



**NATIONAL
MILITARY FAMILY
ASSOCIATION**

Together we're stronger

Statement

of the

NATIONAL MILITARY FAMILY ASSOCIATION

Before the

**Subcommittee on
Military Personnel**

of the

**UNITED STATES HOUSE OF REPRESENTATIVES
ARMED SERVICES COMMITTEE**

January 13, 2016

**Not for Publication Until Released by
The Committee**

The National Military Family Association (NMFA) is the leading nonprofit dedicated to serving the families who stand behind the uniform. Since 1969, NMFA has worked to strengthen and protect millions of families through its advocacy and programs. They provide spouse scholarships, camps for military kids, and retreats for families reconnecting after deployment and for the families of the wounded, ill, or injured. NMFA serves the families of the currently serving, retired, wounded or fallen members of the Army, Navy, Marine Corps, Air Force, Coast Guard, and Commissioned Corps of the USPHS and NOAA.

Association Volunteers in military communities worldwide provide a direct link between military families and the Association staff in the Nation's capital. These volunteers are our "eyes and ears," bringing shared local concerns to national attention.

The Association does not have or receive federal grants or contracts.

Our website is: *www.MilitaryFamily.org*.

Eileen Huck, Government Relations Deputy Director

Eileen Huck became Deputy Director in the Government Relations Department in October, 2012 after previously holding positions in the Youth Initiatives and Development Departments. In her role as Government Relations Deputy Director, Eileen monitors issues relevant to the quality of life of families of the Uniformed Services. Her areas of responsibility include military child care, children's education and Impact Aid; Commissary, Exchange and MWR; state initiatives, to include the Interstate Compact on Educational Opportunity for Military Children; and absentee voting rights. She also represents NMFA on the Military Coalition (TMC) Retired Affairs and Personnel, Compensation and Commissary committees and is chair of the TMC Awards Committee.

Prior to joining NMFA, Eileen volunteered as a case worker with the Navy-Marine Corps Relief Society in Mayport, Florida and served as adviser to the USS HALYBURTON Family Readiness Group. She earned Bachelor's and Master's degrees from Georgetown University and served two tours overseas as a Foreign Service officer. A Navy spouse, Eileen has lived in Virginia, California, Florida, and Rhode Island. She currently resides in Alexandria, Virginia with her husband, CAPT Michael Huck USN, and their two children.

Chairman Heck, Ranking Member Davis, and members of the Subcommittee, the National Military Family Association thanks you for this opportunity to provide testimony on the military resale system, a vital element of the total military compensation package. In recent years, the military resale system has come under increasing scrutiny as the Department of Defense, Congress, and the Military Compensation and Retirement Modernization Commission (MCRMC) have all put forward proposals to reduce commissary appropriations and streamline operations. Our Association understands and appreciates the need for efficiency and fiscal restraint. **However, we urge Congress not to reduce commissary funding or alter its operating structure without first carefully considering the impact on military families – particularly, the risk the savings they enjoy by shopping at the commissary will be reduced or lost.**

Military Families Value the Commissary

Our Association has always contended the value of the commissary is not just in the brick and mortar building on an installation; it is in the **savings** military families realize by shopping there. Research by the Defense Commissary Agency (DeCA) has shown families save an average of 30 percent when they shop at the commissary rather than at civilian grocery stores¹. We recognize the actual savings realized by individual families will vary based on their location and their buying habits. But, the fact remains the commissary's mandate to sell products at cost plus five percent provides service members with the reassurance they will be able to feed their families at a reasonable price wherever they're stationed. While this reassurance is important to all military families, it is especially vital to young families, those stationed in remote or high cost areas, and families living overseas.

Military families recognize the value of this benefit. In April 2015 we posted an article on our website describing some recent proposals regarding commissary funding and asked military families to share their views about the commissary benefit. We received dozens of responses from families eager to tell us how important the commissary savings are to their budgets and to their financial well-being:

"As a spouse at one of the remote locations (29 Palms) I can honestly say taking away or reducing our commissary benefit will impact our finances and food choices. While we have a smaller commissary it has all the basic things we need. It's already closed one day a week and that is hard enough. We didn't ask to be stationed here and punishing us by making us pay more for food to be brought here isn't fair."

"We are a family of six and have been in the military for seventeen years. The Commissary is something we have relied on at every duty station we have been. We are currently stationed in Alaska and use the Commissary and the Exchange on a weekly basis. With the prices in Alaska being higher than what we are used to, the comfort of the Commissary made it easier to make sure I have all I need to feed my family."

"As a military family recently moved from AZ to Southern CA, currently living on my husband's military income alone, the commissary is one of our saving graces. It's the only place we can

¹ DeCA News Release, "New Price Study Validates 30% Savings," January 9, 2014. www.commissaries.com

afford to shop and feed our family on our limited budget. If we are forced to shop at "in town" grocery stores, I'm not sure how we'll get by."

The challenges associated with military life only increase the importance of the commissary benefit. Due in part to frequent military-ordered moves, military spouses face much higher levels of unemployment than their civilian counterparts; research shows there is a 25 percent unemployment rate among military spouses. As a result, military families often find themselves relying on one income. Many of these young military families are eligible for nutrition assistance through the Women, Infants, and Children (WIC) program operated by the Department of Agriculture. For these families, commissary savings allow them to stretch their grocery budgets farther, helping ensure even the most junior service members can afford to feed their families.

In addition to providing savings to families, the commissary is also a major employer of military family members. Nearly two-thirds of commissary employees have a military affiliation². Any proposal to alter commissary operations must take into account the financial well-being of these employees and their families.

Shifting Costs Undercuts the Value of the Commissary Benefit

Reducing the commissaries' appropriation or altering its operations may not directly threaten the stores' physical existence. However, such proposals do risk undermining the value of the benefit by increasing prices and reducing the savings, either intentionally or unintentionally. The most extreme example is the provision included in the Administration's FY16 budget request that would have cut commissary appropriations by more than \$1 billion over three years. The Department suggested making up for the funding shortfall by increasing prices and transferring the cost of shipping goods overseas to commissary shoppers. Such price increases would present special hardship to junior military families and those in remote or overseas locations, who have few shopping options.

Clearly any plan that relies on increasing prices undercuts the value of the commissary benefit for military families. However, cutting the appropriation and relying on revenues to fund commissary operations would have other, unintended consequences, potentially threatening the existence of the system as whole. In 2015, DoD commissioned the RAND Corporation to conduct a study on the impact of price increases at the commissary. Unsurprisingly, the research showed if prices increase, families will shop elsewhere.³ In fact, RAND concluded price increases would actually lead to lower revenues for the commissary. Our conversations with military families consistently confirm RAND's conclusion. Many service members and families travel long distances and bypass more conveniently located stores in order to benefit from commissary savings. If commissary prices increase, it would no longer make sense for them to shop there:

² *Costs and Benefits of the Department of Defense Resale System*, Resale and MWR Center for Research, December 2012, pg. 4

³ Bond, Craig, Julia Pollak, Bernard D. Rostker and Cate Yoon. *The Likely Effects of Price Increases on Commissary Patronage: A Review of the Literature*. Santa Monica, CA: RAND Corporation, 2015.
http://www.rand.org/pubs/research_reports/RR835.html.

"I would seriously reconsider shopping at the commissary if prices increased. This would negatively impact our junior enlisted families in particular."

"The reason I do shop there is because my overall bill is always cheaper compared to when I shop at other stores. I wouldn't shop there if they raised prices, there's no benefit to it."

Any proposal that envisions using commissary revenues to operate the system must consider what will happen if revenues decrease. We fear that faced with lower revenues DeCA would be forced to reduce operating hours, lay off employees, and ultimately close stores in order to cut operating costs. While DoD has expressed a commitment to preserving stores in isolated locations, we wonder at what cost? With lower revenues available to operate the system and yet with the continued need for stores in remote locations and overseas, how much savings will the Department actually realize? More importantly from our perspective, what would be the effect on families?

Allowing contractors to pass the cost of shipping goods overseas on to commissary shoppers places an unfair burden on families living overseas. Our Association has long contended there is a difference between benefits offered to service members and families and expenditures the Department must assume as a cost of doing business. For example, if the Department chooses to station families in remote locations it needs to provide programs and services to ensure those families can enjoy an adequate quality of life. Similarly, if the Department chooses to send service members overseas, it needs to ensure they are able to feed their families affordably. When lettuce costs more than \$10 a bag, as is now the case at commissaries in Guam and other Pacific locations following implementation of a new shipping contract⁴, the Department is failing to meet its obligations to military families. Forcing families to absorb the cost of shipping groceries overseas places an undue burden on families in those locations, who often have few other shopping options.

"In Hawaii, the commissary can be the reason a young family stays solvent. Yes, they get COLA, but at \$7 a gallon for milk, \$35 for a container of formula, that COLA disappears fast."

Finally, it is also important to consider the effect cuts to commissary funding would have on the Exchange system. Although they both serve military families and operate on military installations, the commissaries and Exchanges have completely different mandates and business models. The Exchanges are non-appropriated fund activities and fund most of their operations from profits on the items they sell. Any revenue that exceeds operating cost is used to fund installation Morale, Welfare and Recreation (MWR) programs. The Exchanges are highly reliant on traffic from the commissaries. If increased commissary prices lead military families to shop elsewhere, it is reasonable to assume Exchange sales will drop as well. What will that lost revenue mean for installation MWR programs, which are highly valued by military families?

Consolidation and Privatization: How Would Plans Affect Military Families?

In its January 2015 report, the Military Compensation and Retirement Modernization Commission (MCRMC) recommended consolidating commissaries and Exchanges in a single defense retail operation. While we appreciate the Commission's recognition of the importance of commissary

⁴ "Some Pacific commissary produce prices spike under new contracts," Military Times, December 20, 2015

savings and their efforts to preserve the benefit, we have concerns about the cost and consequences of consolidation. As noted above, the missions and operating structures of the two systems are quite distinct; in addition, the Exchange itself is actually comprised of three different systems operated by the Service branches. Previous attempts to consolidate the Exchange systems have failed due to logistical complications and Service objections. We are skeptical it is possible to combine the systems in a way that would maximize efficiency while still preserving the savings for military families. And again, we have to ask what would happen if insufficient revenues are generated to support a consolidated system? Our skepticism about the viability of consolidating the entire DoD resale system into one entity is justified, we believe, because of the history of failed efforts to consolidate the three Exchange systems.

Other proposals in recent years have suggested reducing the commissary appropriation by privatizing its operations. We note the MCRMC reported it investigated this option and concluded that no private entity would be willing to take on commissary operations while committing to preserve the savings. We agree with the Commission that privatizing the commissary runs the risk families will face higher prices and/or reduced operations as a private entity seeks to maximize revenue.

The FY16 NDAA authorized DoD to establish pilot programs that would evaluate the feasibility of various changes to commissary operations, including privatizing part or all of the system. We thank Congress for its emphasis on preserving savings for military families in this provision. However, the military resale system is highly interdependent; changes to one element of the system may have unintended consequences that will affect other parts. For example, if one or more high volume store is privatized will DeCA still benefit from economies of scale that allow vendors to sell goods at low cost? What would removing those high volume stores from the system mean for smaller stores or those in remote locations?

Most Recent DoD Proposal Raises Questions

In December, 2015 the Department released a fact sheet outlining its plans to “optimize” the Defense resale system. We are gratified the Department acknowledges the importance of the commissary benefit and states its commitment to preserving the value of the benefit for military families. However, we have concerns about how the Department’s plans will be put into practice and how military families will be affected by efforts to optimize commissary operations. Specifically, we ask Congress to require DoD to provide answers to the following questions:

- *Definition of “tangible and intangible” benefits.* How does the Department intend to measure the benefits of the commissary system as currently constructed, and what metrics will it use to ensure any changes do not lead to a reduction in those benefits?
- *Composition of Defense Resale Business Optimization Board.* Does the Department intend to seek out stakeholder views before implementing any changes recommended by the Board?
- *Plans for “pricing flexibility.”* As noted above, changing the traditional “cost plus five percent” pricing system has already negatively impacted families living in Guam. How will the Department implement price flexibility while ensuring families continue to receive the full value of the commissary benefit?

In short, we are asking the Department for **transparency in its decision-making process**. Military families need and deserve the assurance their well-being is prioritized before any aspect of commissary operations is changed.

We acknowledge it is difficult to accurately assess the value of the commissary to the military community as a whole without detailed information about who is using the commissary and what they choose to purchase. Through our conversations with military families we know many of them highly value the commissary benefit; the MCRMC came to the same conclusion. However, there is little readily-available data detailing for example whether patrons are predominantly young families, more senior personnel, or retirees. Ironically, we know DeCA has this information as every shopper has to scan his or her ID card when making a purchase. We ask Congress to require DoD to release data on commissary shoppers so military families have the reassurance any changes to the system help those who most rely on the benefit.

In closing, we note that maximizing revenue has never been a priority for the commissary – nor should it be. The mission of the commissary is to provide military families with a vital non-pay benefit: the savings they realize by shopping there. While it is always possible to find efficiencies, we would argue DeCA has fulfilled its essential mission effectively and well. **We ask before making any changes to the commissary's operations, Congress first consider the impact on military families, many of whom rely on commissary savings to help ensure they are ready and able to support their service member.**