competing for resources. We realize that in addition to the qualitative and compassionate arguments that are made for these benefits, we must also document the contributions from a financial and economic point of view.

Legislative concerns

On the legislative front, we noted with interest the report on Military Resale Participation in Container Deposit Programs included in the Fiscal Year 2013 National Defense Authorization Act. We appreciate the Committees concerns about operational and financial impact on resale programs as a result of these programs. ALA hopes to have an opportunity to provide industry views to DoD on this report to ensure that any findings carefully assess the implications of imposing container restrictions on patrons

and suppliers. Since the report calls for a review and analysis of the impacts of local taxes and fees on the military resale system we think this analysis must be comprehensive.

We appreciate and support the extension of the authority to provide commissary and exchange benefits after separation from service. This authority will provide much needed economic assistance for military members and their families at a very vulnerable time.

We are concerned about the repeal of reporting requirements on restrictions on the sale of merchandise by commissaries and exchanges overseas. We recognize the efficiency in elimination unnecessary or redundant reporting but this report addressed specific impacts when it was introduced. Military people serving overseas must be provided with quality and recognizable name brand American products. These products provide a touch of home for personnel and families scattered around the globe. Any measure that would have the effect of introducing more foreign made products into these stores would diminish this aspect of the benefit. Further, it would affect jobs and American manufacturing at a critical time in our economy.

We also are concerned about a provision that would require the establishment of goals for sustainable products, local food products and recyclable materials in exchanges and commissaries. The military and their families should not be denied privileges and products that are made available to the citizens they are charged to defend. While the Association supports measures that further environmental responsibility, we are

concerned about any measure that would cause exchanges and commissaries to be a laboratory for advancement of policies that are out of the mainstream of American retail availability.

We urge you to:

- Continue your support for funding of commissaries, shipment of American products to our overseas bases, and full support for all authorized categories of morale, welfare and recreation programs.
- Support efforts for an affordable and expedient method for industry partners to have access to military bases. Our objective is one affordable card that is accepted at all bases. It is frustrating that 95 percent of the work needed to solve the base access issue is done. Billions of dollars have been spent issuing cards. All that needs to be done is for DoD to carry it over the finish line by establishing a uniform acceptance policy and making full use of the credentials by verifying identity with electronic readers. We urge you to pursue this program with the Department of Defense and gain from the DoD an understanding of why they have yet to promulgate a consistent and workable solution for allowing industry representatives with an expedited and secure access.
- Continue your support for authorization for appropriations for commissary, exchange and other nonappropriated fund construction at bases that are expanding as a result of global re-stationing and BRAC.

- Support efforts by the exchanges and commissaries to reach out to National Guard and reservists who live in communities where they cannot readily access on-base services.
- Urge the Department of Defense to ensure that military people deployed into war zones are provided as much as is practicable with familiar products and offerings.
- Support expanding the eligibility to use these stores to more Veterans. We need to capitalize on the billions of dollars in investment that taxpayers and military people have made over the years to provide a helping hand to those who now need it most. We urge you to move to provide benefits to a larger group of Veterans and military people returning from multiple overseas deployments and suggest that this benefit be provided to all former military and their families for at least three years. We urge you to give these benefits to 30 percent disabled veterans. The Congress has directed a study of expanding this population shopping privileges in exchanges and commissaries. ALA supports this expansion.
- Remove any restrictions on products and services that may be offered to authorized patrons.
- Ensure that any legislation that is passed to benefit military MWR and resale programs extend to the Coast Guard and the Department of Veterans Affairs where appropriate. Support supply chain initiatives that drive the lowest cost of goods for the military resale system while

recognizing the importance of the vendor/broker/distributor support network that is unique to the military resale system.

- Be vigilant to extend and positive policy enhancements to cover Veterans Canteens and Coast Guard facilities and not allow these programs to fall through the cracks. These programs are integral parts of the military resale benefit, offering vital programs to millions of veterans and Coastguard men and women and their families. Jurisdictional boundaries need to be transcended to ensure that positive policy and legislative changes are extended to these programs.

The critical pillar for these programs is the support for funding stability.

ALA urges Congress to oppose any initiative that would reduce benefits or savings for members, and strongly supports full funding of the benefit in FY 2013 and beyond to sustain the current level of service for all beneficiaries. ALA requests this subcommittee's support in closely monitoring commissary funding and policies and scrutinizing store closures, privatization, staff reductions, or other initiatives that may diminish the scope and quality of the benefit for all beneficiaries.

Given the current fiscal environment and long-term financial challenges of war, ALA continues to express strong concerns about the importance of sustaining vital support services and quality of life programs. Mr. Chairman, no longer do we have to

anticipate that these programs may be at risk, we know from military officials and current news reports that cutbacks in base operation accounts and reduction in base services because of funding shortfalls are real and are expected to get worse.

We know that you share many of our concerns for these programs and we look forward to working with the Subcommittee toward ensuring that these benefits remain viable for our deserving beneficiaries.