



AMERICAN LOGISTICS ASSOCIATION

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August 25, 2022

The Honorable Jack Reed
Chairman
Committee on Armed Services
United States Senate
Washington, D.C. 20510

The Honorable Jim Inhofe
Ranking Member
Committee on Armed Services
United States Senate
Washington, D.C. 20510

The Honorable Adam Smith
Chairman
Committee on Armed Services
House of Representatives
Washington, D.C. 20515

The Honorable Mike Rogers
Ranking Member
Committee on Armed Services
House of Representatives
Washington, D.C. 20515

Dear Chairman Reed, Chairman Smith, Ranking Member Inhofe, and Ranking Member Rogers:

As you prepare for deliberations on the FY 2023 National Defense Authorization Act, we urge your consideration of our views.

H.R. 7900 greatly enhances the commissary program's ability to deal with military hunger and food insecurity by recognizing and amplifying the commissary's purpose and potential and we applaud the added commissary funding that is vital to dealing with this pressing DoD challenge.

However, several provisions in H.R. 7900 would have a negative effect on the viability and operations of the nonappropriated fund activities of the Department of Defense including exchanges. Overall, Congress should consider "scoring" impacts to these programs from legislative proposals that potentially result in a substantial negative financial impact on nonappropriated fund entities of the Department of Defense and that are not imposed on similar commercial businesses. This scoring should be done prior to the implementation of any law or regulation promulgated by the Federal Government that results in (1) denying military personnel and their families' products that are widely available in commercial businesses, or (2) or has a substantial negative financial impact on nonappropriated fund entities of the Department of Defense that are not imposed on similar commercial businesses. These financial impacts have direct resource implications for the DoD.

ALA opposes Section 631, HR 7900, Prohibition on Sale of Chinese Goods in Commissary Stores and Military Exchanges. This provision is a recipe for the failure of the military's exchange system, a critical cornerstone in the DoD's ability to provide a base structure to care for its personnel and their families.

If enacted, this provision would deprive military personnel and families of products that are widely available to other American citizens. Congress has not chosen to ban these products from

off-base retailers and military personnel and their families should be entitled to at least the same rights and privileges as the citizens they defend.

Impact of this provision would be devastating to military exchanges which are a cornerstone of base support services. Exchanges provide much needed products and services for millions of military personnel and their families and constitute a major aspect to the military family support ecology. And operations at large bases enable provision of services at small and remote locations that would otherwise be unsustainable.

Exchanges are the golden goose that keeps on giving. Earnings from these operations provide billions of dollars to support vital community programs and build new exchange facilities. This provision would essentially eliminate their capability to generate any earnings and kill their building programs. In fact, if CBO were required to dynamically score the impact on the DoD from this provision, it would approximate \$2 billion a year in lost proceeds and capabilities to the Department.

Other impacts would include:

- Depriving military family members of hundreds of millions of dollars in sales tax savings that they enjoy by virtue of their military service.
- Empty shelves.
- Tens of thousands of job losses that disproportionately impact military spouses, Veterans, and dependents with huge costs for severance.
- Crippling of ability to provide exchanges support services in combat zones and forward-deployed areas.
- Crippling of the exchange ability to provide lunches at DoD schools, military uniform support overseas bakeries and water plants.

Congress needs to nurture this program rather than harm it. This is just the latest of headwinds to hit the exchange operations. Just as exchange program managers come up for air, they are hit with yet another punch to the gut. Just recently, we've seen the impact of minimum wage provisions not mandated for off-base businesses that are costing the exchanges hundreds of millions of dollars. And this is amid exchanges having to cope with the pandemic and the associated COVID costs to keep employees and military patrons safe. If Congress wants effective government, it needs to reward successful government programs. The exchanges are among the most successful and efficient programs in government.

The conferees need to strike this provision.

ALA opposes Section 2814 H.R. 7900. Privatization of Navy and Air Force Transient Housing. DoD is already undergoing reforms to these programs that will ensure their modernization and eliminate any reliance on appropriations.

The CBO analysis of the direct spending provisions of this measure says it all: *“CBO considers military lodging run by private entities to be a governmental activity that uses a private-sector financial intermediary to serve as an instrument of the federal government. In CBO's view, investments by those entities to improve the lodging facilities should be treated as governmental expenditures because most of the income for the project would be paid from appropriated funds such as per diem payments to service members. Because those investments would not be*

contingent on the availability of appropriated funds at the time they are made, CBO classifies them as direct spending. Using information on the reported costs to improve privatized Army lodging, CBO estimates that enacting section 2814 would increase direct spending by more than \$5 billion in the 10-year period beginning in 2033.”

- Transient housing is an integral part of the Air Force, Navy, and Marine Corps community support programs.
- The DoD is actively involved in a comprehensive review of these programs to determine the best way to operate lodges.
- The GAO cited that the “All-NAF” business model, which is like the Army’s privatized model, prohibits the use of appropriations. And the GAO raised serious questions about the financial viability and cost estimates of the Army’s privatized model.
- Overseas lodge operations rely on the support bases of operations located in the United States.

This provision is just a cost transfer to the taxpayer and the troops. Instead of pushing for privatization of Air Force, Navy, and Marine Corps lodging, the DoD would be better served if Congress directed a revaluation of the Army’s privatization program and the impact on per diem payments to soldiers and their families and the feasibility of in-sourcing the Army lodges as opposed to outsourcing the lodges of the other service branches.

ALA supports the \$750 million increase to the Defense Commissary Agency Working Capital appropriation included in H.R. 7900. Military hunger and food insecurity has been a major issue for years and most recently, hyper-inflation in grocery products has made the situation worse.

This committee action hits the military hunger issue squarely. In H.R. 7900, the Congress has rightfully recognized that it doesn’t need to create new and untested program to deal with military food insecurity, it merely needs to turn up the knobs and leverage a tested, effective, and proven system for getting high quality and cost-saving food to the troops.

The commissary program was created to deal with DoD food insecurity. Years of Congressional and DoD support paid off during the pandemic as vital products continued to flow despite multiple supply chain barriers presented by the spread of COVID and ensuing supply chain difficulty. The program was there for our military families, and its employees showed up for work despite COVID uncertainty.

And this investment by the American people in the commissary program once again will pay dividends in the DoD’s efforts to deal with food insecurity and inflation. This program has the supply chain, infrastructure, and ability to directly get to the issue of food inflation and insecurity.

The Department of Defense underscored the role of commissaries in dealing with food insecurity in its July 2022 report *Strengthening Food Security in the Force: Strategy and Roadmap* and recognized how the commissary program is on the vanguard of the food insecurity fight. Indeed, ALA has also been on the front lines of this effort with many member companies pitching in to help military families deal with food insecurity through massive food donation programs.

The \$750 million commissary boost will enable the DoD to turn up the knob on the existing commissary benefit and deliver vital savings to the day-to-day needs of financially distressed servicemen and women and their families. Outlays in future years could be indexed to food inflation to ensure a consistent and high level of savings.

The increased funding would avoid forcing DoD to reach into patrons' pockets to finance operating shortfalls of the agency charged with delivering grocery savings to the military. It would boost the ability of commissary program management to continue its commendable efforts at improving benefit delivery.

The increased funding would re-establish the commissary program as a benefit and eliminate the tension cited by the 2022 NDAA-directed GAO report that cited tension between whether the need to increase prices to patrons to fund the management of the program and the need to provide maximum savings to patrons, an imperative made more urgent by food inflation.

Prior to 2017, commissaries offered food to patrons at the cost charged to the commissary by vendors, eliminating any price markup on food and providing savings for military families. In 2017, the Department of Defense started increasing prices above the price paid to the vendor to offset the operating costs of commissaries.

The \$750 million increase would result in billions of dollars in additional savings to commissary beneficiaries during the inflationary times and boost grocery savings by nearly 15 percent, providing a vital financial injection into the most distressed and food insecure military families. Measures could include:

- Putting lead directly on the food savings target by using their vast personnel data capabilities to identify financial distressed military families and provide them with an added discount on their commissary rewards card.
- Suspending the five-percent surcharge on commissary purchases to enable additional savings until grocer inflation subsides.
- Targeting of added funding to savings targeted to critical household staples such as baby food and nutritional items.
- Underwriting the cost of commissary delivery to get discounted food products to hard-pressed beneficiaries with limited mobility and to troops in the barracks.
- Underwrite the capability to expand distribution centers to enable forward buys of products as an inflation hedge.
- Underwriting the ability of the commissary program to get products to guard and reserve at isolated locations and make underserved areas a mission focus for the commissary program.
- Enhancing the ordering system and personnel to ensure product shelf availability.

Modify Section 5702. Minimum wage for Federal contractors. This provision would codify Executive Order 14026. Nonappropriated fund programs of the Department of Defense are financed primarily from revenue derived from mark-ups of products and services to military personnel and their families. Personnel costs have a direct effect on the costs of running these programs. The executive orders on minimum wage for federal workers and contractors falls heavily on these nonappropriated fund entities and an constitutes an indirect tax to military and their families. The executive order on minimum wage for federal workers (EO 14003) already

cost NAFIs hundreds of millions of dollars per year in direct wage hikes and in wage compression hikes, forcing them to absorb the cost in their operations and diminishing their ability to finance capital expenditures and forcing the increase of prices to the troops. Further, the Department of Labor regulations implementing Executive Orders 14003 and 14026 applies the minimum wage to concessionaires of the NAFIs as well, reducing licensing and concession revenue and increasing prices to the troops. While the DoD recognized this impact and saw fit to provide some relief from appropriations during FY 2022 from the earnings of products and services, this funding only covered part of one year of costs and the likelihood of funding offsets for future years is not by any means guaranteed. ALA urges the conferees to modify this section to require DoD to calculate the full cost of this executive order to the nonappropriated fund instrumentalities and mandate reimbursement from appropriations for any incremental costs to NAFIs in implementing these executive orders.

Oppose Sec. 1107 H.R. 7900, Inflation Bonus Pay for Certain Departments of Defense Civilian Employees. This section is another unfunded mandate for nonappropriated fund programs of the DoD. Military exchanges and certain MWR programs are self-funded. These programs already are coping with the Federal mandate on a \$15 minimum wage and wage rates already meet or exceed prevailing rates in nearly all 50 states—some by as much as 50 percent. The impact of this provision on nonappropriated fund programs should be scored by CBO or GAO and Congress should allocate funding to these programs to enable them to cope with the higher costs.

Support Sec. 579J, H.R. 7900, Report on Effects of Inflation on Families of Members of the Armed Forces. Inflation, particularly for groceries and essential needs, have severely impacted military families. The commissary and exchange programs exist to help families cope and the report should include efforts by DoD to leverage and enhance these programs to assist families in coping with inflation.

Support Section 626, H.R. 7900, Hunger Among Military Families Data Collection; Training; Report. This provision calls for designation of an individual to assist members at installations on referring servicemembers and dependents to Federal nutrition assistance programs. ALA believe that the DoD would be well-served to include with this report efforts to inform eligible commissary beneficiaries including veterans on how to avail themselves of the commissary benefit. Further, the data collection effort should include determining personnel who are accessing their commissary benefits and determining methods and procedures to encourage access to the commissary benefit to curb hunger in the armed forces.

ALA commends and supports language in the report accompanying the Senate Armed Services Committee mark-up of the 2023 NDAA citing the inflationary strain being placed on servicemembers and their families and the impact of rising prices on the revenue, profits, and operations of the military exchange and commissary programs. We urge that the Secretary of Defense, in the mandated report to the HASC and SASC include Administration and Congressional actions that have impacted the exchange and commissary programs to cope with inflation and ensuing impact of inflation on patrons of these entities.

ALA commends and supports language in the House Report 117-397 accompanying H.R. 7900 on Labeling Post Exchange and Commissary Benefits on Veteran Health Identification Cards. Commissary and exchange benefits can greatly assist disabled veterans in

coping with inflation and helping make ends meet. The House effort to promote enhancing the Veterans Health Identification Card to note exchange and commissary benefit entitlement will go a long way to ensuring access and awareness of these benefits.

ALA commends and supports language in the House Report 117-397 accompanying H.R. 7900 on Department of Defense Basic Allowance for Subsistence and Food Management.

The GAO Report 22-103949 rightfully notes that the Department needs to better track dining hall usage. Far too many military personnel are not able or are unwilling to take full advantage of their food subsistence benefits due to poor food quality and accessibility on military installations. Congress has directed efforts to improve quality and availability through food transformation and the Secretary of Defense has committed to providing a report on these mandated food transformation efforts by October of 2022 to include increased use of meal cards that are redeemable at multiple locations on the installation. ALA looks forward to working with the Congress and the DoD in ensuring that installation food offering quality is improved so that all military personnel can take full advantage of their subsistence benefits with multiple quality healthy and nutritional food offerings.

We thank you for your continuing support of these vital programs and respectfully ask your consideration of our views.

Sincerely,

A handwritten signature in black ink, appearing to read 'Stephen Rossetti', written in a cursive style.

Stephen Rossetti
President