[H.A.S.C. No. 111–22]

MILITARY RESALE AND MORALE, WELFARE AND RECREATION OVERVIEW

HEARING

BEFORE THE

MILITARY PERSONNEL SUBCOMMITTEE

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

HEARING HELD
MARCH 12, 2009

U.S. GOVERNMENT PRINTING OFFICE

51–107 WASHINGTON : 2010

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

MILITARY PERSONNEL SUBCOMMITTEE

SUSAN A. DAVIS, California, *Chairwoman*

VIC SNYDER, Arkansas
LORETTA SANCHEZ, California
MADELEINE Z. BORDALLO, Guam
PATRICK J. MURPHY, Pennsylvania
HANK JOHNSON, Georgia
CAROL SHEA-PORTER, New Hampshire
DAVID LOEBSACK, Iowa
NIKI TSONGAS, Massachusetts

JOE WILSON, South Carolina
WALTER B. JONES, North Carolina
JOHN KLINE, Minnesota
THOMAS J. ROONEY, Florida
MARY FALLIN, Oklahoma
JOHN C. FLEMING, Louisiana

MICHAEL HIGGINS, *Professional Staff Member*
JOHN CHAPLA, *Professional Staff Member*
ROSELLEN KIM, *Staff Assistant*

CONTENTS

CHRONOLOGICAL LIST OF HEARINGS

2009

Page

HEARING:

Thursday, March 12, 2009, Military Resale and Morale, Welfare and Recreation Overview 1

APPENDIX:

Thursday, March 12, 2009 27

THURSDAY, MARCH 12, 2009

MILITARY RESALE AND MORALE, WELFARE AND RECREATION OVERVIEW

STATEMENTS PRESENTED BY MEMBERS OF CONGRESS

Davis, Hon. Susan A., a Representative from California, Chairwoman, Military Personnel Subcommittee 1

Wilson, Hon. Joe, a Representative from South Carolina, Ranking Member, Military Personnel Subcommittee 2

WITNESSES

Baker, John B., Director, Fleet and Family Readiness, Commander, Navy Installations Command 10

Bianchi, Rear Adm. Robert J., USN, Commander, Navy Exchange Service Command 5

Gorman, Richard, Chief Operating Officer, U.S. Army Family and Morale, Welfare and Recreation Command 8

Larsen, Timothy R., Director, Personal and Family Readiness Division, Manpower and Reserve Affairs Department, Headquarters, U.S. Marine Corps 7

Milam, Charles E., Director of Air Force Services, Headquarters, U.S. Air Force 11

Myers, Arthur J., Principal Director, Military Community and Family Policy, Office of the Under Secretary of Defense (Personnel and Readiness) 3

Sakowitz, Philip E., Jr., Director and Chief Executive Officer, Defense Commissary Agency 7

Thurgood, Maj. Gen. Keith L., USAR, Commander, Army and Air Force Exchange Service 4

APPENDIX

PREPARED STATEMENTS:

Baker, John B. 160

Bianchi, Rear Adm. Robert J. 87

Davis, Hon. Susan A. 31

Gorman, Richard 139

Larsen, Timothy R. 112

Milam, Charles E. 181

Myers, Arthur J. 34

Sakowitz, Philip E., Jr. 99

Page

PREPARED STATEMENTS—Continued
Thurgood, Maj. Gen. Keith L. 69
Wilson, Hon. Joe 33

DOCUMENTS SUBMITTED FOR THE RECORD:
[There were no Documents submitted.]

WITNESS RESPONSES TO QUESTIONS ASKED DURING THE HEARING:
[There were no Questions submitted during the hearing.]

QUESTIONS SUBMITTED BY MEMBERS POST HEARING:
Mrs. Davis 217

MILITARY RESALE AND MORALE, WELFARE AND RECREATION OVERVIEW

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
MILITARY PERSONNEL SUBCOMMITTEE,
Washington, DC, Thursday, March 12, 2009.

The subcommittee met, pursuant to call, at 1:00 p.m., in room 2212, Rayburn House Office Building, Hon. Susan A. Davis (chairwoman of the subcommittee) presiding.

OPENING STATEMENT OF HON. SUSAN A. DAVIS, A REPRESENTATIVE FROM CALIFORNIA, CHAIRWOMAN, MILITARY PERSONNEL SUBCOMMITTEE

Mrs. DAVIS. Good afternoon, everybody. Today the subcommittee will turn its attention to the management of military resale and moral welfare and recreation, or MWR, activities. These are the nonappropriated fund operations that are so essential for the quality of life of service members and their families.

There is much to celebrate within the military resale community as commissary and exchange sales are increasing and, in these very troubling economic times, they are fulfilling their promise to provide military patrons with quality goods and services with savings. I certainly want to applaud the many innovations that you talk about in your statements today, because we see some really quality changes taking place, that particularly help the men and women that we serve and we always want to be focused on that, you know, what's best for them not always necessarily our ease, but what's best for them.

The MWR communities are continuing to work hard to provide the facilities and services that are so critical for the building of the military communities on our military installations. But the subcommittee continues to be concerned about reports that indicate that MWR programs have fallen victim to cuts in appropriated fund support at the installation level. The subcommittee is also very concerned that the majority of our nonappropriated fund activities are not confident that they have the recapitalization resources needed to maintain the quality of their facilities at the high level that we have come to expect.

A related concern is the apparent reluctance of the services to use appropriated military construction funding to support construction of military resale and MWR facilities at installations impacted by base realignment and closure and force restationing.

While we have an excellent panel today to help us explore these and a number of other issues, and I would certainly request that all the witnesses keep their oral opening statements to three min-

utes. I know that is very difficult to do. If you can do that, we certainly can appreciate it, and, without objection, all written statements will be entered into the record.

Mr. Wilson, do you have some opening comments?

STATEMENT OF HON. JOE WILSON, A REPRESENTATIVE FROM SOUTH CAROLINA, RANKING MEMBER, MILITARY PERSONNEL SUBCOMMITTEE

Mr. WILSON. Thank you, Madam Chairman. This subcommittee has had a long standing commitment to improve the quality of life of men and women of the Armed Forces and their families. One way we have shown that commitment is through efforts to sustain and even expand MWR commissary and exchange benefits. We must continue that aggressive approach. Our witnesses today have diverse responsibilities that span the complex world of MWR installations, commissaries and exchanges. They also face difficult challenges.

Given the wartime high operations tempo of the Armed Forces today, the need for the organizations represented here to provide their product, quality of life to their customers has never been greater. It should also be pointed out we have never had a higher percentage of military personnel who are married with families and so what you are doing is just so crucial for the families to have a wonderful quality of life for persons serving in the military.

Moreover, the demand of their customers active, guard, reserve, retirees, and their families for quality of life improvements and expansion have the benefit have never been higher. I sincerely appreciate the effort by our witnesses to provide wider opportunities for reserve and national guard personnel here in the United States to take advantage of the commissary and exchange benefits. I am also thankful for the leadership exemplified by our witnesses today that have worked continuously to provide support to all military personnel, their families and retirees.

When I was on duty myself and now as a veteran, I know firsthand of your providing modern people friendly facilities. The highest compliment I can give all of you is that my wife and my mother-in-law, and she is the widow of a veteran, are very satisfied customers of the commissary and Post Exchange (PX) at Fort Jackson, South Carolina, and they tell me every time they visit of the first class staff who are always helpful.

So, Madam Chairman, I join you in welcoming our witnesses, and I look forward to their testimony.

[The prepared statement of Mr. Wilson can be found in the Appendix on page 33.]

Mrs. DAVIS. Thank you. Thank you, Mr. Wilson, and now I would like to introduce our panel.

Mr. Arthur Myers, principal director of the Military Community and Family Policy, Office of the Under Secretary of Defense for Personnel and Readiness. And we know that you are a familiar face in a new position. Congratulations and welcome to you.

Major General Keith Thurgood, Commander, Army and Air Force Exchange Service (AAFES). And General, I understand that this may be your last time that you will appear before us as you are returning to civilian life.

General THURGOOD. Yes, ma'am.

Mrs. DAVIS. So we wish you the best and thank you very much for your service.

Rear Admiral Robert Bianchi, Commander, Navy Exchange Service Command.

Mr. Philip Sakowitz, Director and Chief Executive Officer for the Defense Commissary Agency (DeCA).

Mr. Timothy Larsen, Director, Personal and Family Readiness Division, Manpower and Reserve Affairs Department Headquarters, U.S. Marine Corps.

Mr. Richard Gorman, Chief Operating Officer, U.S. Army Family and Morale, Welfare and Recreation Command.

And Mr. John Baker, Director of Fleet and Family Readiness, Commander, Navy Installations Command. Thank you very much. I keep going back and forth.

And Mr. Charles Milam, Director of Air Force Services Headquarters, U.S. Air Force.

Mrs. DAVIS. Thank you all very much for being here, and we will start with you, Mr. Myers.

[The prepared statement of Mrs. Davis can be found in the Appendix on page 31.]

STATEMENT OF ARTHUR J. MYERS, PRINCIPAL DIRECTOR, MILITARY COMMUNITY AND FAMILY POLICY, OFFICE OF THE UNDER SECRETARY OF DEFENSE (PERSONNEL AND READINESS)

Mr. MYERS. Chairwoman Davis, Representative Wilson and distinguished members of the subcommittee, for many years I have welcomed the opportunity to appear before you and discuss military morale, welfare and recreation resale programs in the Air Force. However, I am here this year in a new capacity, representing the Secretary of Defense (SECDEF) and all the men and women of the Armed Forces. On their behalf, let me thank you for your strong support of programs and benefits for the military community. You are recognized within the Department of Defense (DOD) for your service to the American people and commitment to soldiers, sailors, airmen, marines and their families.

I also need to salute the subcommittee for their hardworking and dedicated staff members who work so closely with all of us throughout the year. Debra Wada, Mike Higgins, Dave Kildee, Craig Green, John Chapla and Jeanette James, special thanks to all of you.

You can rest assured that your commitment to quality life in the military is stronger than ever. Our senior civilian and military leaders understands as does the subcommittee that the success of the military mission depends on the well-being of individual service members who are our number one weapons system, and of course, their families.

There is no question that the commissary exchange and MWR programs directly impact the well-being of our people and the retention and readiness of our force. Today the resale MWR programs face unprecedented changes within the Department, our society and the business world. Their employees, and especially the

leaders representing all of them here today, we need to recognize them for their hard work dedication and professionalism.

Working closely with our industry community partners their creative solutions have led to larger role force these programs and new partnerships promote military community and family support for the total force. I have written my testimony for the record, but like to highlight some areas four your consideration.

Several years ago, the Congress granted temporary authority for minor military construction of child development centers. To meet our goals for child care and to keep our members fit to fight and win, we require similar authority for fitness centers and for child care facilities to 12 years of age. To complete the work underway, we need to extend this authority through fiscal year 2012 and increase the project threshold to $15 million.

We also need to eliminate barriers to hiring practices key to expanding our partnership with community providers of child care. Finally, we must address our trading partner concerns about payments for goods and service and access to our military installation.

Thank you again for your strong support of the military members and their families and for giving us the flexibility to deliver the benefits within today's operating budget and realities. It is a key ingredient in the recruitment retention, and most importantly, the readiness of our military personnel and their families.

I would be happy to respond to any questions you may have.

Mrs. DAVIS. Thank you.

[The prepared statement of Mr. Myers can be found in the Appendix on page 34.]

Mrs. DAVIS. General Thurgood.

STATEMENT OF MAJ. GEN. KEITH L. THURGOOD, USAR, COMMANDER, ARMY AND AIR FORCE EXCHANGE SERVICE

General THURGOOD. Madam Chairman, Representative Wilson and members of the subcommittee, it is my privilege to appear again to update you on the essential services and support AAFES provides to the men and women of the Armed Forces and their families throughout the world.

In 2008, we set a goal to enable AAFES to win the future by redefining our valued proposition to be our customer's first and best choice for quality merchandise and service and as you know increased selection is one key to our future success, and I thank you for your support in relaxing the merchandise restrictions on televisions, diamonds, and finished furniture. In my brief remarks this morning, I would like to highlight a few AAFES initiatives that I believe represent the tremendous support AAFES offers our military members and their families.

AAFES deploys mobile field exchanges providing immediate support for our conflict areas abroad. We operate today 89 PXs, 228 name brand fast food outlets and about 600 concession operations throughout Operation Enduring Freedom (OEF) and Operation Iraqi Freedom (OIF), and help troops keep in touch with home through our 72 calling centers and 12 Internet cafes.

We have taken the lessons learned from the war zone and are using them to serve our wounded warriors. AAFES personal shoppers look after the immediate needs of wounded troops evacuated

from Afghanistan and Iraq and those in rehabilitation back home who are unable to leave the hospital. We also support their transition to civilian life as AAFES participates in the DOD sponsored hiring heroes program and to date has hired 92 wounded warriors, 8 in the last month, and we partner with numerous other government agencies that assist wounded veterans to locate employment.

AAFES is taking care of military families through a variety of programs designed to enrich their quality of life. Twenty-five percent of our approximately 45,000 thousand associates identify themselves as military spouses and dependents making AAFES the largest employer of military family members in the Department of Defense.

AAFES keeps deployed troops connected with loved ones back home by offering a low rate with the military exchange global prepaid phone cards, and to help ease the challenges of family separations, AAFES is putting the finishing touches on the Patriot Family Deployment Passbook, a comprehensive book that offers discounts and money saving ideas for those families due to deploy.

We know these are troubled financial times so AAFES is helping the budget conscious military shopper stretch every single dollars. An independent market basket surveyed confirms that AAFES is a one stop solution for thrifty military shoppers offering an overall savings of over 20 percent compared to the competition, and when you add the no tax, it is almost 30 percent better.

Our customers are increasingly reaching for the value in quality of private label merchandise, including the exchange select products we offer.

I would like to offer my personal thanks to all of our AAFES associates who make a difference every single day but especially to the more than 4,500 associates who deploy to the Middle East, some more than once, in support of our troops and their families.

I believe AAFES is on the right course to maintain a viable position in the market and to be a combat multiplier for our formation, our customer and our military communities wherever we serve.

Again, I thank you for all the support you have given AAFES over the years. The entire military resale community and system, and most importantly, the brave and men and women in our Armed Forces.

Thank you and I look forward to your questions.

[The prepared statement of General Thurgood can be found in the Appendix on page 69.]

Mrs. DAVIS. Thank you, Admiral Bianchi.

STATEMENT OF REAR ADM. ROBERT J. BIANCHI, USN, COMMANDER, NAVY EXCHANGE SERVICE COMMAND

Admiral BIANCHI. Chairwoman Davis, Representative Wilson, and distinguished members of the subcommittee, it is my privilege to appear before you today representing Navy Exchanges Command (NEX).

Taking care of military family is what Navy exchange is all about. Deployments, long separations and recurring moves are just a few of the challenges our military families face. When our families know they are being taken care of, readiness recruitment and retention are positively impacted.

Last year 93 percent of Navy spouses ranked Navy exchanges as the most important and most used of all Navy quality of life services. In today's challenging economic environment, we know our exchanges can provide the savings our military families are looking for. Based on their needs, we developed several new pricing strategies last year with a focus on our junior enlisted families. Our 2008 savings are up 3 percent from last year with an average of 23 percent savings and that doesn't include sales tax savings.

We have a unique business model. We don't have a niche market. Rather we exist to serve and appeal to all authorized patrons. We provide a wide range of both merchandise and services. For example, our telecommunications program provides an important link for deployed sailors to phone home. Our Navy lodges support families with Permanent Change of Station (PCS) moves with affordable quality lodging. We provide school lunches at several overseas DOD schools, and through the support of our industry partners, we bring celebrities and events to our Navy families at bases around the world.

We are expanding our merchandise availability through online channels, our NEX paper flyer is now digital. We use mobile text message advertising, and we even have 5,000 fans on our Facebook page. NEX is environmentally conscious, providing more green products for our customers and employing energy conservation technology in our facilities. In fact, tomorrow Congressman Nye will be participating with me as we cut the ribbon on the Navy's second E–85 flex fuel facility at the Navy exchange Oceana, which will be available for public use.

As you know, Navy exchanges are operated predominantly with on appropriated fund receiving only limited appropriated fund support primarily for oversea transportation of goods even in today's uncertain retail environment our fiscal and financial position and capitalization programs remain strong.

The Navy exchange strives to meet the needs of our deployed war fighter. Our ship store program takes care of our sailors while they are at sea. Our exchanges at Bahrain and Djibouti support those serving in remote locations, and we proudly support our wounded warriors.

With assistance from our industry partners and MWR, we provide many events and donations targeted toward their specialized needs. We also actively partner with industry, MWR, Navy, and the other military resale activities and have executed many successful cooperative initiatives designed to complement our operations.

In closing, I would like to assure this committee that the Navy Exchange Service Command is a military organization laser focused on our mission to support our Navy readiness recruitment and retention. On behalf of our dedicated sailors and their families, I thank you for your support.

Mrs. DAVIS. Thank you.

[The prepared statement of Admiral Bianchi can be found in the Appendix on page 87.]

Mrs. DAVIS. Mr. Sakowitz.

STATEMENT OF PHILIP E. SAKOWITZ JR., DIRECTOR AND CHIEF EXECUTIVE OFFICER, DEFENSE COMMISSARY AGENCY

Mr. SAKOWITZ. Madam Chairman and members of the subcommittee, it is my pleasure to appear before you to provide the update of the Defense Commissary Agency's performance this past year. Since arriving there last June, I am ecstatic with the Agency's performance both as a business and effectively delivering the commissary benefit to all those who proudly serve our Nation, and in its efficiency as a government entity. In these trying economic times, the commissary benefit is more valuable than ever. We have another impressive year in 2008 with sales continuing to grow, the cost of delivering the commissary benefit, both in actual and in constant fiscal year 2000 dollars, is coming in under budget and customer service and patron saving levels are remaining strong.

With today's strain on individual budgets, patrons are making the right choice by increasing their commissary shopping. As shown by both our dollar sales figures and the fact that our customer transactions are up 2.6 million visits our service members are relying on the commissary benefit to make ends meet.

This year's savings of 31.1 percent amounts to nearly $3,400 per year that an E–6 with a family of four saves by purchasing their grocery items at their commissary and a new private entering the service saves nearly $1,200.

Of course, attaining this level of savings would not be possible without the tremendous support our extended team of trading partners, the manufacturers, distributors and brokers, continues to provide in the pricing, promotion and in-store products. Their support of military families and their commissary benefit remains stupendous, and I would like to take this opportunity on behalf of DeCA and the commissary patrons everywhere to publicly acknowledge and thank them.

DeCA continues to outperform many governmental agencies and in many areas has been held up as a model government agency. I am pleased to report that for 7th year in a row, independent auditors have given our financial statements an unqualified opinion and DeCA continues to be in the top three in Department of Defense for implementing the internal controls requirements.

DeCA's performance has been stellar, and I can only hope to lead it to new heights as we continue to demonstrate to all of our patrons that the commissary is worth the trip.

I will be happy to answer any questions you may have of me at this time.

Mrs. DAVIS. Thank you very much.

[The prepared statement of Mr. Sakowitz can be found in the Appendix on page 99.]

Mrs. DAVIS. Mr. Larsen.

STATEMENT OF TIMOTHY R. LARSEN, DIRECTOR, PERSONAL AND FAMILY READINESS DIVISION, MANPOWER AND RESERVE AFFAIRS DEPARTMENT, HEADQUARTERS, U.S. MARINE CORPS

Mr. LARSEN. Thank you. Chairwoman Davis, Representative Wilson and distinguished subcommittee members, thank you for the opportunity to represent Marine Corps Community Services

(MCCS) which shares the responsibility with unit commanders for taking care of marines and their families.

The demands of today's military lifestyle impacts both the individual marine and their families. This lifestyle is challenging, particularly for young marines with families who often find that they are coping with separation, relocation, sometimes isolation or financial difficulties. They deserve the highest quality of support that we can provide.

Today's wartime environment of frequent and extended deployments creates additional stressors on marines and even more when they are worried about their loved ones at home.

In addition to the war and deployments, marines are concerned about the impact today's unpredictable economy may have on them.

One of the primary goals of MCCS is to develop self-sufficient and resilient marines and families. Their well-being grows as we provide the right programs delivered at the right time at the right place and it meets their needs.

General Conway has clearly stated that after winning the War on Terror, our wounded warriors and marine families are his highest priority. Many MCCS programs and services were developed to support peacetime environments that serves to meet the requirements of the past seven years. The arduous nature of frequent deployments has caused us to reevaluate unit family readiness programs such as Marine Corps family team building, exceptional family member school liaison, and many others. And we have reassessed how we are funding and sustaining these critical programs as we go into the future to meet the needs.

By providing relevant programs, MCCS will have a positive impact on readiness and retention and continue to contribute to the overall mission of the Marine Corps.

Today's marines and families are naturally action oriented and well educated consumers. If they can't find the support and service they expect and deserve with us, they will go elsewhere. The Marine Corps exchange is focused on meeting the needs of our patrons and providing them a valued shopping experience.

We have looked for opportunities to improve our programs, processes and services and will continue to do so. MCCS is positioned and ready to continue to take care of marines and families today and in the future.

I would like to thank you for your long standing support for the Marine Corps, and I am happy to answer any questions. Thank you.

Mrs. DAVIS. Thank you.

[The prepared statement of Mr. Larsen can be found in the Appendix on page 112.]

Mrs. DAVIS. Mr. Gorman.

STATEMENT OF RICHARD GORMAN, CHIEF OPERATING OFFICER, U.S. ARMY FAMILY AND MORALE, WELFARE AND RECREATION COMMAND

Mr. GORMAN. Chairwoman Davis, Congressman Wilson, distinguished members and also members of the committee staff, good afternoon.

I am honored to come before this committee today on behalf of our soldiers and their families. I have submitted my statement for the record, and I have just a few brief comments, beginning with my sincere thanks to this committee for the support you provide our soldiers and their families. I know that you know very well that the strength of our Army comes from the strength of its families, and it is your support that continues to allow us to recruit and retain high quality American men and women during this difficult period of persistent combat and multiple deployments.

The recognition that family readiness relates to military readiness is the underpinning of the quest General Casey set us upon as he became our Chief of Staff in April of 2007. General Casey's assessment after five years of war is that the Army was out of balance and we were simply asking too much of our soldiers and families and not properly counter balancing their commitment and contribution to our Nation.

General Casey and Secretary Geren asked soldiers and families how they were doing. They told us and we reacted by creating the Army Family Covenant which expanded programs in five major areas critically important to our soldiers and their families.

The Chief of Staff and the Secretary doubled the Army family and MWR budget from $750 million in fiscal 2007 to $1.4 billion in fiscal 2008. The increased funding was provided using supplemental funds and is now largely included in our base budget.

The resources associated with the Army Family Covenant include reduced fees, expanded operating hours, increased counsel and other types of deployment support for child and youth programs. We have also included construction of 120 new child and youth facilities in this program, as well as additional facilities that are included in our submission to the American Recovery and Reinvestment Act.

We have also established Army One Source as the central entry point for all family and MWR services either on our installations or wherever soldiers and families of all components reside in the unique, high touch, high-tech combination which includes instant messaging for our family readiness support groups.

We have enhanced staffing in all of our family services to heighten value and responsiveness. We have certainly advanced survivor outreach as never before and implemented behavior modification activities to safely reintegrate soldiers returning from combat.

We have implemented a customer service management program to assess delivery and adjust as feedback suggests appropriately. We have also established a synergistic partnership with AAFES which will allow us to make better use of our investment and acquisition funds through a range of efficiency enhancing initiatives that will allow us greater return to our patrons.

I want to close by thanking you all personally and on behalf of the Army for all your continued support to our men and women who wear the uniform of our Nation. I look forward to answering any questions that you may have.

Mrs. DAVIS. Thank you.

[The prepared statement of Mr. Gorman can be found in the Appendix on page 139.]

Mrs. DAVIS. Mr. Baker.

STATEMENT OF JOHN B. BAKER, DIRECTOR, FLEET AND FAMILY READINESS, COMMANDER, NAVY INSTALLATIONS COMMAND

Mr. BAKER. Thank you. Madam Chairwoman Davis, Representative Wilson, distinguished members of the subcommittee, General and flag officers and fellow senior executive service members, I am pleased to report that the Navy continues to provide world class morale, welfare and recreation programs to our sailors and families. Navy MWR and child and youth programs have developed and enhanced a wide array of programs in 2008 to meet the needs of our patrons today.

MWR is everywhere our sailors are stationed or deployed and wherever their families live. We provide a diverse range of programs vital to their morale, their well-being. To the people we serve, MWR should be a place for physical exercise or enjoy some quiet time or reading a book or watching a movie. It could be perhaps grabbing just a bite to eat.

It also might be where they can leave their children while they are on duty and knowing that they are in safe and in trusted hands. Whatever the service, our patrons know MWR is focused on taking good care of them and in turn MWR is consider an integral part of the Navy's readiness.

During the past year, MWR has placed particular focus on family-oriented programs with significant growth in child and youth programs and general recreation programs that appeal to family members. MWR enables members to spend leisure time not worried about daily living, but focusing on refreshing their mind, body and spirit.

We have designated 78 family fitness centers on our installations. We have created a dynamic youth fitness program called Fit Factor that has been implemented Navy-wide that encourages our youth to develop and apply good nutrition and exercise habits.

We have established respite child care that is now offered to families of deployed sailors, and we continue to expand our 24/7 child care for our standard watch bearers.

We have also installed mobile learning centers (MLC)s that are funded through the national defense authorization authority that you provided the services last year. This authority has enabled us to begin installing sixty new MLCs over the next two years and will help address this need. This commitment will have a direct and positive bearing on the readiness of Navy families.

We promote military readiness through a simple equation: Family readiness equals sailor readiness which in turn equals Navy readiness. All components must be synchronized, resilient and prepared for the daily challenges.

In closing, MWR continues to be a vital component of the operational readiness and a valuable retention tool for the Navy. We appreciate the focus and the attention Congress provides in funding and developing new policies in supporting the MWR program. My full statement is submitted for the record and I look forward to answering your question.

Mrs. DAVIS. Thank you very much.

[The prepared statement of Mr. Baker can be found in the Appendix on page 160.]

Mrs. DAVIS. Mr. Milam.

STATEMENT OF CHARLES E. MILAM, DIRECTOR OF AIR FORCE SERVICES, HEADQUARTERS, U.S. AIR FORCE

Mr. MILAM. Good afternoon. Chairwoman Davis, Ranking Member Wilson, distinguished members of the Military Personnel Subcommittee, thank you for the opportunity to appear before you today.

I am happy to share the status of the Air Force morale, welfare and recreation programs. Our airmen and their families truly appreciate the leadership and support this subcommittee has historically provided for matters affecting their readiness and quality of life.

It is a humbling experience to follow in the footsteps of Mr. Art Myers, and I know I speak for the rest of my colleagues when I say we are grateful that he has continued in the key leadership position at the Office of the Secretary of Defense (OSD).

The Air Force has weathered many leadership challenges over the past years, but one thing has remained steady through it all, the outstanding airmen and women providing world class MWR programs for our airmen and their families.

Through their outstanding efforts our programs continue to grow and improve to meet the ever changing needs of our customers, in garrison, in national support disasters, and in forward deployed locations. Air Force Services continues to deliver combat support and community service programs that are the cornerstone of regenerating, sustaining and retaining a vital weapons system, our airmen.

Our airmen are only as strong as the network of family and friends around them, and we recognize the importance of taking care of families so our airmen can focus on the mission. A strong and viable MWR program must maintain this delicate balance of war fighting and family member support.

My written statement has been submitted for the record and outlines where we are, what we have done in the past year, and part of our strategic view for the future. We remain concerned about the challenges posed by the economy, the resources available to support member and family quality of life, and the impact of issues like joint basing, post allowance and recapitalization.

The hard work of our dedicated personnel is the backbone of success for the Air Force Services MWR mission and I am very proud of their successes.

This would not be possible without the tremendous support of the Military Personnel Subcommittee. On behalf of the Air Force team, I thank you and I look forward to working with you as we continue to move forward in helping to sustain America's Air Force. I welcome your questions.

[The prepared statement of Mr. Milam can be found in the Appendix on page 181.]

Mrs. DAVIS. Thank you very much, and again, I want to thank you all for your brief statements. We appreciate that. We have a chance to hear from all of you at one time. We have votes now, and we should be back—it is always hard to project these things. It sounds like a long time. We like all the partnerships that you are

developing, and we are going to give you another networking opportunity in the next half hour. So I am sorry about that, but we will be coming back and having an opportunity for people to ask their questions. Thanks again for being here.

[Recess.]

Mrs. DAVIS. Thank you, everybody, for waiting. I feel like asking you all to tell me how many business cards did you pick up, how many conversations did you have that you have been needing to have for the last week or two? We hope perhaps we gave you that opportunity. As always, it is always tough to have you waiting here. I know how busy your days are, and we hate to do that, but hopefully something good came out of that time.

I want to really start with looking at the funding, the MWR funding, that we compare from fiscal year 2003 to 2008, and what we see in that is that the numbers are actually going down, not in huge numbers, but when you compare it to inflation, it is considerable.

I want to look at where would we like this appropriated funding to be five years from now. I mean, what is it that you want from us; how can we work together to sort of answer the questions of what—where we want to be really in that time? We also know that as we move towards bringing the supplemental and our budget together, that some of those numbers are going to change just by virtue of the fact that they are items that are going to be included in the budget that have been in the supplemental before, and that throws things off a little bit. But I really would like you to take a look at whether there is a kind of inevitable degradation of programs and facilities, and whether we should be stepping in and protecting these programs. Should that appropriated funding not even be going down some, but going up? Have you had a chance to look at those numbers from fiscal years 2003 to 2008, and what can you tell us about that?

Mr. MYERS. What I found is we have been reporting the straight numbers to you every year, but we haven't included the supplement. So, you know, we got like $671 million in the supplemental. If you add that, there is an increase. Now, this year, without the supplemental, there is a 35-percent increase.

So I think what we are going to do in the future is send you the numbers; here are the straight numbers, here is with supplemental money, and you can see the difference. We want to break that out further. The biggest increase in our funding has been in the child care area, because of the war and families separated and, of course, it is needed. Then we want to break that also to show you the child development number and the MWR numbers so you can make a better-informed decision.

But we certainly appreciate the support and interest of the staff. This is something we are focused on getting it into the baseline. It looks like we have been successful, but as the year goes on, we have to make sure that we can retain those funds.

Mrs. DAVIS. If we just look at those numbers, though, and recognizing the issue of where the supplemental, does that say something about whether or not we really are moving forward enough?

Mr. MYERS. I think we are moving forward enough in certain areas, especially in child care; we have put a lot of effort in that.

I think in some of the MWR programs we have probably regressed, and that is where we have to focus, especially in some of our fitness programs, and that is why we probably need some authority so we can do these minor construction and so forth to our fitness centers.

As we break it out, I can really see the difference, but there are programs that are suffering because of others. But, again, child development was a big issue with our military families and so forth. So we have met that need. Hopefully we are coming to a point years down where we have got that program basically fixed, and we can focus on other programs.

Mrs. DAVIS. Anybody else want to respond to that? Any other of our chiefs?

Mr. GORMAN. I would just add to what Mr. Myers said. As I mentioned in my oral statement, we have increased Army funding from $350 million in 2007 to twice that in 2008, initially through the supplemental, but in 2009 and beyond most of those dollars are migrated into the base budget, and, as Mr. Myers said, significantly in support of child and youth programs that are critical to us, as well as other family programs. And I think that a refocus at some point into our other activities, fitness centers particularly, would be helpful.

Mrs. DAVIS. And, Mr. Gorman, certainly in terms of the appropriated funding for Army MWR, I think the projection now is for 2009 that it is actually significantly higher, which is $900 million. So could you be a little more specific about why that has jumped so much? Is it because of the supplemental?

Mr. GORMAN. It goes back to the creation of the Army Family Covenant, which created new standards for our programs at the specific behest of General Casey. So the child care is a big part of it. In the way that we report or have reported in the past, we didn't include other family programs in the numbers that we sent forward to you all. I think the reporting has to do with the lack of inclusion of supplemental, but I think we are past that at this point.

Mrs. DAVIS. Okay. Great. Thank you so much. And we have a great deal of interest in the family programs. We are going to have one or possibly even two hearings on family issues. We haven't done that quite in that way looking at education, but certainly having witnesses that can speak to that, and I am certain that they will identify the benefits that come from your programs. But I also want to be certain that we have a chance to really hear from them as best we can as we bring in some people who can represent some of those concerns.

Mr. Kline.

Mr. KLINE. Thank you, Madam Chairwoman, and thank you, gentlemen, for being here, for your testimony and for your service to the services and to our country.

I think, Mr. Gorman, I want to just have a short discussion here with you. I was down at Fort Campbell, Kentucky, or Fort Campbell, Tennessee, depending upon how you look at it, just a couple of weeks ago, and I was visiting a—I guess they call it a community center. I am not sure of what the name of that is, but it is a facility, very nice building, new building; has playground equipment out back for the kids; has a coffee shop built into it; has

meeting rooms and gathering places designed to support housing area on the post. Is that something that falls under your purview?

Mr. GORMAN. Sir, that sounds like it might have been included under the Residential Communities Initiative——

Mr. KLINE. Okay.

Mr. GORMAN [continuing]. Where we have outsourced and privatized virtually all of our housing and made huge improvements. With some of those projects, there have been community facility improvements that we really appreciate and really come to us at no cost to our budget.

Mr. KLINE. So it does not fall under your purview even though it clearly seems to be all about Army morale, welfare and recreation, but it doesn't fall under you?

Mr. GORMAN. Not specifically, because it is privatized.

Mr. KLINE. Okay. Thank you.

Now, I would like to turn to the issue of exchange dividend contributions to MWR programs, and I am looking at a chart that we have here—our staff prepared this? Okay. And this is committee staff, and I am just confused. I am hoping that maybe somebody can explain.

If I am looking at AAFES, going back to 2006, it shows dividends at about $231 million; and if I look at 2009 budgeted, it is still $231 million, dropping down from numbers like 262 and 272.

And by comparison, the reason I am confused, if I go to the Marine Corps exchanges and go back to the same year, 2006, dividends at $31.8 million; and projected 2009, $47.2, with a steady increase throughout the years 2005, 2006, 2007, 2008, 2009, 2010, going up steadily. And yet Army Air Force exchange system does not do that. It goes up, and then it comes down, and then 2010 it projects to jump back up again to 272.

I am not sure where to start on this; Mr. Myers, or go straight to the Air Force, or who can help me understand what has happened here?

General THURGOOD. Well, sir, let me give you the best explanation I can. In 2009 and beyond, we did not include any of our appropriated funding reimbursements, so it is in our expense base. Typically we get about 90 to $100 million a year in appropriated funding reimbursement. Once you add that into those financial numbers, you will see that it actually grows every year beyond that. So if I take, for example, the 231 in 2009, and I add in the appropriated funding that we would get for the expenses that we would bear in that year, if I take 231 and add 50 million to it, which is about the right number, you will see that will be about 281. And all the outyears are the same way. We don't plan that, and that is why, therefore, we didn't include it in these numbers in this chart.

Mr. KLINE. Okay. Mr. Larsen, can you address what happens to the Marine Corps exchange system? Because your numbers increase in a nice linear fashion starting at 31.8 in 2006 and working right up through 49.5 in 2010, so you don't have that same issue. Or do I just have bad numbers?

Mr. LARSEN. No, sir, we have consistently been improving, and we have continued to increase in sales, increase in profits during that period, and it is projected in the budget.

Mr. KLINE. You don't have that appropriated funds issue.

Mr. LARSEN. No, sir.

Mr. KLINE. Okay. All right. So in general, in going back to AAFES, you are expecting your sales to go up; you are just having to account for moving appropriated funds out?

General THURGOOD. Yes, sir.

Mr. KLINE. Absent that, your profit, and therefore your dividends, would go up?

General THURGOOD. Yes, sir.

Mr. KLINE. Thank you.

Thank you, Madam Chair.

Mrs. DAVIS. Mr. Wilson.

Mr. WILSON. Yes, unless Madam Bordallo.

Mrs. DAVIS. I know Ms. Bordallo has an issue she wants to talk about. Why don't you go ahead.

Ms. BORDALLO. Thank you very much, and I want to thank the Ranking Member for yielding me his time. Thank you, Madam Chairman, for calling this hearing.

I have a very important concern. I represent the territory of Guam, and my questions will be directed to the admiral and the general. And prior to us opening the hearing again, I did have an exchange with the admiral.

My first question is to the two of you. As you know, the annual defense appropriation bill contains a provision regarding the purchase of beer, wine and other alcoholic beverages for resale on military installations. In general, the provision requires that beer and wine be purchased from instate distributors for 48 States. Now the provision further requires that all types of liquor in Alaska and Hawaii are to be purchased from instate distributors. The 2008 appropriations bill included a provision that would treat Guam in a manner consistent with Alaska and Hawaii in requiring all liquor resold on military installations to be purchased from local distributors.

Now, one of the main concerns that I heard from my constituents regarding this policy change was the sudden and drastic increase on the part of the military, we found out later. I was blaming the local distributors, but they said they hadn't sold anything to the military as yet. And in some cases the increases were upwards of 60 percent on various types of alcohol.

Now, can you, General and Admiral, further expand on the rationale for these increases, and why did it take nearly a year to implement the change in policy that emanated from the fiscal year 2008 defense appropriation bill? And, of course, setting aside now the provision has been repealed, but I want to get the history on the beginning.

Admiral BIANCHI. Yes, ma'am, I would be happy to answer that one for you.

As you are well aware, the appropriations bill was not signed until 13 November of 2007, and basically that change that inserted Guam into the bill into section 8073 was a really no notice change to us. So, frankly, we were not made aware of that change to the provision until probably a couple weeks after the bill had been signed.

Given that, we attempted in good faith to follow the provisions of the bill, and so we started down the path, because obviously there is a long supply chain for Guam, it is about a five-month supply chain when you figure ordering time, shipping time, et cetera. So in December we got together with AAFES, and we started initial planning sessions. We met again in January of 2008, and in April of 2008 we actually brought all the Guam distributors together to start talking about requirements, ability to handle the increased requirement there that would be on island if when we started purchasing. In July we had follow-up meeting, and actually at the April meeting we got together and set the date of 2 September, 2008, as the date when, in essence, we would flip the switch, because at that point the vendors on island said they would have sufficient capacity ramped up.

We stopped shipping in July so that we knew we would have enough product so that we wouldn't run out while the vendors in Guam were making their arrangements with the stateside, you know, Anheuser-Busch, et cetera, and so it was all supposed to come together. As I mentioned, the last shipment left Continental United States (CONUS) in July of 2008.

So on 2 September, yes, in fact, the prices were adjusted. Was every product in the store at this point specifically bought on Guam? No. But you have to sort of pick a point in time to adjust pricing. The reality is when we were purchasing the items from the U.S. and sending them over, as you know, we must ship anything overseas with second destination transportation with Appropriated Funds (APF). So there is clearly an advantage to the price structure in that situation.

When we started purchasing on Guam, there the vendors had to absorb that transportation cost, and yes, the price increases were fairly significant. I will give you two examples: A 12-pack of Bud Light cans went from $4.47, this is cost price that we would be paying, up to $7.75; and Jim Beam, a liter of Jim Beam went from $5.55 to $11.20. So we had to raise the prices in our package stores commensurate with the increased costs that we were now having to pay for the product being available on Guam.

We did not, we consciously did not, put a whole bunch of signage in the stores and so forth because we felt it would not—it might create a lot of angst on the part of the patrons if we put up signs that said, you know, your liquor prices have gone up because now we are buying it on Guam. I mean, I don't think that was the message that we would want to send. When patrons asked, we explained to them the provisions of the bill and that we had to purchase locally. So naturally the patrons obviously were concerned when they saw a sudden jump in price, but, you know, frankly, there wasn't much we could really do at point. We were living up to the bargain we had made with the—well, the law and the bargain we had made with the vendors.

Now, subsequent to us enacting or beginning that purchase, and, in fact, I guess I would offer that week of 2 September, at least in the Navy exchange, we even purchased 4- or $5,000 of product from the Guam distributors. So, in fact, we were actually, you know, spending money on Guam buying those products.

Now, as you mentioned, the law was repealed in the 2009 bill, and obviously we were concerned about the fact that the vendors had invested money, had created capacity and so forth, and so we have been working with them since the law changed to make arrangements and source some of the items from there.

Clearly, since the law has been repealed, it is in the best interests of our patrons for us to go back and order from the U.S. and allow the APF funds to be used to ship. You know, that is part of the benefit, delivering the benefit. But in the meantime we have worked hard with the vendors, and we have even helped to negotiate between Anheuser-Busch and other distributors with the vendors to try and liquidate their inventory. So since 2 September we have purchased almost a quarter of a million dollars' worth of product on Guam.

But as far as raising the prices, it was strictly—it was a mathematical issue. You know, the cost went up because the vendors, in essence, were having to pay the transportation costs that normally would have been covered in the second destination transportation which we are authorized to use.

So I hope that—you know, throughout this entire situation, we really did try to work, you know, best-faith effort. We involved the vendors, involved the local distributors, and I hope that helps clarify the situation.

Ms. BORDALLO. Yes. Thank you, Admiral, and just for the record, you said since that time you have purchased about three quarters of a million?

Admiral BIANCHI. No, a quarter, about $266,000 worth, yes, ma'am.

Ms. BORDALLO. Two hundred sixty-six thousand, all right.

General, do you have any comments to make?

General THURGOOD. No. I just—again, he is the expert on this. We actually get our spirits from the Navy on Guam, as you know, ma'am.

At the end of the day, I think what we are trying to do is provide the best value for our customers wherever they are across the globe, and that would include the pricing structure as well as the assortment. And if I understand the situation correctly, I believe that the Guam distributors for spirits only have about 40 percent of the assortment we currently carry, and on wines I believe it is 193 of 250; and therefore, just to ensure that we are providing our customers with the assortment that they have become accustomed to, we will have to go to search—we will have to seek other sources to go do that, but at the end of the day, we want to provide the best value to our customer.

Mrs. DAVIS. Thank you.

Ms. Bordallo.

Ms. BORDALLO. If I could just have a follow-up question, I notice that during some of your correspondence, it was noted you were concerned about the ability of the local distributors to store the capacity of alcohol. Now, we have three or four major distributors on Guam. Some of our distributors, because of this law, went ahead, purchased containers, additional containers that are regular supplies, purchased trucks, hired personnel, and all to no avail when the law was repealed.

Now, I have one other question. I just want to kind of wrap it up. Finally, I am concerned about the consistency in the application of the Department of Defense instruction 1330.09 in your commands across the installations of the exchanges. What efforts are you taking to ensure the consistent application of this regulation?

General THURGOOD. I don't know what 1330.09 is off the top of my head.

Admiral BIANCHI. That is the Armed Services Exchange Regulation (ASER) policy.

With respect to the pricing of alcohol? Yes, ma'am. I mean, we do follow that pricing policy, and it is very specific. For prices for a product that is bought within the U.S., you know, we have to follow the pricing structure for that; which is procured locally, we can only go 10 percent below the price of the local competitive sourcing, and, you know, that would apply, for instance, in Hawaii. Our beer and wine and spirits are priced within 10 percent, or no more than 10 percent, below the competitive market there.

Ms. BORDALLO. Well, I want to thank you, General and Admiral. I didn't want to put anybody on the spot, but this has been such a big concern on Guam. We have had problems with the utilization of local businesses at our exchange locations on Guam, and the reversal of the fiscal year 2008 policy in the 2009 bill has left a very bitter taste with the business community, and at a time when their support for the build-up is critical.

So we must continue to work together. I would like to see this put into the next fiscal—you know, instead of repealing the law, to continue on with it, and I think we can come together and come up with a better solution if we can work together; and possibly to keep the local community to keep their prices down a little bit in order to take care of the military business, and you do likewise. So we will work together, and I would look forward to further discussing this issue. Thank you.

Mrs. DAVIS. Thank you. We certainly hope it will be better resolved.

Mr. Wilson.

Mr. WILSON. Thank you, Madam Chairman and gentlemen. Thank you for being here today. Thank you for your professionalism, for your thoughtfulness working with military families. You certainly enhance the opportunities of service.

And, General Thurgood, I want to congratulate you on your service. I am always happy to see, as a former reservist, a reserve officer make such a high rank and also do such a good job.

General THURGOOD. I hope I haven't disappointed you, sir.

Mr. WILSON. In fact, I was with Congresswoman Bordallo last August, and I mentioned this to you before, but we were in central Bulgaria, and it was really exciting. It was Novo Selo base, which is very historic. It is the first time in the 1,225-year history that Bulgaria has invited a foreign military presence, and we were able to visit a temporary base, and there were temporary facilities; among the first, the AAFES laundry, the AAFES barbershop, the AAFES cappuccino bar. And we were both impressed to see the Bulgarian and American troops there sipping coffee, making lifelong friends. And so what you are doing is so important to make serving in a new location so worthwhile.

Additionally you provide personal information services domestically and overseas. And can you tell us how extensive these are and how they reach the troops?

General THURGOOD. Yes, sir. In OEF and OIF we have 72 call centers, as well as 7 or so Internet cafes, I think I mentioned earlier. We are in the process right now, as we think about these strategic shifts that are taking place in Iraq, of how we handle the drawdown there and plus-up the infrastructure, including the things that I just mentioned in Afghanistan. And for the troops in Afghanistan, as that gets up to 17,000 or 30,000, as the President has indicated, we are working very closely with the command there to make sure that we are providing the right kinds of infrastructure, including a new idea that we have called an Air Assault PX.

So the infrastructure, as you know, in Afghanistan is not very robust compared to Iraq, and, therefore, we have got to come up with some way to support these soldiers that are in the far end tip of the spear, and our way of doing that is what we call an Air Assault PX, literally load up a container and sling-load it out to them.

Mr. WILSON. The telephone call service, what is the cost of that to the personnel?

General THURGOOD. Today it is 15 cents a minute. It is the best deal going. You can't beat it.

Mr. WILSON. Domestically what is the status of call centers——

General THURGOOD. Let me——

Mr. WILSON [continuing]. And information services?

General THURGOOD. Well, as you know—well, let me back up. Domestically I don't think we have any call centers in the United States, do we? We don't have any in the United States, but we are working very closely on the personal information services with Army MWR to create an environment that allows us to bring telecommunications to our soldiers, airmen and families in a noncompetitive basis, competitive meaning with us and MWR, and we are trying to do that in a way that creates the right value equation, which is around price, quality, service and those kinds of things.

We have just recently concluded a Memorandum of Understanding (MOU) with Army MWR that I think will put us in the right direction and a new strategic direction and provide the value that our service members and families expect.

Mr. WILSON. It is greatly appreciated.

Mr. Gorman, actually in visiting Jalalabad, Afghanistan, I was able to see a call center that I am confident that you helped work with, and it really meant a lot to the troops to have that capability. Could you tell me, are these services provided sole source, or is this a competitive bid?

Mr. GORMAN. Sir, all of our programs, and particularly as we move forward with our partnership with AAFES, are being done on a competitive basis with best value at the core of all of our decisionmaking.

Mr. WILSON. And the cost of the services through your program is what?

Mr. GORMAN. Those that we operate in the United States that we are in the process of incorporating with the arrangement that we have made with AAFES, as an example, an unlimited month, without guarantee of long-term commitment anyway, is $39 a month for

a soldier to use wireless access from his barracks or wherever else the wireless will allow him to connect.

Mr. WILSON. And what would be the cost in Jalalabad?

Mr. GORMAN. Sir, that program is more than likely—it is either free, or it is provided by one of our partners at a very low cost.

Mr. WILSON. And——

Mr. GORMAN. We are presently not operating that program.

Mr. WILSON. I really was sort of leading you on that.

There has been, Madam Chairman, information that our troops were, quote, "being taken advantage of or denied access to telephone service," and we found out that on visiting Jalalabad that it was free. So thank you all for your service.

Mr. GORMAN. I guess I would say that we are committed, absolutely committed, in partnership with AAFES to provide a best value equation through a combination partnership with AAFES and industry to provide our soldiers the absolute best value at the lowest price.

Mr. WILSON. Thank you.

Mrs. DAVIS. Thank you, Mr. Wilson.

Can I go back, and maybe you can help me understand a little bit better, because I understand on this issue of providing the unofficial communication services—is that—you mentioned that you came to an agreement, you sort of struck a balance; is that right? Is that between AAFES and MWR programs?

General THURGOOD. Yes, ma'am. Let me address that and then Rich jump in anytime.

We just within the last 30 days have finalized an MOU with Army MWR that allows us to integrate our business models in a better way, and, as Mr. Gorman mentioned, at the end of the day what we are trying to do is to provide the best value for our soldiers, our airmen, and our families wherever they are across the globe. And, therefore, we want to integrate the best practices in the industry. We want to bring best business partners from the industry in, let them compete for this service.

Mrs. DAVIS. So you are looking at the competition, then, doing that best value.

General THURGOOD. Absolutely. And so when we do that, we will bring the appropriate people in that are interested in competing for this business. As AAFES will operate it, we will return the dividends back to Army MWR, but it will absolutely be competitive, and as Mr. Gorman said, it will be based on the best value, which includes things like price, quality, infrastructure, support services provided, and all of those will go into the equation from which we will make a decision.

Mrs. DAVIS. Okay. So was this unique to the Army, then, in some ways?

General THURGOOD. It is unique to the Army right now, yes, ma'am.

Mrs. DAVIS. Is there a similar problem internally with the Navy as well?

Admiral BIANCHI. No, ma'am.

Mrs. DAVIS. How do you all handle it?

Admiral BIANCHI. The Chief of Naval Operations has designated the Navy Exchange Command as the provider of personal tele-

communications, so we partner with MWR, but we provide—we have 129 Wi-Fi spots. We have all the telephones that float. We manage the program for Navy, and so we are in partnership with them, but we are the executive agent basically for Navy.

Mrs. DAVIS. And Mr. Milam.

Mr. MILAM. We believe the current way of competing contracts for the services is certainly the best value, and we certainly welcome AAFES in that competitive bidding process.

Mrs. DAVIS. All right. Thank you.

So at this point is there anything left to do in this area? Obviously to get those to pull it together in terms of the bids, but in terms of the internal disagreements of some sort, is that——

General THURGOOD. I think all of those have been worked out, ma'am, and as I mentioned earlier, this will be an integrated approach to providing this kind of service. What is left now is to really work out the final details and get after the business.

Mrs. DAVIS. Mr. Larsen, did you want to——

Mr. LARSEN. Just to add, what the Marine Corps does, since we have both MWR and the exchanges in the same organization, we don't have the internal competition or that issue, but I would like to mention one thing that we are doing in Afghanistan. We are pilot-testing a program to provide Internet service and telephone service for our marines that are forward-deployed to the most far-reaching areas of the forward-operating bases. And so we have acquired a system that has the capability of linking to a satellite and then provide those services to marines that are forward-deployed at no cost to them.

Mrs. DAVIS. All right.

Mr. MYERS. From the OSD standpoint, we have reviewed the MOU between the Army and AAFES, and we are fine with it. We think it is the right approach, and that approach will provide the best services to our men and women in uniform.

Mrs. DAVIS. Okay. Great. That is our goal, right? Give them the best service. Thank you.

I wanted to just turn to the adequacy of the construction funding and the recapitalization needs of both nonappropriated and appropriated funding support.

Mr. Myers, I understand that a DOD report concluded that the majority of the service MWR programs are inadequately funded to meet these recapitalization requirements over the next ten years. So where are we, and how are we going to do that?

Mr. MYERS. Well, funding has been a problem in a lot of areas. So we have got with the services, and what we are looking at, in a lot of cases maybe we won't have to build a new facility. We can renovate it, consolidate facilities, look for Private-Public Ventures (PPV)s or outside assistance and so forth. Under Base Realignment and Closure (BRAC) funding, we actually have a policy now that you have to use appropriated funds. In the past, you know, they had been using some nonappropriated funds for BRAC. So now we do have a policy, and right now we have over $300 million in the pipeline for BRAC-related funding. So it is an issue we just have to continually work to get the economies of scale to get our facilities up to speed.

Mrs. DAVIS. Okay. Thank you. I wanted to follow up with that. My time is up. I can turn to Mr. Wilson, or I am just going to go ahead for three more minutes or so.

Mr. WILSON. Go ahead.

Mrs. DAVIS. In mentioning that, I know that there was some funding for—in the reinvestment dollars as well for BRAC. Are we able to plan and take advantage of the fact that materials are at a lower cost right now, that construction should be less perhaps than it was a few years ago, even labor? Are we moving ahead as quickly as we can to really get those dollars out right now?

Mr. MYERS. Yes, we are. And in the stimulus bill we did get funding for our facilities now, and we are making every effort to take advantage of it. Even overseas, like in Korea, we have big projects. The won, the dollar is very strong against the won, so we are seeing a decrease, and as we see a decrease, we can use those funds to apply against other projects.

Mrs. DAVIS. Okay. We would certainly like to see that happen.

Mr. Sakowitz, in light of this discussion, as well should we be thinking about a five-percent, something greater than the five-percent commissary surcharge to maintain the high-quality DeCA projects?

Mr. SAKOWITZ. Ma'am, my thoughts, bottom line, up front, is no, not at this time. And I don't know that it is actually necessary. And I will explain a little bit.

The surcharge started in the 1980s was about facility management. It was about new and sustainment. And we have added to that account now Information Technology (IT), which, as you know, can be costly, and it has been great for us with our new finances, but it can be costly. And the result of all that, if you look at just the numbers, is that over the 10-year period that you spoke of, we have looked to be short $550 million. So it does beg the question.

However, I believe that the efficiencies that we can take on, one that you just mentioned, building now quicker because of the cheaper prices, so we work with all that build for us, Corps of Engineers, you name it, to try to get more efficient at doing that. We have also instituted a new policy in terms of how we manage our maintenance contracts, so that is affording us some opportunities there.

But lastly, and what I think is the most exciting opportunity for us, is taking off on the services, Residential Communities Initiatives (RCI), Army RCI, that Mr. Kline talked about before, and how they leveraged some dollars to get a 12-for-1 buyback of housing that we could possibly do. It is not exactly the same model, but it is build-to-lease that we could use on the surcharge. Our initial discussions with those portfolio managers who helped the Army and the Air Force is that it could be applicable to us, and I think that would be tremendous, and if we got even half of what they got for the housing, then we could take care of a good portion, if not all, of that balance.

So I think we have a lot of opportunity. I don't think it is the right time to raise it. And we are going to do our best to keep those costs down for our servicemembers and families.

Mrs. DAVIS. Thank you.

Any other comments on that? Anybody want to disagree? No? Okay.

Mr. Wilson.

Mr. WILSON. Thank you, Madam Chairwoman, and thank you for this hearing. As I conclude my participation, I want to reiterate my appreciation for your service. I find it absolutely amazing that you are operating and managing worldwide enterprises that have 12 million customers, that you have sales of $12.8 billion annually, that you employ 158,706 people, and you can tell how calm this hearing is. And we reflect the people we represent, particularly Congresswoman Davis does. And there is great appreciation. And what you are doing, I believe, is providing devoted service to military families, increasing the opportunities for people to serve in the military. So thank you very much.

Mrs. DAVIS. Thank you, Mr. Wilson. I am just trying to make sure that we stay somewhat within the time that we had initially anticipated. Could you just discuss briefly whether or not BRAC and the restationing of related construction projects is—where is that? Where do you see that we should be?

Mr. MYERS. Right now, as I said, we have over $300 million in appropriated funds for BRAC-related projects. You know, in the past we did a lot of those with nonappropriated funds. Now the policy is clear. We will use appropriated funds. And I think they are moving along, and I think we have got a lot of traction on it right now.

Mrs. DAVIS. Just percentage wise, as we go back a little bit and look at the use of the nonappropriated funds——

Mr. MYERS. Well, I think, you know, in BRAC we probably used nonappropriated funds for several years because back then all the service had to do is—appropriate funds are not available, and, of course, the troop was being taxed twice, because they pay taxes, and now they are digging in their pocket. Under the new policy that is no longer a reason. The only reason that could be, if they have a project that is funded, it comes to the President's budget and is stripped out of his budget, then they can come back for nonappropriated funds. So I think it is working.

Mrs. DAVIS. Are you using a fair and reliable criteria to do that?

Mr. MYERS. Yes, ma'am.

Mrs. DAVIS. All right. I want to thank you all so much for being here. I can give you all an opportunity if you would like if there is something that was in your statement that our three-minute request didn't have a chance to highlight, we are happy to let you just, you know, give us one thing that you would like us to absolutely be aware of and be able to deal with as we deal with the upcoming authorization. We would like to hear from you. You don't need to use your time to thank us. We appreciate that. But just if there is anything, you don't have to say it, but just in case you would like to, I want to give you that opportunity, if there was an issue dangling out there you would like to focus on.

Mr. Myers.

Mr. MYERS. The primary issue of our military people today is child care and so forth. I went to Iraq, visited 21 sites in December, talked to all the military. That was their number one priority, and it was—thankfully their families were being taken care of it. We

have about 37,000 children on the waiting list. So any help you can give us with extending that authority for contracting and raising the limit to 15 million, that is a key retention and readiness issue. So any support on that would be appreciated.

Mrs. DAVIS. May I just ask you about that quickly, because I support the opportunity for many families in the military to provide that service for others and to get involved in this and to have that as a source of income and also a source of pride and interest that they have.

One concern, though, would be whether we have done such an exceptional job in training our child care providers, and I just wonder whether, you know, there isn't—sometimes in trying to spread it out there is also a concern over whether or not we are going to have people at the same level of training, whether we will be able to do that.

Mr. MYERS. I think systematically we have been doing that. Now, sometimes we have problems overseas hiring caregivers because of the pay and so forth. I think we have requirements in that we want to start giving them benefits, free child care, bonuses and so forth, because in England you can get 10 pounds for a menial job. That is about $16 an hour. So we can't pay that. So give them free child care, assistance for training and so forth, I think that will go a long way.

And, of course, you may know, but this morning at the Longworth House Office Building, the National Association of Child Care Resource and Referral Agencies announced that the Department of Defense child care centers continue to lead the Nation and hold the highest rating in both standards and oversight. So they are doing good, but we can never be satisfied.

Mrs. DAVIS. We want to keep those standards high.

All right. Anybody else?

Mr. THURGOOD. Ma'am, I will give you two things to think about, if you would, and I think I might speak for the entire exchange system here, and that is, we compete in a global supply chain, and, therefore, our supply chains, including the pricing structure and the assortment that we have, has to be competitive. And so I would ask for you to continue to look at the ASER restrictions and the lifting or the easing of those where it makes the most sense.

Associated with that would be the continued assistance working with Department of Defense on base access for our vendors. It is a continuing sore spot, and, at the end of the day, those costs are borne somewhere in the supply chain. So to the extent that we can smooth that out, come up with a consistent policy as quickly as we can, I think it would benefit our soldiers, our airmen and our families all across the globe. Thank you.

Mrs. DAVIS. Thank you.

Anybody else?

Mr. MILAM. Ma'am, I would just add, and this already is in our statement, that the Air Force is very committed to taking care of their families. And certainly on the child care issue, the additional funding that we received to build additional child development centers and reduce our waiting list was very key. We hope to have our numbers down on the waiting list down to about 250 within the

next couple of years, which is the first time ever we have been that low. So we appreciate your support in that regard.

As far as taking care of families, that is a very important issue for us. I know OSD is launching the Year of the Military Family. We are doing the same in the Air Force, kicking it off with a summit at the end of this month, and bringing all of our providers together to find ways where we can continue to take care of the military families. So thank you.

Mrs. DAVIS. We appreciate your doing that. As you know, there was a resolution yesterday, and we will continue to focus on it on this committee. And we are very pleased that the President and the First Lady have also put it as one of their highest priorities.

Anybody else?

All right. That is great. Thank you all so much for being here, and we look forward to continuing our work with you.

[Whereupon, at 3:16 p.m., the subcommittee was adjourned.]

A P P E N D I X

March 12, 2009

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

MARCH 12, 2009

Chairwoman Davis Opening Statement
Military Personnel Subcommittee Hearing
Military Resale and Morale, Welfare and Recreation Overview
March 12, 2009

Today the Subcommittee will turn its attention to the management of military resale and morale, welfare, and recreation or MWR activities. These are the nonappropriated fund operations that are so essential to the quality of life of service members and families.

There is much to celebrate within the military resale community as commissary and exchange sales are increasing and, in these very troubling economic times, they are fulfilling their promise to provide military patrons with quality goods and services at a savings. The MWR community is also continuing to work hard to provide the facilities and services that are so critical to the building of military communities on our military installations.

However, the Subcommittee continues to be concerned about reports that indicate that MWR programs have fallen victim to cuts in appropriated fund support at the installation level. The Subcommittee is also very concerned that the majority of our nonappropriated fund activities are not confident that they have the recapitalization resources needed to maintain the quality of their facilities at the high level that we have come to expect. A related concern is the apparent reluctance of the services to use appropriated military construction funding to support construction of military resale and MWR facilities at installations impacted by base realignment and closure and force restationing.

We have an excellent panel to help us explore these and a number of other issues. I would request that all witnesses keep their oral opening statements to three minutes. Without objection, all written statements will be entered into the record.

Mr. Wilson, did you have any opening remarks.

I would like to introduce our panel.

Mr. Arthur Myers
Principal Director, Military Community & Family Policy
Office of the Under Secretary of Defense (Personnel and Readiness)
Mr. Myers you are familiar face in a new position—congratulations and welcome back.

Major General Keith L. Thurgood, USAR
Commander, Army & Air Force Exchange Service
General, I understand that this may be the last time you will appear before us as you will be returning to civilian life—thank you for your service and we wish you well.

Rear Admiral Robert J. Bianchi, USN
Commander, Navy Exchange Service Command

Mr. Philip E. Sakowitz, Jr.
Director and Chief Executive Officer, Defense Commissary Agency

Mr. Timothy R. Larsen
Director, Personal and Family Readiness Division, Manpower and Reserve Affairs Department, Headquarters, U.S. Marine Corps

Mr. Richard Gorman
Chief Operating Officer, U.S. Army Family and Morale, Welfare and Recreation Command

Mr. John B. Baker
Director, Fleet and Family Readiness, Commander Navy Installations Command

Mr. Charles E. Milam
Director of Air Force Services, Headquarters U.S. Air Force

Ranking Member Joe Wilson
Military Personnel Subcommittee Hearing
Military Resale and Morale, Welfare and Recreation Overview
March 12, 2009

"This subcommittee has had a longstanding commitment to improve the quality of life of the men and women of the Armed Forces and their families. One way we have shown that commitment is through efforts to sustain and even expand the MWR, commissary and exchange benefits. We must continue that aggressive approach.

"Our witnesses today have diverse responsibilities that span the complex worlds of MWR, installations, commissaries and exchanges. They also face difficult challenges.

"Given the wartime, high operations tempo of the Armed Forces today, the need for the organizations represented here to provide their product -- quality of life—to their customers has never been greater. Moreover, the demand of their customers—active, Guard, reserve, retirees, and their families—for quality of life improvements and an expansion of the benefit has never been higher.

"I sincerely appreciate the efforts by our witnesses to provide wider opportunities for reserve and National Guard personnel here in the United States to take advantage of the commissary and exchange benefits. I am also thankful for the leadership, exemplified in our witnesses today, that has worked continuously to provide support to all military personnel, their families, and to retirees.

"As a veteran, I know firsthand of your providing modern, people friendly facilities. The highest compliment I can give you is that my wife and my mother-in-law, who is a widow of a veteran, are very satisfied customers of the Commissary and PX at Fort Jackson, South Carolina. With a higher percentage of married service members than ever before, your services are needed more than ever before."

STATEMENT

OF

ARTHUR J. MYERS

ACTING DEPUTY UNDER SECRETARY OF DEFENSE

(MILITARY COMMUNITY AND FAMILY POLICY)

BEFORE THE

SUBCOMMITTEE ON MILITARY PERSONNEL

OF THE

COMMITTEE ON ARMED SERVICES

HOUSE OF REPRESENTATIVES

ON

MARCH 12, 2009

Not for Publication until Released
By Committee on Armed Services
U.S. House of Representatives

Chairwoman Davis, Representative Wilson, and Distinguished Members of the Subcommittee, I welcome the opportunity to appear before you to testify about the commissary, exchange, and morale, welfare and recreation (MWR) programs.

President Obama is fully committed to providing a high quality of life for military members serving our Nation and their families. The Department of Defense recognizes that the quality of life programs are crucial to the military mission, the individual Service member, and the family. These programs are lifelines of support for military members and their families who are stationed around the globe. Our military leaders have testified to the inextricable link between investments in quality of life programs and readiness of Soldiers, Sailors, Airman, and Marines. We appreciate this Subcommittee's long record of advancing these programs and thank you for providing the Department the authorities needed to support our individual Service members and their families.

Quality of life factors are paramount to sustaining a strong military community that can adapt quickly to new challenges and unexpected circumstances facing our nation. In a letter written to military families just before the Presidential Inauguration, Mrs. Obama expressed her gratitude and commitment to those Americans whose military service is critical to the fulfillment of America's promise of opportunity, prosperity and security. The Department shares the First Lady's sentiments regarding the sacrifices made by military service members and their families, and remains committed to helping them successfully master personal and family life responsibilities while meeting the demands of military service.

Within the office of the Under Secretary of Defense for Personnel and Readiness, the Military Community and Family Policy organization oversees many of the Department of Defense quality of life policies and programs that sustain a motivated, combat ready force to meet current and future operational requirements; to address the generational expectations and aspirations of young single service members and married service members; and to support the needs of families who also serve. Our goals are to ensure that individuals and families are knowledgeable about the potential challenges

they may face; equipped with the skills to function competently in the face of such challenges; and aware of not only the availability of supportive resources to manage such challenges, but also how to access them. The programs must provide high-quality resources and support that ease the burden of their sacrifice and allow men and women in uniform to stay focused while executing their missions with efficiency and minimum distraction. Further, the programs must be available to all military families, wherever they reside.

The quality of life programs are not only benefits of military service, but also provide the social fabric that helps individuals and families to thrive and navigate through life changes, challenges, and crises. Our military members share the same economic concerns facing the average American today – worries that magnify with uncertainties of relocation, separation, deployment, isolation, and possible injury associated with military service. Therefore, the programs also provide stability and support in circumstances that are unique to military service. The network of services increasingly relies on partnerships to enhance quality of life and reach a force that mobilizes, deploys, and rotates in large numbers; the two-thirds of our active duty families who live off-base; the Guard and Reserve families who are not close to installations; and the more than half of our military spouses who work.

The commissary, exchange, and MWR programs, which are the subject of testimony today, operate within a broad structure of military community and family support programs and policies that have such a profound impact on the military quality of life and standard of living. I will cover those community and family programs as well as discuss the Department's oversight of the resale and MWR programs.

MORALE, WELFARE AND RECREATION (MWR)

MWR programs encompass a wide array of community support and business operations that support over 12 million authorized patrons at nearly 300 military installations in over 30 countries worldwide. Participation in recreation, fitness, sports, cultural arts and other leisure activities is the key to active living, which leads to improved personal health and well-being and helps build strong military families and healthy communities. Active living can also reduce stress, loneliness, obesity, and depression and builds positive self-esteem and esprit de corps, so critical in the military environment.

MWR Oversight

MWR Nonappropriated Fund (NAF) Financial Condition: The continued vitality of the MWR program depends on sound management, meeting command and customer needs, a predictable stream of NAF revenues, and also solid appropriated fund (APF) support of Category A (fitness, libraries, recreation centers, single Service member programs, intramural sports, and unit activities) and B activities (child and youth development programs, outdoor recreation, crafts and hobby shops, and small bowling centers). The Service's consolidated MWR NAF instrumentalities are in sound financial condition. NAF net profits decreased by $39.4 million in FY 2008 to approximately $86.4 million dollars (includes Marine Corps estimate). The reduction in net profit last year was due mostly to reduced gaming in Korea, retroactive payment of post allowance fees, and a decrease in military exchange dividends.

MWR Appropriated Funding (APF): FY 2008 MWR program APF funding was $2.6 billion dollars with $1.5 billion dollars in direct support. This represents 55 percent of total MWR funding with the remaining 45 percent supported with NAF. However, not all of the Services met the minimum DoD standard percentages of APF support for Categories A and B in Fiscal Year 2008. Category A activities should be supported with at least 85 percent of total expenses being supported with APF. In FY 2008, the Army achieved 84 percent and the other Services met or exceeded 85%.

Category B activities should be supported with a minimum APF of 65% of total expense. This year, all Services met or exceeded the Category B standard.

The FY 2009 budget has $2 billion in direct funding for MWR programs, of which $959 million is for child and youth development programs. The FY 2010 MWR program budget estimate for direct support is pre-decisional until it is submitted to Congress in April. Additional budget information can be provided upon submission of the FY 2010 President's budget.

MWR Wartime Support (Deployed Personnel and Families Back Home)

Communications: The ability to communicate with family and friends is the number one factor in being able to cope with longer and more frequent deployments. Service members have free access to the non-secure military Internet by using their military e-mail address, including aboard ships. They also have free Internet access at 720 free MWR Internet cafes in Iraq (an increase of 110 in 2008) with 8,305 computers and 3,677 VOIP phones. There are 74 MWR Internet Cafes in Afghanistan (an increase of 31 cafes) with 802 computers and 338 VOIP phones. Calls are less than $.04 per minute.

During the past two years, the Department funded an increase in satellite bandwidth to provide better speed and reliability, and antennae size was increased to allow more data to be sent over the Internet using less power. Service members have access to YouTube, MySpace, Facebook, and all the popular, widely used websites to better communicate with family and friends. To obtain this service, we contract commercial satellite service. MWR Internet cafes are also being installed in Education Centers, so Service members can complete on-line classes and conduct research. In addition, the Marine Corps' MotoMail, a HQMC-sponsored regular mail alternative program developed to support deployed Marines and families continues to be very popular. Through this enhanced capability, individuals can access an established web site and deliver a letter to deployed Marines in 24 hours or less.

Our MWR Internet Café provider in OIF and OEF is working to expand the program in Afghanistan but notes that obtaining available and suitable bandwidth is an ongoing challenge. We are closely watching the Marine Corps' "Morale Satellite Initiative", which we call "Internet in a Box", that could possibly supplement their efforts. Similar to MWR Cafes these computers provide unclassified, mobile, commercial communications capability to deployed units in austere conditions to "bridge" communications between troops and families and provide access to otherwise restricted but popular social network sites. The system, currently being tested in Afghanistan, includes a compact, auto-locating satellite dish, a router/central processing unit, and 8-12 laptop computers with webcam capability.

Back home, computers and Internet service located in our family support centers, recreation centers, installation libraries, and youth centers help ensure families can send and receive e-mails from their deployed loved ones. In fact, between home computers and family support and MWR sponsored computer centers, families are connected to their Service members in near real-time, which has a dramatic effect on readiness both at home and overseas.

Recreation: Sustaining morale and readiness during deployed operations (Afghanistan, Southwest Asia, and Balkans) is the essence of MWR programs. Service members have access to a full spectrum of MWR activities specifically implemented for forces deployed to fight the global war on terrorism. Recreation activities include cardiovascular and weight equipment, sports and recreation equipment, paperback and Playaways (self contained audio books), newspapers, magazines, board games, large screen televisions, DVD/CD players, up-to-date electronic games, first-run movies, a rest and recuperation program, and continuing education support. MWR recreation kits are sized to fit the needs of the deployed unit. Larger, more established locations (and ships) have full fitness centers, libraries, movie theaters, tactical field exchanges, MWR Internet cafes, etc. Professional recreational specialists also deploy to implement recreation programs and special events. Currently, the Army has 26 MWR civilian specialists in

theater, Navy has 36 civilian fitness/recreation specialists working onboard ships with a goal of 54, and Air Force deploys active duty personnel to provide food service, fitness and recreation support. Marines deployed to Afghanistan also serve as the resident experts in all aspects of quality of life support, including MWR and exchange programs.

We know commanders and troops appreciate this support as it provides needed release from combat stress and, oftentimes, boredom. For example, we continually receive rave reviews about the 127,000 Playaways shipped to troops deployed to remote, austere combat areas. Comments such as *"they go like hotcakes – send more"* to "*they help my troops calm down so they are able to get a full night's rest now*" let us know we are making a difference in their quality of life.

Support from the American public for deployed troops remains strong and the millions of care packages, commissary and exchange gift certificates and telephone cards, and other support continue to supplement the military Service's efforts to enhance morale. For example, thanks to the generous support from Congress, in 2008 the USO expanded the "Combat USO Program" to provide sources of recreation and entertainment outside the fence lines of our deployed installations. Working closely with the Service Senior Enlisted leadership and with input from troops in the field, the USO has designed easily transportable morale kits known as "USO in a Box." They are currently working with leadership to provide recreation support to the most remote outposts in Afghanistan.

Professional entertainment: Entertainment helps build morale and nowhere is this support more important than in the austere locations where Service members are performing duty. Armed Forces Entertainment (AFE), in cooperation with the USO, continues to provide much welcomed celebrity and professional Entertainment to our forces overseas. In 2008, AFE executed $9.1M and conducted 115 tours with 900 performances at 355 countries. Many of those tours were with USO coordination. Entertainers included Gary Sinise, Harlem Globetrotters, NCAA football coaches, NFL handshakes, Band of Brothers, Scott Stapp of Creed, and numerous other bands, comedians, and entertainment groups.

Each of the military Services also provides entertainment opportunities both in the United States and overseas. The Spirit of America Tour provides a brief reprieve from the stresses of deployments at military installations within the continental United States. Since 9/11, the Robert and Nina Rosenthal Foundation worked closely with the country music industry to provide over 100 celebrity entertainment shows at no cost to military personnel and their families. This year, Neal McCoy, the Charlie Daniels Band, and Aaron Tippin were just some performers who have given generously of their time and talents.

Fitness: All of the military Services continue to expand and provide innovative fitness programs that sustain a physically fit, healthy force in our military communities and for deployed men and women around the world. Long term plans will modernize the fitness infrastructure beginning with the Services request for ten fitness center military construction projects in FY 2009 and another 71 fitness centers programmed through FY 2014. Installation fitness facilities are one of the most important facilities on base for troops to release stress after returning from combat, combat obesity, and remain physically and mentally fit. Also, more and more, our installation fitness centers are becoming "family friendly."

Food and Beverage Operations

MWR continues to be a key component in the Services' ongoing assessments to improve the quality and quantity of food service capability, increase delivery efficiency, and reduce operational and infrastructure costs related to food service. Assessments review the state of current APF and NAF food service operations, customer expectations, infrastructure condition, and patron utilization. I want to assure Congress that these food service assessments are not an effort to displace socio-economically disadvantaged contractors, but the outcomes of these assessments may very well result in a Department-wide review of existing policies as we attempt to maintain wartime readiness and accommodate the needs of our younger work force and other authorized customers.

Outdoor Recreation

Service members returning from the intense conditions of war can get their adrenaline pumping and fill their bodies with good endorphins in our high-adventure recreation programs, like rappelling, rock climbing, mountain biking, jet skiing, white-water rafting, paintball, or windsurfing. With free time for the first time in a long time, they have many choices on how to spend it, including MWR outdoor recreation programs. The Army, for example has created Warrior Adventure Quest (WAQ), which partners with their Medical Command's "Battlemind" program to offer high adventure programs that are fun, challenging, supervised, safe, and provide great relief from combat stress. WAQ is currently targeted for full implementation in 3rd quarter FY09 and Army expects high rates of deployment; family members can also participate.

Inclusive/Adaptive Recreation

The ability of injured Service members to engage in recreational activities is a very important component of rehabilitation and reintegration. Our installation MWR specialists are successfully working with medical personnel, wounded warrior units, community parks and recreation, and non-profits to integrate sports and recreation as part of the healing process. We have contracted with Penn State University to provide 12 joint Inclusive Recreation Training Courses over 3 years. The 4-day course trains 30 installation recreation specialists to successfully integrate wounded warriors and family members into existing MWR programs. Initial feedback is very positive.

Thanks to support from Congress, the United States Olympic Committee's Paralympic Military Program has been hugely successful. The goal - to enhance recovery of injured service members and veterans through sport - is being accomplished through ongoing training programs at local, regional, and national sites that build capacity in collaboration with military, veteran and community based organizations. As of January 15th, more than 800 community leaders have received training in the development and implementation of sports programs for injured service members. 5,400 injured service members have been introduced to physical activity through ongoing sports programs at

military/veteran medical treatment facilities and installation MWR facilities. Grants have been provided to 14 community/military partnerships throughout the country offering 2,200 injured service members the opportunity to participate in sports. More than 50 injured service members have been identified as individuals who have demonstrated potential to pursue higher levels of athlete training and performance.

Additionally, at Congressional request we studied our capabilities of MWR programs to accommodate eligible disabled personnel, and to date the Services have purchased 254 adaptive golf carts at a cost of $2,028K for use on military golf courses. Last year we were unsuccessful in our effort to obtain legislative relief to permit use of APF to fund this ADA related requirement to be consistent with funding policy for other MWR Category C facilities and preclude undue hardship on troop's funds.

Information and Leisure Travel

The Department has 372 Information, Ticket and Tours (ITT)/Travel offices located worldwide to encourage military personnel and their families to get out and enjoy their duty location, wherever it may be. Experienced staffs provide information brochures, advice and often reservations for local and regional attractions; local or regional group tours; discounted tickets to local movie theaters, concerts, plays, sports events, museums; admission to regional or national theme parks; and discounted hotels, resorts, and even cruises. Customers consistently rank ITT/Travel offices as an important MWR benefit as it can help provide significant savings for the individual or family entertainment and travel budget. The Department plans to extend this important benefit to those without access to installation services by highlighting through Military OneSource the many outstanding DoD assets that can provide singles and families affordable vacations, often convenient to home. We are starting with promotion of the Armed Forces Recreations Centers, already popular but still accessible to our troops and families and will continue with the Services "best-kept secrets" whether they be beach front cottages, lake-side cabins, campsites, or RV parks – located in the most desirable locations in the world.

Libraries

In addition to monthly shipments of library materials (paperback and audio books, magazines and newspapers) to OIF/OEF, afloat units, and Defense Attaché sites, virtual resources located on the Army's General Library Information System, the Navy's Library Multimedia Resource Centers on ships and the Air Force's Learning Resource Centers provide continuous access to academic materials regardless of location through online library portals. This service greatly enhances the outreach capabilities of the Department's 189 installation libraries. Currently 101 libraries meet one hundred percent of DoD core standards with this number increasing each year. Of particular note, all of Marine Corps libraries meet DoD standards and they are the only Service to have three libraries with certified "DoD premier status."

Swimming Pools

The Virginia Graeme Baker Pool and Spa Safety Act (PSSA) (15 USC 8001) which went into effect on December 19, 2008 requires all DoD swimming pools, spas and wading pools used for recreational purposes to have or install compliant drain covers and in some instances, to have a secondary device or system designed to prevent suction entrapment. Like the public and private sector, the Services are struggling to meet this requirement. Industry wide demand and lack of availability of compliant drain covers from manufacturers created a significant delay in the procurement process. Many of our year-round pools are closed awaiting the parts necessary to meet the requirements of the law. Every effort is being made to ensure all pools and spas are compliant before summer, when our peak season begins. The unbudgeted cost to comply with the PSSA are still being compiled but are expected to exceed $1.5 million.

Gaming Program

Existing statute and DoD policy permit gambling devices on federal property overseas when allowed by Status of Forces Agreements. This program was approved by the MWR panel of the House Armed Services Committee in 1981 and continues to be a

popular recreational pursuit that contributes sizeable revenues in support of MWR programs. I mention this because, periodically, legislation is proposed, which would prohibit the use of gambling devices on DoD property and it's important to note what impact that would have on MWR operations. In FY08, net profit to MWR from gaming machines was $117.3 million. While down 9 percent from FY07, it is a significant revenue stream that supports facility improvements for those programs not authorized APF support (golf, bowling, food and beverage, etc) and a variety of quality of life programs such as outdoor recreation, youth programs and other community support activities. All the Services strongly support gaming and note that serious degradation to many MWR programs would occur should the slot machine program be curtailed. We are mindful of the possibility of negative consequences resulting from gambling and each of the military Services has increasingly robust financial readiness programs in place to prevent such situations.

Expanding the MWR Benefit Off-Base

Last year we reported that we were exploring efforts to expand the military MWR benefit to Active Duty, Guard and Reserve and their families who do not have access to installation MWR programs. The goal was to promote a healthy lifestyle and create a sense of community for our military members who do not have the infrastructure support an installation offers. I am pleased to report we have partnered with the Armed Services YMCA to offer memberships at local, participating YMCAs to families of deployed Guard and Reserve personnel, Active Duty Service members assigned to Independent Duty locations, any relocated spouse of a deployed Active Duty Service member and a limited number of personnel assigned to newly-established joint bases. In the first five months of the program over 9,484 military families, including more than 14,600 children, have been enrolled. Initial response is overwhelmingly positive and we are expanding our marketing efforts to reach more eligible families.

Another initiative we spoke of last year was a Lean Six Sigma study of library materials purchases and online library support. This effort took into account the

economies of scale for joint procurement in support our mobile military members who don't have access to installation libraries to provide entertainment, learning or solace. As in the public sector we have seen a widespread increase in online library services. Our focus was on purchasing electronic and audio books, and lifelong learning, reference and career resources for all ages and interests. Library resources are in print, electronic and downloadable format available for free from Military OneSource, virtually anytime, anywhere in the world. Resources include auto, home, and small engine repair, Career library, Peterson's Life Long Learning, Tumblebooks for kids, and NetLibrary audio and E-books, just to name a few. This has been extremely well received with the number of hits for all online resources exceeding over 2.5 million in the first six months. Additionally, authorized users requested 5,500 Playaways and 5,000 paperback books, which are now available free from Military OneSource. The free books were so well received we are currently in the process of restocking inventory to meet demand. Clearly our military and their families need and support online library programs and services.

Warfighter and Family Support (As a MWR Category A Activity)

In November, the Department notified members of Congress of a policy change to designate Warfighter and Family Services (WFS) as Category A MWR programs, at the discretion of the military Service. Like MWR Category A programs, WFS are vital to mission accomplishment, support commanders, and help warfighters and their families. Taken together, MWR and WFS programs can offer commanders a more flexible, integrated approach for the delivery of services to troops and families. WFS program shall remain funded 100 percent with WFS appropriations including its facilities and common support costs. The Navy and Marine Corps have acted on this and developed appropriate accounting and reporting procedures to operate WFS as a Category A MWR program and maintain funding integrity. The Air Force does not plan to implement this policy, and the Army is still reviewing options.

PERSONAL INFORMATION SERVICES

Responding to House Report 110-652, the Department has defined personal information services, reviewed applicable laws and regulations, and defined the roles and functions of military MWR activities and exchange systems in providing information services. Personal information services include, but are not limited to, Internet, telephone, and television access via any delivery method such as wireline and wireless. The Army and AAFES have signed a memorandum of agreement to eliminate competition. The Department has drafted policy on personal information services for MWR, exchanges, and lodging programs assigning responsibility to the Secretaries of the Military Departments to designate responsibility for providing those services in areas outside the MWR, exchange, and lodging facilities.

CHILDREN AND YOUTH PROGRAMS

The Department is focused on improving access to affordable, high-quality child care and youth programs across the nation to help families more effectively balance the demands of family life with military service, particularly during times of deployment. We are also seeking new ways to support families with special needs and those who face injury, illness and loss, with particular attention to the emotional and developmental needs of children and youth. Our efforts require coordination, collaboration and efficiency across multiple levels of government and within communities where military families reside. We are developing unparalleled partnerships to support families, which is enabling the exploration of important research questions and the execution of innovative communication and outreach strategies, including opportunities to give service members and families a voice.

Child Care

Military families continue to face child care challenges that are not typically found in other work environments. Non-traditional work schedules and work schedules that are often longer than the typical eight-hour day, as well as the ever-present possibility of

being deployed anywhere in the world on a moment's notice, require a child care system that is flexible and one that maintains high quality standards. DoD's Child Development System aims to accommodate the youngest members of the military community by providing quality, affordable child care for infants, toddlers, pre-school, and school age children.

We have a robust child care program in DoD and our child development services continue to be a national model. The DoD child care system provides service on a daily basis for the largest number of children of any employer in the United States. The DoD serves over 200,000 children (ages 6 weeks to 12 years) daily. Approximately 53 percent of all of the care provided is for infants and toddlers, care that is particularly difficult to find in the civilian sector. The system offers full-day, part-day, and hourly (drop-in) child care; part-day preschool programs, before and after-school programs for school-age children; and extended hour care including nights and weekends. Military child care is provided in almost 800 Child Development Centers at over 300 geographic locations, both within the United States and overseas. On March 1, 2007, the National Association of Child Care Resource and Referral Agencies rated the DoD child care system the top ranking among all 50 states with a score of 117 out of 150 points, 27 points ahead of its nearest competitors (New York and Illinois).

DoD continues a strong commitment to child care and youth programs through adequate funding, strict oversight, continual staff development, and strong family involvement. DoD's policy is to subsidize at least 65 percent of the cost of childcare, and members are charged weekly fees based on a sliding scale according to income. Weekly fees have not been increased since SY 2004/2005. In FY08, the Department dedicated substantial funding toward a myriad of initiatives including construction projects, respite care, and programs that support families. Yet, we still have unmet demand for thousands of children. Efforts are ongoing to address an estimated shortage of approximately 37,000 child care spaces needed for active duty, Guard, and Reserve families. The Department has exercised a robust program to accelerate child care capacity and increase

spaces on a rapid basis. The temporary program to use minor military construction authority for the construction of child development centers provided a means to increase the availability of quality, affordable child care for Service members and their families.

Child care is a workforce issue affecting the performance and readiness of the Total Force. The Department continues to be committed to providing families access to high quality, affordable child care programs and to meeting the increased demand due to high deployments and operation tempo. The Department's holistic and systematic approach is to meet the needs of families by providing not only quality child care programs but providing *peace of mind* to our military families regardless of where they may live.

Youth Programs

The Department provides more than 350 dynamic, innovative and successful youth programs to more than 500,000 military connected children and youth between the age of 6-18, not only across the United States but around the globe. DoD promotes positive youth development by designing programs to recognize the achievements of youth and by developing partnerships with other youth-serving organizations like the Boys & Girls Clubs of America and 4-H that offer a variety of resources. Programs prepare pre-teens and teenagers to meet the challenges of military life, adolescence, and adulthood. Programs usually include physical fitness and sports, arts and recreation, training in leadership, life skills and career/volunteer opportunities, mentoring, intervention and support services. DoD promotes programming to support character and leadership development, sound education choices, healthy life skills, the arts, and sports and recreation as well as programs to recognize the achievements of military youth. Many programs offer summer day camp programs and youth employment. The 22 youth facilities funded in 2008 and 2009, totaling $145.6 million in nonappropriated funds, constitute a critical aspect of supporting families by providing additional facilities to meet youth program needs.

FAMILY SUPPORT PROGRAMS

In 2008, the Department conducted a series of Joint Services Family Assistance Workshops for family support personnel both on installations and those who serve with the National Guard and Reserve components. The training provided hands-on experience with the variety of resources available on line and also afforded the participants the opportunity to develop communication plans to ensure that what they learned would be communicated to their colleagues, leadership and to the families they serve. *Over one thousand providers were trained in 14 locations within the United States and in Europe. Training continues throughout 2009 in joint basing locations including Hawaii, Guam, and Alaska.*

FAMILY ADVOCACY PROGRAMS

We are committed to supporting our families during this time of high operating tempo, and we are closely monitoring family violence in the Active Component. We continue to seek new ways to reach families through formal and informal community networks, the Family Advocacy programs, the Family Centers, public awareness campaigns and public service announcements, on line resources such as Military OneSource, and clinical providers who offer training and non-medical counseling before, during and after deployment. So far our rate of child abuse and neglect has remained stable and is approximately half that for civilians. The number of reported incidents and rate of spouse abuse in the Active Component have declined steadily since 2000 and there is no comparable rate in the civilian community that matches our demographics. We will continue to strengthen and expand support networks, programs, and services to prevent and effectively respond to family violence in our military communities.

COMMISSARY AND EXCHANGE PROGRAMS

The commissary and exchange programs, or "resale activities," are components of the military compensation system and are important contributors to morale and readiness.

The Department remains committed to providing the resources and setting the direction and goals to sustain the commissary and exchange benefits for the ultimate stakeholders, the military members on active duty. The FY 2010 funding details will be available when the President's Budget is submitted in April.

Oversight of the Resale System

The Executive Resale Board advises the USD(P&R) on the complementary operation of commissary and exchange systems. Since its members may also serve on the Commissary Operating Board and the Exchange boards, the Executive Resale Board provides valuable insight where there are mutual interests. We set long term goals and monitor program performance through the DeCA Board of Directors, the respective Exchange Boards, and within my office. The commissary and exchange performance are components of the Quality of Life Social Compact Improvement Index in the Performance Accountability Report and the Department's Annual Report to the President and the Congress.

The Department places great confidence in the leadership of these organizations, who also testify today. Under their energetic leadership, the commissary and exchange organizations are working together and partnering with industry and other quality of life programs to overcome shared challenges, expand capabilities, and complement their activities to support the military community. The exchange commanders have shown a keen interest in pursuing cooperative efforts; they are making progress toward producing more standardized performance measures against program and financial goals established by their Military Services, and maximizing efficiencies in systems, logistics, and supply. There are no plans to consolidate or privatize the resale system.

Accomplishing Resale Missions and More

The military community considers their commissary privilege to be one of their top two non-cash benefits. Recognizing that the commissary store is a magnet within the military community, the Defense Commissary Agency is taking a leading role to promote

other quality of life programs in its 255 commissaries that sell groceries around the world and the 158 on-site grocery sales conducted by DeCA at Guard and Reserve locations. The three exchange systems – the Army and Air Force Exchange System (AAFES), the Navy Exchange System Command (NEXCOM) and the Marine Corps Exchange (MCX) – operate over 3,700 retail outlets that sell a wide range of goods and services and distribute 63 percent of their profits to support MWR programs at 300 military installations, in 89 contingency operations, and aboard 161 ships. Soon, AAFES will deploy new mobile exchanges specially outfitted to serve Guard and Reserve units together with DeCA. In combat areas, the exchanges provide 129 retail operations ranging from exchanges to imprest funds, 228 name brand fast food outlets, 600 service concessions, and telephone services that minimize costs for deployed members to call home. Commissaries and exchanges are not only a reliable source from which to purchase quality American products at a savings, but, in many areas, they are the number one employer of family members.

Superior Customer Savings. We encourage our military families to be careful consumers and to take advantage of the tremendous savings available in the commissary and exchange. Our resale activities deliver impressive market basket savings in a highly competitive retail environment. By law, DeCA must sell products at cost plus a five percent surcharge. DeCA's goal is to provide a 30 percent average savings for customers. On a world-wide basis, commissary customers are saving 31 percent after paying the surcharge, which equates to nearly $3,400 a year in disposable income for a family of four that does all their shopping in a commissary. The exchange customers save 20 to 27 percent, plus savings from sales taxes, compared to a target of 15 percent.

Operating Results Exceed Goals. Despite consumer belt-tightening in the last half of 2008 and store closings in Germany, the resale system posted strong sales of $17.8 billion and sales are expected to grow to $18.8 billion in 2009. DeCA met or exceeded all performance goals in Fiscal Year 2008 and is performing equally well in 2009. The exchanges estimate Fiscal Year 2008 profits at $571.7 million, which are an

improvement over last year's earning of $554.6 million and are far greater than the planned $395.9 million. Based on current projections, the exchanges will contribute $359 million of 2008 profits to support the MWR programs. The audited financial statements report that the exchanges are in sound financial condition, with Standard and Poors ratings of A-1+, and DeCA received its seventh consecutive unqualified opinion.

Opportunities to Improve Performance

Advertising and Selling Flexibility. The military resale community is exploring ways to adapt our marketing and selling practices to be more responsive to our military customers. Nationally recognized consumer research shows that commissary and exchange customers place a premium on the value and the quality of products. However, customer loyalty lags behind our industry counterparts. Most military customers drive over 10 miles from their homes off-base to reach the commissary and exchange – on a route filled with retailers that target advertising and services to the military market. By easing advertising restrictions, our customers will have ready access to information on sales events, product availability, and current prices in our exchanges and commissaries. For those members who can not shop in the stores, we are expanding on-line shopping and exploring home delivery and commercial partnerships.

Improve Merchandise Availability. Our customers are pressed for time and want the convenience of one-stop shopping. We have an obligation to lift merchandise restrictions, pursue partnerships, and invest in technologies that ensure the commissary and exchange carry and have in stock the merchandise and services that our customers consider important. In approaching these initiatives, the Department will take into account concerns about taxpayer subsidies and competition.

At the Subcommittee's request, the Executive Resale Board examined the pros and cons of testing the sale of beer and wine in the commissary stores. As recommended by the Board, a test will be conducted that balances customer convenience with the objectives of our alcohol deglamorization efforts. In consideration of those objectives,

DeCA and AAFES are in the process of developing parameters for the study and test to commence later this summer at selected Army and Air Force locations.

Thank your for supporting our request to relax some of the cost and size restrictions on television, furniture, and jewelry. The authority to sell a wider variety of exchange merchandise improves our capability to meet the needs of members and their families. Regardless of where they are stationed, our military families deserve the best price, selection, and financing for major purchases. The Department's preference is to eliminate the remaining merchandise restrictions, especially those related to furniture outlets and selling space.

Telephone Services in Combat Areas. We appreciate your continued support as we consult with Congress on other opportunities to improve services offered to military customers. The Exchanges contract for telephone services in combat zones, operating 72 calling centers with 1,536 phones in Iraq, Afghanistan, and Kuwait, plus calling centers on-board ships in theater. Rates are 45 cents per minute afloat and 15 cents per minute ashore. The Exchanges are in compliance with the Department of Defense policy and the law, which require that contracts for telephone service be awarded through competitive procedures and include options to minimize costs to individual users. Where feasible, the contracts provide the flexibility to use a variety of phone cards. The Department will report the results of our review.

FUNDING OF CAPITALIZATION PROGRAMS

In addition to facilities construction programs reported to the Congress, the commissary surcharge and nonappropriated resources fund capital programs for equipment, information systems, and sustainment, restoration, and modernization projects. The Military Departments, through their representation on the DeCA, Exchange, and MWR Boards of Directors, provide critical advice on the facilities needed

and priorities for allocating available nonappropriated and surcharge resources among these capital requirements.

Overall, capital programs and the investment in facilities have steadily increased over the past five years. After a Fiscal Year 2007 dip in the major construction element of the program, the Subcommittee requested that the Department conduct a review of the sufficiency of resources for Fiscal Years 2008 – 2017 for facility requirements. The reviews by the Military Departments, identified unfunded requirements for facility maintenance and replacement requirements that are funded with nonappropriated and commissary surcharge funds. The Military Departments plan to address those requirements with emphasis on renovations, repairs and maintenance to extend the useful life of facilities and, where new facilities are required, pursuing multi-purpose/multi-use projects, public-private ventures, commercial borrowing, new revenue sources, and inter-program business ventures. At this time, there is no plan to raise the surcharge rate to fund commissary requirements.

As a general rule, we do not continue commissary, exchange or MWR operations after an installation closes. By divesting infrastructure that are no longer required to support active duty missions, resources can be redirected to support the military communities with an active duty mission and a sufficient concentration of assigned personnel who will use the programs. Those facilities and equipment requirements necessitated by BRAC, restationing, new establishments, and other mission-directed changes must be programmed for funding through appropriations. These requirements are being readdressed as part of a comprehensive, prioritized infrastructure plan being developed by the Military Departments, who have funding responsibility for these programs.

BASE ACCESS

Our trading partners understand the importance of product selection, pricing, and the availability of the latest products to our customers. The post-9/11 environment has increased demands for controlled access to our military installations, which affects our suppliers' capability to sell and stock popular merchandise in our stores. The Department is working with other federal agencies and industry to determine credentials that best fit our vendors and meet requirements for interoperability, security and screening requirements within the Department and federally. We appreciate industry's willingness to partner with the Department in this endeavor.

TEACHING THE CHILDREN OF AMERICA'S MILITARY FAMILIES WORLDWIDE.

A key quality of life issue is the education of military children. Service members often make decisions about assignments based on the availability of quality educational opportunities for their children. For over 60 years, the Department of Defense Education Activity (DoDEA) has provided quality pre-kindergarten through 12th grade educational opportunities and services to military dependents around the globe, who would otherwise not have access to U.S.-accredited public education. *Of the approximately 1.2 million military school-age children, DoDEA educates nearly 85,000 in 192 schools in 12 foreign countries, seven states, Guam, and Puerto Rico with 8,700 educators.* DoDEA also operates a tuition reimbursement program for military assigned overseas without a DoDEA school. Through the Educational Partnership Initiative, authorities provided by the Congress, and new technologies, DoDEA can expand its reach to the approximately 92% of military students who do not attend DoDEA Schools.

The ongoing relocation of thousands of military students through force structure changes has created an urgent need and responsibility to enrich and expand partnerships with military-connected communities to ensure the best possible educational opportunities for

military children. DoDEA works collaboratively with the Secretary of Education to ease the transition of military students, to use DoDEA funds to share experience with local education agencies (LEAs) who educate military students, and to provide programs such as distance learning and teacher training to LEAs with military students undergoing transition from force structure changes. DoDEA is developing a new approach to provide a fully accredited virtual school program for Grades 9-12. Beginning in School Year 2008-2009, DoDEA plans to increase course offerings within the existing distance learning program to implement a comprehensive accredited virtual high school by School Year 2010-2011. A middle and upper elementary program is also planned for delivery in subsequent years.

Many of the school facilities within DoDEA have exceeded the life expectancy and do not meet today's educational standards. Schools are currently operating within structures that were erected in the 1930s through the 1960s. These aged buildings were either built for other purposes (i.e., barracks, administration buildings) or were constructed prior to major technological advances for the Kindergarten to High School learning environment. Independent condition assessments indicate that it is more cost-effective to replace these buildings than to upgrade or modernize them. This supports the Department's force management quality of life and retention goals of attracting and retaining the highest quality personnel.

MilitaryHOMEFRONT (www.militaryhomefront.dod.mil) is the DoD library of official information about Quality of Life programs for helping professionals and military families. This information includes policies, reports and directives. The website provides information on topics from child care to relocation, special needs to voluntary education, morale welfare and recreation to combat stress. Further, DoD uses MilitaryHOMEFRONT to develop tools, accessible through both the Military OneSource and MilitaryHOMEFRONT websites, to assist families – including the very popular "Plan My Move" and "Military Installations." Military Installations, an on-line directory within the website, provides access to points of contact for 56 activities on installations

worldwide, including the commissary, exchanges, MWR programs, child development centers and the military health care facilities.

PlanMyMove (www.militaryhomefront.dod.mil/moving) is the on-line moving tool that helps Service and family members organize their moves resulting from PCS orders. PlanMyMove outlines the moving process, breaking it down into clear manageable steps. This resource is especially useful to family or Service members who are completing their first PCS move, and is very helpful to any military member who needs help remembering all the details associated with a move. PlanMyMove generates a customized calendar with general and installation specific information necessary for a successful move. In addition to the helpful tips and articles, there are checklists, phone lists, and additional resources for both the old and new installation. Topics addressed for each installation include: child care and youth services, shipping household goods, housing - permanent and temporary, education and employment, special needs, health care, sponsorship and many other areas of interest. *PlanMyMove averages 25,000 visitors per month and 200,000 page views.*

MILITARY ONESOURCE CENTER

Six years of deployments and redeployments have prompted the Department of Defense to rethink methods and strategies to deliver family support. Two major issues drove the development of the new delivery system: 1) how do we meet the needs of the National Guard and Reserve families and those geographically dispersed, and 2) how can we meet the needs of commanders for surge support surrounding deployments.

With emergency supplemental funding, the Department responded by developing new responses to these emerging needs to fill in the gaps in the quality of life programs. Primary among those responses was the opening of the Military OneSource Center, designed to provide Active Duty and Guard and Reserve Commanders the vehicles for surge support during deployments. The creation of the Center acknowledges the heightened importance of families, *who also serve*, and who also have an important

presence in the minds of those on the battlefield. The Military OneSource Center, along with the Military OneSource 24/7/365 call center and web-site, provide the scaffolding for our outreach and support.

Military OneSource.com and Call Center. Launched in 2002, Military OneSource provides support services 24/7/365 to active duty, National Guard and Reserve component Service members and their families world-wide. This backbone of the Military OneSource Center provides toll-free confidential telephonic support and a website that provide interactive tools, locators, educational materials, discussion boards, tip sheets, links to military and community resources, and tax filing services, among other services.

This program is one of the Department's resounding successes, offering free, convenient access to confidential resource and referral support. When a Service Member or family member calls, a master's level consultant provides immediate assistance. The inter-active web-site offers locators for education, child care, and elder care; financial calculators, webinars; and relocation tools. It also provides on-line access to consultants, educational materials, articles, CDs, booklets and organizers on subjects ranging from finances to parenting to combat stress. Services by phone include personalized consultations on specific issues such as education, special needs, and finances and customized research detailing community resources and appropriate military referrals. Face-to-face and telephonic counseling sessions are available for short-term problems such as stress management, work-life balance and parenting, as well as couples' concerns, grief and loss or adjustment to deployments.

Telephone Calls *– up to 2000 per day* *Top 5 reasons for calls:* *1. Relationships-couples* *2. Stress Management* *3. Family Relationships* *4. Mental Health-Depression* *5. Personal Growth*	***Web Usage*** *– 26 million hits; 250,000 visits* *Top 5 reasons to go online:* *1. Dealing with Deployment* *2. Balancing Work and Life* *3. Managing Stress* *4. Preparing for Deployment* *5. Child's Stress or Grief*

The Department is aggressively pursuing the integration of social networking through Military OneSource. To foster community, the Department is building an online forum and blog capability so that troops and families can support each other and have access to a virtual community. TroopTube, a recent innovation similar to YouTube, is an online capability that allows families to connect with each other through video vignettes. TroopTube is designed to build community, morale and a sense of belonging; and to foster the connections with family and friends necessary for emotional support.

Over 13,000 users and approximately 2000 videos have been posted since October 2008. Secretary Robert Gates, General Petraeus, Commander, U.S. Central Command, and Admiral Michael Mullen, Chairman of the Joint Chiefs of Staff have provided "from the top" video messages.

The Military OneSource Center emerged as the outgrowth of the successful implementation of the joint Military OneSource 24/7 Call center and website tools. The Military OneSource Center is the commanders' response for surge and on-demand quality of life support services and is designed to build a sense of community within the military. In addition to the Military OneSource Call Center and web site, the Center provides the following outreach services and support to commanders.

Outreach Counseling offers Services members and families with confidential, short term, situational, problem solving assistance, instrumental for coping with normal reactions to the stressful situations created by deployments, family separations and reintegration. *Over 36,000 counseling sessions were conducted during the first quarter of FY 2009.*

Members of the active force, National Guard and Reserve Components, and their families continue to seek support for stress associated with the increased operational and personnel tempos. In response, the Department is providing confidential, non-medical,

short-term, problem solving counseling support to augment support services offered by the respective Military Departments. The Department's two primary counseling initiatives are offered through *Military OneSource* and the Military and Family Life Consultant program. All counselors supporting these initiatives are licensed mental health counselors trained to provide confidential assistance to those experiencing challenges unique to the military lifestyle.

Military OneSource offers confidential face-to-face, telephonic, and on-line counseling up to six sessions. *During FY-08, MOS provided approximately 105,488 face-to-face counseling sessions. Telephonic and on-line counseling sessions are new and beginning to grow.*

The Military and Family Life Consultant (MFLC) program provides professional, confidential, and flexible service delivery on a 30-90 day rotational basis on military installations to meet surge support requirements, an on-demand basis to support Guard and Reserve events, and full time capability for special projects. MFLCs provide support to all levels of the command structure, Family Readiness Groups, chaplains, Child and Youth Programs, summer camps for children, marriage enrichment seminars, couples communication, and more.

During FY08 MFLCs on active duty installations, Joint Family Support Assistance Program teams, and those supporting on-demand events for the Guard and Reserve component provided support to 3,187,644 people. Of these individual support contacts, approximately 71,325 were face-to-face counseling sessions with an MFLC.

Financial Counseling. Additionally, financial counseling is available, through both Military OneSource and the MFLC program, to assist with the financial concerns of military members and their families during all stages of the deployment cycle. The Department has been highly successful in making available and deploying these services world wide.

Financial Readiness Challenge Installation Roadshows. Installation workshops are delivered on demand that include information about budgeting, mortgage and foreclosure, debt reduction, saving and investing, identity theft and retirement planning.

Twenty-three road shows have been conducted since November 2008 serving over 5,000 members and families; over 20 events are scheduled in 2009.

Regional Workshops. Worldwide workshops for staff are conducted at installations to provide up-to-date accurate information on services available to military families. Participants gain hands-on experience using tools, resources and services from Military OneSource.

Fourteen workshops have been conducted since September 2007 for over 2000 participants.

Military Spouse Career Advancement Accounts. To jump start portable careers in health services, education, information technology and financial services, up to $6000 per spouse can be granted to assist spouses in developing careers. This, in turn, supports families in attaining their aspirations and goals that may be interrupted as a result of the mobile military lifestyle.

The vast majority (77 percent) of military spouses want to work and also want a career – a portable career. Seventy percent report that it is important to work for basic expenses.

Yellow Ribbon Reintegration Program. The Yellow Ribbon Reintegration program (Joint Guard and Reserve Family Assistance Support Program) provides a continuum of support and services for National Guard and Reserve members and their families during pre-deployment, deployment, post-deployment, reunion and reintegration. Services have reached 364,000 Service members and families over the last year. The Military Departments stepped up to the responsibility of providing 30- 60- 90-day events and support services to commanders, members and families as close as possible to where the member resides. Their successful efforts have been supported by the Joint Family

Support Program. Teams provide information and referrals to community services and support; non-medical counseling and education to individuals, families and groups; child and youth services; financial education and counseling; and community capacity building to support families' access to local resources such as Red Cross, churches and veterans' associations. Additionally, upon request, the program has surge capability to meet commanders' needs in all 50 states and 4 territories. It is a support service multiplier by broadening the network of resources beyond those that exist on installations.

Over the last year, teams have provided outreach to 364,000 service members and their families at more than 7,700 events sponsored by commanders in all military components, states and territories.

Wounded Warrior Resource Call Center. Embedded in the Military OneSource Call Center, this feature provides Service members who have become wounded, ill or injured, as well as their families and their primary caregivers, with a single point of contact for referral to Services' resources. Assistance is provided with reporting deficiencies in covered military facilities, obtaining health care services, receiving benefits information and any other difficulties encountered.

OFF-DUTY, VOLUNTARY EDUCATION PROGRAM

The Department's off-duty voluntary education program is the largest continuing education program in the world. It helps Service members plan and pay for their off-duty education expenses. Counselors at over 350 education centers on military installations world wide provide Service members and their adult family members guidance and assistance about educational opportunities on-base, in the community, and at a distance; eligibility for programs; and financial assistance. The wide array of education programs include high school completion, basic skills training, licensure and certification programs, post secondary degree programs, independent study opportunities, distance learning programs, and academic bypass exams that can provide college credit. *During FY 2008, more than 450,000 troops enrolled in over 815,000 courses; 42,500 earned*

degrees; over 4,000 were awarded professional certificates and licenses; 155,000 took over 216,000 exams (academic by-pass, GED, SAT, ACT, GRE, GMAT, etc.) at DoD expense. We currently provide tuition assistance coverage up to $250 per semester unit of credit and up to $4,500 per year. With the increasing costs of education driving up out-of-pocket education expenses for Service members, we plan to review the level of coverage.

DEPARTMENT OF DEFENSE AND STATE LIAISON

The Department of Defense is developing working relationships with Federal agencies, non profit organizations, and state governments to support Service members and their families. Expanding on our partnerships with the Departments of Education and Labor, the Department established the DoD-State Liaison Office in 2004 to work with state governments to make them aware of 10 key quality of life areas, which are most appropriately worked by state governments. The states are assisting with several initiatives - supporting the severely wounded, ill and injured through community outreach, increasing the availability of quality child care by establishing state quality rating systems, and facilitating the growth of portable careers for military spouses through expedited licensure and certification – mentioned elsewhere in my testimony. In addition, the states are providing tremendous support to our service members and their families in the following areas:

- Increasing Key Support for Guard and Reserve Members and their Families: The states recognize the demands that have been placed on their citizens and have significantly increased their level of support. *In 2008, states reported providing a total of 1,153 separate items of support to Guard and Reserve members and their families, an increase of 613 from their initial report in 2004.*
- Minimizing School Disruption for Military Children during Transition and Deployment: On average, military children attend school in approximately eight school districts in 12 years resulting in potential stumbling blocks in enrollment, eligibility, placement and graduation, as well as additional anxiety as a result of

parental deployments. *The Interstate Compact on Educational Opportunity for Military Children facilitates uniform treatment of military children as they transition between school districts. It was adopted by 11 states in the first year of consideration, with another 30 states considering legislation in 2009 to adopt the Compact.*

- Expanding Unemployment Compensation for Trailing Military Spouses: In 2004 only 11 states considered a military move as an involuntary reason for working military spouses to leave employment, thus allowing them to be eligible for unemployment compensation. *With Michigan's approval in January, there are now 25 states offering this unemployment compensation eligibility for military spouses.*
- Promoting Enforcement of the Predatory Lending Regulation: The Talent-Nelson Amendment of the John Warner National Defense Authorization Act for Fiscal Year 2007 directed the Department of Defense to establish a regulation to control lending products seen as hazardous to Service members and their families. In October 2007, the DoD regulation placed limits on payday, vehicle title and tax refund anticipation loans. There has been concern that the DoD regulation would not be adequately enforced by state regulators, who are the primary overseers of payday and vehicle title loans. We have found that these regulators are including the DoD regulation in their examinations of these lenders, and have reported that lenders are complying with the regulation when informed of the requirement. In addition, there are 21 states with the authority to enforce the restrictions of the regulation over payday lenders and an additional 11 states which do not allow these loans within their states. Nine of the roughly 25 states which allow vehicle title loans have authority to enforce the regulation. The Department is working with the National Conference of Insurance Legislators (who also cover state regulated financial services) to send a resolution to the states without enforcement authority, requesting they consider providing their regulators this authority.

ARMED FORCES RETIREMENT HOME (AFRH)

The Department takes its oversight responsibilities of AFRH very seriously and we thank the members of Congress for your strong support of this one-of-a-kind, independent federal agency, established to care for our Nation's Veterans in three settings – independent living, assisted living, and long term care. AFRH was recently awarded a 5-year accreditation for the first time by the Commission on Accreditation of Rehabilitation Facilities, a nationally recognized agency responsible for accrediting facilities providing continuing care retirement services. We continue to work with the Deputy Director, TRICARE Management Activity in his role as AFRH Medical Advisor, to follow-up on allegations of substandard medical care and are reviewing on-going processes and procedures to ensure high quality standards of care are maintained. We are also working with the DoD Inspector General's office in preparation for a comprehensive inspection in September, 2009.

Working in partnership with GSA, our lead construction agent, I am pleased to report that the rebuild of the AFRH-Gulfport remains within budget and on-track for a July 2010 completion and resident occupancy in October 2010. The design-build state-of-the-art project is 39% complete. Design is 100% complete, finishes and final color selections are being reviewed, and furniture, fixtures and equipment procurement packages are being prepared. A "*Topping Off*" ceremony for construction workers, community leaders, and others was held February 27th.

To begin needed modernization at the DC campus, $5.6 million in Trust Funds was approved to begin planning for a design-build renovation of the Scott Dormitory or the "Scott Project." Built in 1954, the Scott Dormitory has had no major renovation and a 2007 capital study identified over $81 million in needed repair work. In 2006, 54 percent of all the work orders on the Campus were associated with the Scott Building. The Scott Project is estimated at $76 million, including $70 million approved for FY 2010. Completion of the Scott Project will provide significant operational savings, result in a new common space for all levels of care, and provide new assisted living, long-term

care, and memory support accommodations in the same footprint as the costly Scott Building.

COMMERCIAL SOLICITATION

Public Law 109-290 and the revised DoD Instruction 1344.07 "Personal Commercial Solicitation on DoD Installations" appear to be having the desired impact of reducing instances of sales of inappropriate life insurance or financial products to Service members. Preliminary feedback following recent visits by the DoD IG to three European and two stateside installations found no instances of inappropriate sales products to Service members while on base. While they found instances of inappropriate sales products outside a military installation stateside, the State Office of Insurance Regulation was taking appropriate action. We continue to work closely with the National Association of Insurance Commissioners, who with our help developed a Military Sales Practice model regulation that sets forth standards for commercial solicitation and life insurance products both on and off installations. 46 states have adopted or enacted legislation and accepted the model legislation.

POST ALLOWANCE

DoD policy requires that an overseas cost-of-living allowance be paid to all U.S. employees (appropriated and nonappropriated) overseas, including locally hired employees. Only the Army consistently paid the post allowance to nonappropriated fund employees. All other nonappropriated fund instrumentalities were required to begin paying as of March 2008 and to pay retroactively to December 1, 2001. The liability for the retroactive payments is estimated at $68.3 million, of which approximately $53.9 million was paid as of the end of January 2009. Components are authorized to use appropriations for this liability.

IMPLEMENTING JOINT BASING

For the twelve joint installations created under BRAC legislation, the Department issued detailed guidance, including supplemental guidance for the nonappropriated fund

activities and civilian human resources, and common installation support definitions and standards for the lodging, MWR, children and youth, and warfighter and family services programs that will merge. We are working with the Military Departments and the installation commanders to finalize the memoranda of agreement to ensure that all Component equities are represented and that implementation procedures and end-state programs conform to the guidance. Five Phase 1 installations are on schedule for full operational capability on October 1, 2009: Joint Base Andrews-Washington, Joint Base Myer-Henderson Hall, Joint Base McGuire-Dix-Lakehurst, Joint Expeditionary Base Little Creek-Fort Story, and Joint Region Marianas Guam. Meanwhile, the remaining seven Phase 2 joint bases are developing their memoranda of agreement to achieve full operational capability on October 1, 2010.

CONCLUSION

Madam Chairwoman, I would like to conclude my testimony by thanking our dedicated workforce who chose the highest calling of public service in support of the men and women who defend our Nation and their families. I thank our industry partners, advocacy groups, and the Subcommittee for your genuine concern about the welfare of the military community. We share a passion for improving the quality of life of our Soldiers, Sailors, Airmen, and Marines and their families.

RECORD VERSION

STATEMENT BY:

MAJOR GENERAL KEITH L. THURGOOD, USA

COMMANDER, ARMY AND AIR FORCE EXCHANGE SERVICE

BEFORE THE

MILITARY PERSONNEL SUBCOMMITTEE

OF THE

COMMITTEE ON ARMED SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

111TH CONGRESS, 1ST Session

HEARINGS ON

MORALE WELFARE AND RECREATION PROGRAMS

AND RESALE ACTIVITIES

12 MARCH 2009

NOT FOR PUBLICATION
UNTIL RELEASED BY
THE HOUSE ARMED
SERVICES COMMITTEE

Madam Chair and Members of the Subcommittee, it is my privilege to appear again before this Subcommittee to update you on the essential service and support the Army and Air Force Exchange Service (AAFES) is providing its stakeholders; the men and women of the Armed Services and their Families throughout the world. First, however, I want to express my gratitude for your steadfast support in preserving a strong and valuable exchange benefit. It has been my pleasure and honor to work with you over this past year to improve the quality of life of Soldiers, Airmen, and their Families.

When I testified last April, I spoke about the challenges AAFES faced in an extremely competitive and ever-changing global marketplace. I reported to you then that AAFES was successfully meeting these challenges during a time that though fast paced, now seems predictable, familiar, and secure. The economic crisis that has emerged over the past few months has made it clear AAFES has entered a time of challenge like none other we have faced as a modern exchange system. The dramatic downturn in the U.S. capital markets has had a striking impact on the retail landscape, resulting in decreasing retail sales and sinking consumer confidence.

In 2008 we set a goal to lay the foundation to enable AAFES to "win the future" by refining our value proposition to be so clear and convincing that every customer accepts AAFES as their first and best choice for quality merchandise and services. As you know, increased selection is key to future success and I thank you for your support in relaxing merchandise restrictions on televisions, diamonds, and finished furniture. As we look to the future, we know the strategic challenges AAFES faces are really opportunities to improve service to stakeholders and accomplish a dual enduring mission nearly 114 years in the making; provide quality goods

and services at competitively low prices and generate dividends to support morale, welfare and recreation (MWR) programs. Today I'll share how strategic planning efforts over the past 18 months are paying off and how the AAFES mission continues to evolve. Recent, deliberate actions by our team have not only buoyed AAFES during this economic storm, but are further underscoring our value proposition to military Families as they look to their exchange to help stretch their limited budgets.

I would like to begin my remarks with a focus on how AAFES is meeting the needs of two groups of patrons that are facing unique challenges; wounded warriors and military Families. AAFES support to combat troops is central to our call to go where troops go, but our efforts do not end on the battlefield. We have taken lessons learned from the war zone and are using them to serve wounded warriors as they recover in military hospitals around the world. At Landstuhl Regional Medical Center in Germany, two full-time AAFES personal shoppers look after the needs of wounded troops evacuated from Afghanistan and Iraq. Once these heroes are out of medical and mortal danger, AAFES becomes an integral part of their rehabilitation. For service members at Brooke Army Medical Center in San Antonio, TX, who are able to leave the hospital, our personal shoppers accompany them to the exchange, helping them pick items from high shelves, load products into cars, and carry sacks of merchandise out to their vehicles. Service members can also request special items that make living with their injuries more comfortable, such as sleeveless shirts for arm and shoulder injuries, loose shorts or zip away pants for leg injuries, and hats or scarves for head injuries. We also offer in-room barber/beauty services at Walter Reed Army Medical Center in Washington, DC.

AAFES support to wounded warriors extends beyond their active military service and continues into their transition to civilian life. AAFES regularly attends the Department of

Defense (DoD)-sponsored Hiring Heroes Career Fairs to recruit for both management and hourly positions and has partnered with numerous other federal, state, and local government agencies that assist wounded veterans to locate employment. Our direct link to the Hiring Heroes website and modifications to the AAFES applicant center that allow former military members to self identify their wounded warrior status, have resulted in the hiring of more than 80 Wounded Warriors worldwide. AAFES has established an aggressive goal to attain one percent of the workforce as Wounded Warriors by 2014.

From the front lines to the home front, AAFES is taking care of military Families through a variety of programs designed to enrich their quality of life. With 25 percent of its approximately 44,600 Associates identifying themselves as military spouses and dependents, AAFES is the largest employer of military Family members in DoD. To attract and retain military Family members, AAFES offers a generous reinstatement program that ensures military dependents who move from installation to installation are eligible to compete with current Associates for in-house jobs. Recognizing those married to an active duty military member are often required to adapt to varied geographic demands, AAFES also offers a Spouse Employment Preference Program that provides additional preferential considerations to military spouses who apply for positions with the exchange.

AAFES is keeping deployed troops connected with loved ones back home by proactively partnering with the American public to keep the lines of communication open. With rates as low as 15 cents a minute, Military Exchange Global Prepaid phone cards continue to provide the best value for troops calling from the Middle East to the United States. Today, any American can send a Military Exchange Global Prepaid Phone card to deployed troops, or their Families, through AAFES' "Help Our Troops Call Home" program. Since the program's inception in

April 2004, the American public has sent 335,085 Military Exchange Global Prepaid Phone cards to troops and their Families through AAFES' telecommunication effort.

AAFES is also bringing the exchange benefit to the kitchen table. In addition to supporting overseas Commissary and Exchange activities, AAFES bakeries in Germany, Korea, and Japan are producing fresh whole wheat and whole grain breads for military Families participating in the Women, Infant, and Children (WIC) Overseas Program. When military Families' children go to class overseas, the AAFES School Meal Program is providing wholesome, nutritious meals at DoD schools on a break-even basis. Approved by the U.S. Department of Agriculture, AAFES' school meal program follows the same regulations and guidelines as schools throughout the United States. Before the day is over, AAFES will have served up 25,000 meals to students on Army and Air Force installations in nine countries overseas and will do it all over again tomorrow. Supporting educational programs in 92 schools throughout Europe and the Pacific means that AAFES serves more than 4.4 million school lunches each year. Beyond their bodies, we are encouraging students the world over to feed their minds. In fact, AAFES is moving military students who excel in the classroom to the head of the class with its "You Made the Grade" program. Now in its ninth year, the education rewards initiative recognizes students who maintain a "B" average or better with a complimentary prize booklet for every qualifying report card.

Of course, one of the most important things AAFES does year after year is return the benefit to the military community we support. The majority of earnings are paid in dividends to the services to support Army MWR and Air Force Services programs; dividends to Marines and Navy programs are generated by exchange catalog and internet sales as well as AAFES operations on Okinawa. While we began fiscal year (FY) 2008 with projections for strong sales

and earnings, the dramatic downturn of the capital markets in mid September sent U.S. retail sales into a downward spiral as consumer confidence plummeted to all time lows. Liquidity evaporated as investors and banks became unwilling to commit funds into such an uncertain environment. Due to our remarkable reputation and credit ratings, AAFES has been one of the few entities to weather these financial obstacles and benefit from the market's "flight to quality." This strong financial foundation and our strategic focus on rightsizing inventories, growing sales, and squeezing inefficiencies out of the supply chain have produced an incredible result; 2008 AAFES revenues were $8.4 billion – a two percent increase over the previous year. After the cost of goods and other expenses are subtracted, AAFES earnings subject to dividends of $435 million represented a two percent increase from FY 2007. Dividends are projected to be $263 million.

AAFES is a global multichannel retailer providing the exchange benefit in more than 30 countries, five U.S. territories, and 49 states. Our customers are the 11.6 million active duty, Reserve, National Guard, and retired military members and their Families stationed around the world. Operating in excess of 3,100 facilities worldwide, AAFES provides a wealth of retail and services to the community. In addition to main stores – better known as the BX/PX - AAFES provides a range of convenience and specialty stores such as DVD/video game rentals and military clothing. AAFES also provides car care, gas, movie, vending, and food services, including 1,765 restaurants with familiar names like Burger King, Taco Bell, and Subway. Working with local small businesses and community entrepreneurs, AAFES partners for a host of personal services such as beauty, barber, and dry cleaning services that complement the direct support AAFES provides.

Today's budget-conscious shopper is looking for ways to stretch every dollar. An independent market basket survey confirms what many of us have long known: AAFES is a one-stop solution for thrifty military shoppers as exchange operations offer an overall savings of more than 20 percent compared to the competition. We are spreading the news of this value story through the "Just Compare" program which informs customers about the market basket savings and other low cost "key value items" that represent the savings found at AAFES.

AAFES shoppers are maximizing their exchange benefit as they reach for private label products manufactured under the Exchange Services' Exclusive Label brands. These products not only save shoppers anywhere from approximately 20 to 50 percent when compared to name brand counterparts, but also offer quality that is equal to or better than equivalent national brands. In 2008, the exchanges introduced 36 new items under the "Exchange Select" name including environmentally-friendly laundry detergent and triple blade disposable razors for sensitive skin. The entire portfolio now includes 593 products, all priced to deliver substantial savings.

In these turbulent times of diminishing consumer credit, the Exchange Credit Program (ECP) is providing credit services to military members and their Families that are unmatched in the private sector. Operated on behalf of all military exchange services, ECP credit products deliver competitive interest rates; no annual, late, or over limit fees; online and call center account management, as well as an unmatched deployment policy. Younger troops are building their financial futures with the MILITARY STAR card as ECP approves starter accounts for new enlisted military members and provides "credit wise" educational materials. Deployed MILITARY STAR card holders have two options; six percent interest with or without payments. Since September 11, 2001, more than 355,270 MILITARY STAR card holders have had their

accounts flagged as being deployed and elected one of the two options. Since the beginning of the global war on terror, AAFES has also forgiven the debt in excess of $2.07 million from more than 1,290 card holders killed in action while deployed.

While the majority of AAFES earnings are distributed to the Military Services in the form of dividends, the remainder is used for capital improvement programs that enhance the shopping experience. Over the past several years, AAFES focused on planning, developing, building, and maintaining facilities at gaining Base Realignment and Closure (BRAC) and Global Defense Posture and Realignment (GDPR) installations. In addition to these ongoing initiatives, the Army announced their "Grow the Army" plan in December 2007, which will add a significant number of troops and Families to the current force. We are currently managing a $1.2 billion, 5-year capital investment program of development, design, construction, and sustainment of facilities which addresses BRAC and GDPR force structure changes and stimulates job growth in local economies. Between FY 2005 and 2008, AAFES completed 50 construction projects valued at $441.6 million with 10 projects worth $173 million currently under construction and another 35 in design/development worth $517 million. These efforts are critical to AAFES' ability to have facilities in place at installations worldwide to support and serve troops and their Families impacted by military transformation.

To better meet the needs of a changing military, AAFES is designing its next generation shopping center with the customer in mind. These new centers include concept optimization, execution excellence, and enterprise agility. A key element in the next generation shopping center is "customer centricity" which will focus on delivering value through products, services, experience, and marketing based on customer insight. New emerging technologies will deliver solutions in areas of tailored offerings, on-demand expertise, engaging experiences, and

convenience. Our "Fit Just Right" and "Talk-to-Me-TV" smart shelf sensors, mobile coupon applications, and social network websites will tailor the retail experience to customers.

The Community Development Initiative is creating contemporary retail "Lifestyle Center" developments featuring a traditional AAFES main store, concessions (laundry, dry cleaning, barber shop), and military clothing sales store along with other complementary retailers, casual dining, and entertainment venues. These facilities will create a "downtown" community atmosphere where military members and their Families shop, relax and socialize. In coordination with the Family Morale, Welfare, and Recreation Command (FMWRC) at Army locations, we will be providing Name Brand Casual Dining venues within each Lifestyle Center location to provide an expanded "eatertainment" experience for our customers. We are also collaborating with the Defense Commissary Agency to offer complementary projects to enhance the community atmosphere. I am proud to announce we are ready to execute our first Lifestyle Center at Fort Bliss which will provide a new community center integrating and expanding branded concepts in retail, food, and services to create a new sense of place and act as a destination location.

During 2008, AAFES focused on its commitment to winning the future by refining strategic goals that capture the essence of Thinking BIG and acting small. Thinking BIG allows AAFES to build on past successes and at the same time continue to pursue customer loyalty, ownership, and improvement. Thinking BIG is about changing the productivity performance curve in a way that drives earnings and dividends to historic levels. It is also about imagining the possibilities of a new future, setting BIG goals, and holding personnel accountable for delivering results. Even as I have challenged the AAFES team to think BIG, military and civilian leadership understand that strategies must be turned into executable tactics to produce

desired results. As a result, we have redesigned our planning process by developing long-term strategic objectives that drive annual operating and financial plans. Our success is measured using a new balanced scorecard defining metrics that cascade throughout the organization down to individual Associates' goals. Because we know all retailing is local, these "goals to go" support Associates as they "act small" to take immediate proactive steps to deliver store level results. The following five-year goals will guide our efforts as we move through 2009 and beyond: develop a lifelong emotional connection with our customers; build a culture of loyalty, ownership, sustainability, and continuous improvement; provide expeditionary and mission support capabilities to "go where you go;" collaborate with our federal partners and commercial entities; and finally communicate the benefit, value, and capabilities of AAFES.

As the premier provider of merchandise and services to the military consumer, exchanges not only have an obligation to know their customers, but to establish a lifelong relationship that transcends the entire military spectrum...from new recruits to career commissioned and noncommissioned officers and retirees to military Families. After more than a century of service, we know in order to connect, we have to anticipate unique wants and needs. By consistently surveying, tracking trends, and bearing in mind where customers are in their life cycle, we will be able to anticipate and fulfill wants and needs with a high degree of accuracy. Since 1996, AAFES has participated as a subscribing organization in the American Customer Satisfaction Index (ACSI) published annually by the University of Michigan. In 2008 AAFES gained one point to a score of 73 in the ACSI survey comparing favorably with the industry average of 74 which also rose by one point from last year.

Developing lifelong connections also means creating multi-channel avenues to reach customers across the globe or miles away from the local exchange. In addition to brick and

mortar stores and catalogs, AAFES offers online shopping, chat rooms, and an electronic community. With the click of a mouse, exchange patrons can gain easy access to virtual aisles of merchandise, discounts, weekly specials, and rebates. Visitors to the all-exchange website can also enter seasonal sweepstakes, sign up for e-newsletters and mailings, and buy gifts for deployed Soldiers and Airmen. The Exchange Mall is a concession mall offering online services and merchandise to military members around the world. Today, more than 100 third party sites, including online book store, Books A Million; music download site, Napster; and tactical gear for those deployed from Patriot Outfitters, strengthen the exchange benefit through their active support of the Exchange Online Mall.

Furthering our commitment to customer focus, AAFES has entered into some exciting partnerships with name brand partners including Macy's, Apple, and Dell. These retailers recognize what AAFES brings to the market and its unique relationship with the military shopper. We anticipate Macy's exclusive private label clothing labels (Style & Co. and INC.), which are scheduled to arrive at 29 targeted locations during the March/April time frame, will be top sellers. Apple computers continue to be a success story with 69 certified Main Stores and a planned roll out of three brand new Apple "Store in Store" concept shops later this year at Ft. Lewis, Ft. Hood, and the new Kaiserslautern Military Community Center locations. Another success story is our on line partnership with Dell computers. Name brand recognition, excellent customer service, and competitive price points continue to drive AAFES customer demand for this popular electronic product.

AAFES is working to build a culture of loyalty, ownership, sustainability and continuous improvement. Customers are the owners of the Exchange and it is our duty to offer the best service possible. To do that, we must empower Associates to communicate, collaborate and

continuously improve store operations. We also recognize that a diverse team leads to success. AAFES is focused on increasing the diversity of our workforce, particularly in the management ranks, because we know that organizations that value differences of gender, ethnicity, background, and perspective clearly outperform companies that do not.

In addition to a diverse labor force, AAFES is diligently pursuing a diverse product mix for our stores. Having the right product, at the right price, at the right time is what our customers expect and what they deserve. AAFES' Supplier Diversity Program has been in existence for more than 20 years and plays a key role in identifying business opportunities, particularly in the diverse communities we serve. In 2008, AAFES increased spending with diverse business owners in excess of $50 million dollars. The value that is added to AAFES by Veteran-owned, women-owned, and minority-owned companies cannot be overemphasized. The best way to meet our customers' needs is by entering into business with the very people we serve. Our growing diversity efforts have also been recognized by industry as AAFES has accepted a number of honors including America's Top Government Agency for Diverse Business Opportunities awarded by Diversity Business.com and Federal Employer of the Year, awarded by the Texas Governor's Committee on People with Disabilities.

Sustainability is not just a corporate buzz-word, but an essential objective for any retailer who hopes to be competitive in the 21st century. AAFES is focused on corporate sustainability goals to "Win the Future" by lowering energy operating costs, reducing the carbon footprint, and marketing energy-efficient products. Three exchange shopping center projects have been accepted into the Leadership in Energy and Environmental Design (LEED) Pilot test program with the goals of influencing LEED retail policy, helping to decrease operating costs, and positively impacting the environment and local community. AAFES is developing programs to

eliminate energy waste in existing facilities, ensure energy efficient new construction, and meet or exceed energy reduction goals of Executive Order 13423 and the 2005 Energy Policy Act. These include managing utility costs with the new Web-based AAFES Utility Tracking System (WATTS), conducting utility audits and lighting upgrade programs, implementing an Energy Star product program, and maturing AAFES-wide recycling programs. Our distribution centers are also achieving energy and water reduction goals. We are improving the fuel efficiency of our fleet through utilization of bio fuels, improved driver training, and increased use of auxiliary power units as well as hybrid power train technology. In addition, AAFES has installed an oil purification system which reduces the number of oil changes per tractor from eight to one annually and cuts oil usage for each tractor by an average 70 gallons a year.

In addition to our internal improvements, AAFES is partnering with vendors and suppliers to increase the use of electronic recycling opportunities for our customers. The first major venture will take place at Fort Sam Houston in April as part of Sony Corporation's consumer electronic "take back" program. We are also committed to broadening AAFES' Energy Star appliance assortment and product awareness. We established a baseline set of Energy Star rated appliances which equated to 19.27 percent of our total appliances in 2007. By 2008, we increased the stock to 34.69 percent and our 2009 goal is to achieve a ratio of 50 percent Energy Star rated appliances verses non-Energy Star rated appliances.

Since 1895, AAFES has been there to support our troops on the front lines. Today, deployment of mobile field exchanges (MFE) provides immediate support for conflict areas abroad and natural disasters at home. AAFES currently supports deployed service members with 89 BX/PXs, 228 name brand fast food outlets, as well as about 600 concession operations throughout Iraq, Afghanistan, Kuwait, Qatar, the United Arab Emirates, Kyrgyzstan, and Cyprus.

AAFES helps deployed service members keep in touch with home through a variety of telecommunication services to troops downrange including 72 telephone calling centers and 12 Internet cafés. To help ease the challenges of family separations, AAFES is putting the finishing touches on the Patriot Family Deployment Passbook which is a comprehensive coupon book featuring unique money savings at AAFES retail, food and services locations.

In situations such as natural disasters and contingency operations, these MFEs are quickly dispatched, providing expeditionary support to meet troop needs. When Hurricane Ike hit the Texas Gulf Coast, 7,500 National Guard members and other troops deployed to the Houston area to help millions of people who were evacuated to safer places further inland. AAFES was also there. Associates from Texas exchanges moved into action the day after the hurricane struck to set up and operate a 53-foot MFE to support local troops, members of the Air, Army and Texas National Guards, Marine and Navy Reserves, and the Coast Guard, who picked up drinks and grabbed snacks after long days of recovery operations. AAFES Associates and their MFEs also supported troops participating in humanitarian missions in Peru, Trinidad and Tobago and battling wildfires in Northern California.

When troops are called to serve, we go with them to deliver goods, services, and an unmistakable "taste of home." Since the start of the global war on terror, more than 4,500 AAFES Associates have deployed to the Middle East, some more than once. At any given time about 400 Associates are deployed throughout the region. I salute these Associates who leave their families and the comforts of home to deploy to dangerous locations in the world's hot spots, where long hours and risks await them. Without their devotion, AAFES could not fulfill its mission to serve America's troops, regardless of where they are called to serve.

AAFES has prepared to support new Forward Operating Bases (FOB) and Imprest Sites in Afghanistan by opening an Imprest Fund warehouse in Afghanistan. We will meet the need of these isolated forward deployed locations through air assault rodeos, where we "sling load" a 10 by 10 foot container underneath a CH-47 (Chinook) helicopter and air lift them from mountain top to mountain top throughout Afghanistan. AAFES is equipped and organized to support the drawdown in Iraq and potential build up in Afghanistan. As part of these plans, AAFES will staff a military officer who will be in charge of tracking troop movements and communicating this information in accordance with proper classification level. Rest assured that any site that is part of the drawdown in Iraq will continue to receive full AAFES support until the military completes closure actions.

Because of our commitment to serving troops, AAFES has become more intently focused than ever on closing the innovation gap. A key part of that effort is to become the "go-to" partner to increase collaborative partnerships with all sources. By expanding partnerships with FMWRC, Air Force Services, the Defense Commissary Agency, our sister exchanges, and other DoD entities, we strengthen our position as a key provider of goods and services and that of the entire military resale system.

The military exchanges continue to build upon the many years of collaborative initiatives, most recently focusing on the mutual benefits and cost savings associated with supply chain management, indirect procurement (IP) opportunities, and systems enterprise architecture (EA) projects. Supply chain management initiatives continue to allow the exchanges to leverage efficiencies across the exchanges to strategically remove costs and achieve business imperatives. The IP team is working collaborative efforts projected to enhance efficiency and reduce operating costs by approximately $4.8 million based on combining spending and negotiating

more favorable terms and cost prices. Perhaps more importantly, the IP team has established the platform for all future procurement actions by adopting standard commodity codes across the exchanges which will enable the exchanges to align requirements and enable detailed spend analysis. This year the cross exchange EA team developed a methodology focused on streamlining the identification, execution, and governance of future cooperative efforts.

AAFES and FMWRC recently finalized a partnership to provide personal information services including telephone, internet, wireless, and television services to patrons on Army installations. We've made excellent progress in developing a program that will make the best use of Army and AAFES resources while providing the customer the best value proposition for these emerging consumer technologies. The "Fit for Life" partnership with FMWRC will assist and deploy an integrated health and wellness program that drives growth and helps maximize an individual's potential at work, home, and play. Targeted to customers and Associates alike, this program supports the overall sustainability paradigm, which includes people, processes and products.

Today more than ever, the "fitness" and efficiency of warehouse operations is critical to managing our supply chain and achieving peak performance. As we diligently manage our share of the Second Destination Transportation (SDT) budget, we are implementing the latest warehouse management technology to significantly improve warehouse operations, employee productivity, and customer satisfaction. The Warehouse Management Suite will bring all AAFES logistics systems under a common platform allowing for a reduction in labor costs and inventory cycle times while bolstering flexibility and responsiveness.

One hallmark of an innovative retailer is the ability to leverage technology to meet business and customer needs. The implementation of Oracle Retail completes a four year endeavor to replace nearly all of AAFES merchandise and order systems. This initiative allows AAFES to make sound business decisions based on worldwide inventory information and have distinct stock assortments and pricing strategies by business type. In addition to sales and logistics initiatives, AAFES is transforming procurement processes to automate workflow, approvals, issuances, and storage of contracts. And finally, AAFES is committed to safeguarding sensitive data by implementing payment card industry data security standards and other personal identifiable information of shoppers and Associates alike.

AAFES provides tremendous support to quality of life programs, value to military Families, and unparalleled support to MWR efforts, but we must also ensure we have effective communications so our customers know and understand the value of their exchange benefit. AAFES is working hard to "tell our story" and convey what we have to offer - communicating the exchange benefit to customers and stakeholders because we know effective communication leads to better satisfaction.

In 2008, AAFES made a concerted effort to build awareness among the National Guard and Reservists, which represents about 25 percent - or nearly 3 million - of authorized exchange patrons. This unique customer base of brave citizen-warriors may not be fully aware of their exchange benefit. Getting this group of potential customers to visit www.aafes.com is critically important, because more than half of National Guard members and Reservists don't live near a BX or PX and usually don't frequent the military installations except for battle assembly weekends or when mobilized. To address this issue, AAFES is partnering with Northern Command to support National Guard members and Reservists with the deployment of MFEs in

any homeland disaster relief response, where they would be called upon to support relief and, likewise, at Guard and Reserve locations that are distanced far from active installations. Special promotions, target marketing, and a visible presence at major Guard and Reserve conferences and conventions help us tell the AAFES story and build enduring relationships with Guard and Reserve component organizations. AAFES is also an active supporter of the Employee Support for the Guard and Reserve Program and personnel who work for AAFES. AAFES guarantees their civilian jobs are still available upon the completion of their deployment obligations.

The challenge of the future is not accomplished in one giant leap, but rather through many measured steps along a well planned path. Reaching aggressive goals will require teamwork throughout the organization in a way that rewards excellent customer service, innovation, and results. I am confident AAFES is on the right course to remain a viable force in the lives of our customers and the military communities we serve. Again I want to thank this committee for its support, not only for AAFES and the entire military resale system, but for the brave men and women of our armed forces.

I look forward to your questions.

NOT FOR PUBLICATION UNTIL
RELEASED BY THE
HOUSE ARMED SERVICES COMMITTEE

STATEMENT OF

REAR ADMIRAL ROBERT BIANCHI

BEFORE THE

HOUSE ARMED SERVICES COMMITTEE

SUBCOMMITTEE

ON

MILITARY PERSONNEL

MARCH 12, 2009

NOT FOR PULICATION UNTIL
RELEASED BY THE
HOUSE ARMED SERVICES COMMITTEE

Madame Chairwoman, Mr. Wilson and Distinguished Members of the Subcommittee, Fellow Flag and General Officers and Members of the Senior Executive Service, it is my privilege to represent the Navy Exchange Service Command (NEXCOM) and our 14,000 dedicated associates worldwide. Today I will update you on our programs and how we are improving the quality of life for our Sailors and their families.

Navy Exchanges (NEXs) are a critical non-pay compensation benefit with a quality of life mission – "Provide quality goods and services at a savings and support Navy Morale, Welfare and Recreation (MWR) programs". Recognizing the importance of quality of life to readiness and retention, senior Navy leadership comprises the MWR/NEX Board of Directors. This Board not only provides oversight but more importantly balances our dual mission of savings to the Sailor and dividends to MWR.

NEXCOM operates 105 Navy Exchange Complexes in 24 States and 11 Countries, which consists of 310 retail outlets, 1,325 service outlets, 161 Ships Stores, and 43 Navy Lodges. We employ over 14,000 associates with annual sales for all programs of approximately $3 billion. The Navy Exchange program includes retail stores, minimarts, and gas stations. Our service outlets and concessions provide a wide variety of additional services including food, automotive services, barber and beauty shops, optical, floral, laundry, dry-cleaning and tailoring services, as well as personal telephone services, vending and other miscellaneous personalized services. Additionally, local exchanges manage NEXMARTs overseas which provide both the exchange and commissary benefit under one roof. Unlike the commissaries, Navy Exchanges are operated predominantly with nonappropriated funds, receiving limited appropriated fund support primarily for overseas transportation of goods.

Navy Exchange Service Command is dedicated solely to supporting Sailors, retirees, reservists and their families. Their dedication, professionalism and willingness to sacrifice deserve our very best. We must take care of our Sailors, whether they are in port or at sea, and must look after their families when they are deployed. Today, more than ever, Navy is committed to taking care of the families. Families serve as their service members do. Deployments, long separations, recurrent moves are just a few of the challenges our military families face everyday. As a quality of life resource for Navy, NEXCOM works hard to understand those challenges so we can better

accommodate their needs and improve their satisfaction with military life. Spousal satisfaction plays an important factor in the service member's job satisfaction, readiness and retention. In March 2008 Navy spouses were asked what were the ten most used Navy quality of life facilities/services and their perceived importance. Navy Exchanges ranked first with 93% of the spouses reporting using them and 93% citing them as important.

The Exchange Benefit

Today, we are in a challenging retail environment. Commercial retailers are closing stores and bankruptcy filings are increasing. Consumers are changing their buying patterns, delaying large purchases and focusing on consumable and necessity items. Cost escalations for raw materials and transportation have increased product costs. Military members are finding their paychecks being stretched even further to purchase the things they need for their families.

We have made a conscientious effort to respond to our customers' needs during these trying economic times. More than ever, our military families are looking for value and savings. In our customer satisfaction survey, our NEX shoppers cite savings as a major reason for shopping the NEX. They also tell us they want brand name products. Based on their needs, we developed several new pricing strategies last year. Our Best Brands/Best Buys branding initiative offers prestige brands, national mass brands and private brands, all at significant savings. In July 2008, we also implemented our Price Cut Program, providing extraordinary savings on key consumable items important to our military families. These items are typically used on a daily basis by our customers, for example: baby care items, detergents, paper products, health and beauty items and more. Based on a very favorable response from our customers, we will continue the program in 2009. Other programs to help ease the economic impact on our families included an additional 5% bonus on 2008 Federal Stimulus checks/payments, increased use of percentage off scratch promotions, and gasoline promotions.

Our customers can take comfort in the fact they save money every day on the products they purchase from their NEX. We were very pleased with the results of our 2008 market basket survey, conducted semi-annually by an independent research firm.

This year savings are up 3 percentage points from last year, with an average of 23 percent savings, excluding sales tax.

Retailers today are focused on customer segmentation and NEX is no exception. From our customer segmentation initiative, we have a better understanding of our customer demographics. It is a varied customer base with wide ranging incomes and needs. From the data, we can specifically design our merchandise assortment tailored to each store based on its demographics. We want our Sailors and their families to know they have choices at the NEX that will meet their budget. This business strategy is one of our most challenging issues and it is what sets us apart from commercial retailers. A typical retailer will have a niche market, appealing to a certain income level of its shoppers. From the young recruit to the enlisted and officer families to the retirees on a limited income, they all have earned the exchange benefit. I am pleased to report that we have successfully executed this business model, providing not only savings at all income levels but also sustained profits to support Navy's MWR programs.

While the NEX business model is different than commercial retailers, we do rely on industry trends and best business practices to ensure we are giving our customers the best shopping experience.

Internet/on-line shopping is still a growing industry trend. As mass merchants and department stores are in decline, e-commerce is in the growth phase of the retail life cycle. Consumers are looking for a seamless transition from brick and mortar store to their on-line presence. By 2010, experts predict 50% of all retail purchases will be directly influenced by e-commerce sites. We have provided Navy Uniforms via on-line shopping for many years. Building upon that success, we are expanding our Navy merchandise available on-line which provides not only shopping convenience, but offers another outlet for those military personnel, including our Naval Reservists, who do not live near a NEX. Together with the Exchange on-line store, a joint effort among all the military exchanges, we are able to provide added customer service, thereby providing additional savings to all authorized patrons.

Retailers are using alternative media forms to reach the consumer. By 2015, approximately half of all retail e-commerce will be conducted via a personal device. Last year, the NEX weekly sales flyer converted to a digital format, making viewing our

special sales easier and more interactive. When viewing the flyer on-line, customers can search for products based on brand name or category; the flyer also has a zoom feature which allows customers to get a bigger and better view of the item they are interested in purchasing. Additionally, the use of a digital sales flyer helps our environment by reducing the use of paper products. Text messaging is also an important source of communication, especially for those between the ages of 18 and 24. Customers who elect to receive these electronic messages benefit from having timely announcements regarding upcoming sales, special price promotions and special events. NEX has also launched a Facebook page to help better communicate with its customers. The NEX Facebook page features a list of upcoming events, the latest merchandise available for sale in the store, the newest CDs and DVDs being released, promotions and sweepstakes and links to the NEX website and the weekly sales flyer.

Today's shopper is more conscious about the environment. We are offering more green products, intensifying our Energy Star assortments, and working to achieve Energy Star Certified Retailer status in 2009. In an effort to help the Department of Defense and Navy meet its objective of reducing the reliance on petroleum and meet the requirements of Executive Order 13423, NEXCOM has introduced several alternative fuel facilities at Naval installations (E85 and Compressed Natural Gas (CNG)). Customers have the option of purchasing reusable NEX green shopping bags instead of using plastic bags.

Aligned with Navy's conservation goals, nearly every facet of the Navy Exchange System is involved in conserving our natural resources for the future. NEX vending was one of the first military exchange programs to install energy efficient vending machine technology capable of reducing energy consumed by about one third. NEX Distribution Centers have replaced their high intensity discharge fixtures with new lighting fixtures that have a higher lamp life for half the cost. Several NEXs have completed energy retrofits, which include installing power fact correction devices on air conditioning units and devices on light fixtures to reduce voltage and lighting levels. The Ship's Store Program has introduced Ozone washing technology to the fleet as a way to save energy and cut down on the amount of chemicals used in shipboard laundries. The Navy Lodge Program has several programs in place that emphasize the importance of water and energy conservation. As part of each Naval installation, NEXs worldwide also

participate in various recycling and environment protection programs. Base clean-up efforts, tree planting initiatives and education programs are just part of what NEXs do to support the Navy, its customers and the community to help protect the environment.

Consumer interest in personal privacy and safeguarding personal information is paramount. A number of commercial retailers have experienced personal privacy breaches, leading to stricter Payment Card Industry (PCI) requirements. The PCI standards were developed by the credit card industry to protect sensitive cardholder data from unauthorized use or compromise. These standards apply to all merchants and service providers that save, process or transmit cardholder data. This past year the Navy Exchange demonstrated full compliance with all PCI security requirements. Our exchange customers can be assured that credit card data is strictly controlled and our procedures fully meet today's security requirements.

Since 1999, we have asked our customers to rate their NEX in a variety of areas including merchandise selection, customer service, store environment, problem resolution and more. The survey is conducted by an independent research firm used by many commercial retailers. Over the past years, we have seen a steady increase in our overall score, culminating with a high score of 80 in 2007. I am very pleased to report that we maintained our score of 80 in 2008. At 80, our customer satisfaction ranks among the upper tier of retailers in the U.S.

In today's uncertain retail environment, our financial position remains strong with year over year improvements in sales and profit. For 2008, NEX total annual sales of $2.6 billion will generate an estimated $57 million in profit to support Navy's Quality of Life programs. Seventy percent of the profit is contributed to MWR and the remaining amount is used for store expansions and remodels. NEX carries no bank debt, and our balance sheet is strong. Our forecast shows modest improvements in both sales and profits over the next few years. This requires continuous attention to the daily details of our supply chain and store operations. In addition, our Ship's Store Program generated $68 million in sales and $10 million in profit to support afloat Qualify of Life programs.

Our capitalization program also remains strong. NEX's programmed capital spend for 2008 was $85 million for major construction, minor construction and equipment, and information technology. Future year major projects are focused on consolidation and

operational efficiency to support infrastructure reduction, improve exchange financial results and improve patron store experience. We are working to improve our small and medium sized stores which are experiencing significant sales growth and patron demand.

Deployed Support

The Navy is a seagoing service. Our Sailors routinely deploy overseas aboard warships and on the ground in support of combat and expeditionary operations. The Navy Exchange supports our shipboard Sailors by providing free shipboard telephone calls for ships deployed overseas during the winter holidays and for Sailors serving ashore in the CENTCOM theater of operations. Through our Ship's Store Program, all Ship's Stores maintain an assortment of health and comfort items to support assigned crewmembers. On any given day, 40% of the Fleet is deployed with full deployment loads, and 50% of the Fleet are at sea on various operations. The Navy Exchange strives to be agile and flexible to meet the needs of our warfighters and their families.

Our Navy Exchanges in Bahrain and Djibouti continue to support our warfighters serving in critical locations. Customer satisfaction ranks high at both locations. Through December 2008, sales at NEX Bahrain have increased 17% from the previous year, while NEX Djibouti sales have increased 62% from the previous year. Last year NEX Bahrain opened a GNC Retail Nutrition Center to support the nutritional needs of our warfighters. We also expanded our service departments, barber shop, laundry and dry cleaning and photo finishing based on customer feedback. Our retail promotion offerings and product assortments also increased. By maximizing our supply chain, we were able to increase our merchandise in stock availability. With the return of families to Bahrain later this year, we are working hard to adjust our merchandise assortment to focus more on family needs. We have also expanded our assortment and personal service offerings at NEX Djibouti and maximized our in stock capabilities through supply chain initiatives. We opened a small mart in the Djibouti housing area and received approval for an expansion of the Main Exchange to start in 2010.

Wounded Warrior Support

Our Wounded Warriors have made great sacrifices and we want them to know they have our steadfast support. They are proud to wear the military uniform, and we have developed tailoring techniques to meet their many needs. We are working with the

Wounded Warrior Project and Hiring Heroes Program in concert with the Department of Rehabilitation Services. These programs reach out and provide specialized assistance to injured service members. NEX participated in two Wounded Warrior Project fairs in 2008. Through partnering with MWR and our vendors, we have provided many events targeted toward our Wounded Warriors. One example is the New Balance Wounded Service Member Care program. Each service member that returns ill or injured from Operation Iraqi Freedom (OIF) and Operation Enduring Freedom (OEF) receives a free pair of New Balance athletic shoes to aid in their recovery. Nintendo donated popular WII video game systems as therapeutic devices to Naval Medical Centers as part of an ongoing partnership to help the wounded in the recovery process. Smith and Hawken donated a beautiful garden bench to National Naval Medical Center Bethesda. Eurpac donated new DVD titles to update Bethesda Naval Hospital's video library. We will continue to focus on our warriors' specialized needs wherever we can.

Working Together to Deliver the Benefit

We continue to partner with Navy, the other military resale activities, the Army Air Force Exchange Service (AAFES), the Marine Corps Exchange (MCX), the Coast Guard Exchange (CGES), the Defense Commissary Agency (DeCA), the Morale, Welfare and Recreation (MWR) entities, as well as our commercial industry partners, to leverage our combined efforts to better serve our military families.

This past year the military exchanges have focused on finding ways to leverage our combined spending through joint procurement efforts. This initiative consisted of establishing seven different commodity councils, with representatives from each exchange, to analyze various areas where the three exchanges can agree on procurement of similar supplies and services. Our joint efforts resulted in over a dozen contracts, thereby reducing overhead expenses by approximately $5.5 million. We continue to identify additional areas where our cooperative efforts can have a financial benefit or increase customer satisfaction for our dedicated military members.

Many of our exchanges are collocated with commissaries, providing one stop shopping, saving our military families both time and money. While the commissaries and exchanges have different operating models, we have the same mission to serve our

military families. We are working together to promote the benefit and seek ways we can do more joint initiatives.

Working with industry, last year we rolled out a new supply chain solution in the tobacco, food and confections departments for all CONUS locations. The result has been streamlined assortments, increased deliveries, controlled inventory levels, all of which generated more sales and, more importantly, improved customer service.

This past year was an exciting time for the Navy Uniform program. The Navy Exchange is an integral partner in the deployment of new Navy Uniforms. Working with the Defense Logistics Agency, as well as the Chief of Naval Operations staff, the Navy Exchange completed the rollout of the new Physical Training Uniform and began the rollout of the new Service Uniform in 2008. In 2009 we began the rollout of the new Navy Working Uniform. These new uniform programs comprise the largest uniform transformation in Naval history.

Keeping in touch with family at home is important to our Sailors. Last year, our Sailors' phone calls from Navy ships totaled 15 million calling minutes. During 2008, NEXCOM donated 56,000 phone cards to military members, of which 31,000 were distributed to underway units during the holiday season. This special holiday event provided Sailor, Marine and Coast Guard members who were shipboard deployed a $10 prepaid phone card. NEXCOM has been providing these free cards since 2001. Additionally, NEXCOM has teamed with MWR, Commander, Navy Installations Command, and Navy Hospitals to install free WiFi internet service in Navy Gateway Inns & Suites, MWR activities, NEX Food Courts, and Naval Hospitals in Portsmouth, VA and San Diego, CA.

We continue to partner with the Navy community and support various initiatives. We developed an on-line textbook store business model to serve the changing needs of Navy students. As the Navy continues to enhance their Navy Professional Reading Program, NEX has an active role. NEX procures and distributes books to ships and commands globally, and offers the books in stores and on-line at 35-45% off publishers' list prices. We have also partnered with Navy to help get important messages out. We allow space in our NEX flyers to provide information on financial classes, predatory lending, motorcycle safety, alcohol deglamorization, and Military One Source. In support of the

Navy's motorcycle safety initiatives, we expanded our merchandise selection to carry motorcycle safety gear. These are just a few examples of how we support Navy's mission in many ways.

Our support to Navy families goes beyond providing retail merchandise and services. Navy family members represent about twenty seven percent of our associates worldwide. We continue to promote our existing military family member continuity program to allow spouses to develop a NEX career as they follow their military sponsor from assignment to assignment. Navy Lodges support families on permanent change of station orders, as well as their leisure needs, providing quality lodging with many amenities, including kitchenettes. To meet the needs of our military families who have pets, Navy Lodges have implemented a new pet policy offering pet friendly rooms. In Naples, Italy, we have worked with local utility companies so our customers can pay their bills through the Navy Exchange. This provides our military families the convenience of paying with U.S. dollars. NEX provides school lunches for DoD schools in Italy (Naples and Sigonella); Spain (Rota); and Japan (Yokosuka, Sasebo, and Atsugi). Additionally, through the support of our industry partners, we host celebrity visits at our installations. These include book signings by well known authors and popular figures from the sports and entertainment world. Last year, the Jonas Brothers paid a visit to NEX Oceana, VA taking the time to personally meet hundreds of Navy family members. With our industry partners, we also sponsor Customer Appreciation Days at our overseas locations. These events provide entertainment as well as promotional opportunities for the families stationed away from home. Last year we held such events in Guantanamo Bay, Cuba and Naples, Italy. Our stores work with the local commands to offer many other events, including homecoming events, health and safety awareness classes, vehicle maintenance classes for deployed spouses, and joint events with our MWR partners; all designed to help make life a little easier and enjoyable for our families, wherever they are located.

Our relationship and support of MWR goes much further than dividends. We are truly partners in delivering Navy Quality of Life, working together to complement our operations and seeking cross-organizational efficiencies in the delivery of our programs.

Mission Focused

The success of our programs is due to the dedication and commitment of our NEX associates. NEXCOM is a diverse workforce. Minorities increased from 61.3% to 64.8% in the last year. We exceeded Navy's goals for hiring associates with disabilities. Keeping in line with Navy's Human Capital Strategy, we have expanded many of our associate programs. During 2008, we introduced five new investment options to the 401K plan and replaced two underperforming plans. To further help our associates, we improved the 401K plan provisions by eliminating the 90-day wait to initiate a new loan, and extended the repayment period on loans to obtain a primary residence. To focus on the health and well being of our associates we issued "Guides to Preventive Health Care." We also provide leadership development courses and support higher education through our tuition partnership program. Two hundred twenty five associates have graduated from our Executive Skills Development program since 2000. These graduates maintained a retention rate of about 90% and at least two thirds have been promoted to more senior positions. During 2009, we are implementing flexible spending accounts for qualified medical or dependent care expenses. We are taking care of our associates who are vital to our continued success.

Our commercial industry partners, who supply many of our goods and services, are not only businessmen but they are Patriots in their own right. Everyday they give us their utmost effort to make sure our military customers get the products they deserve and desire. We are always on the leading edge when it comes to our products and services and we are eternally grateful to industry for their hard work.

We also appreciate the efforts of our Military Coalition partners like the Armed Forces Marketing Council, the American Logistics Association, the Fleet Reserve Association, National Military Family Association, and many other Coalition members who work hard to make sure our valuable forms of non-pay compensation are protected. This relationship between the exchanges, suppliers and association advocates functions as a fine-tuned instrument. It is the ultimate example of teamwork in action.

Madame Chairwoman and Distinguished Members of the Subcommittee, we appreciate this Subcommittee's superb support of our Sailors and their families. On their behalf, I thank you.

In closing, I would like to reiterate that the Navy Exchange Service Command is a military organization, laser focused on our mission to support Navy readiness, recruitment and retention. Our customers have unique needs and our retail exchange system is unlike any other retailer's. We recognize the dedication and sacrifice our Sailors and their families make everyday. We, in turn, are there for them everyday and are dedicated to provide the utmost support and respect they have earned.

STATEMENT OF

PHILIP E. SAKOWITZ, JR.

DIRECTOR, DEFENSE COMMISSARY AGENCY

BEFORE THE

MILITARY PERSONNEL SUBCOMMITTEE

OF THE

COMMITTEE ON ARMED SERVICES

UNITED STATED HOUSE OF REPRESENTATIVES

FIRST SESSION, 111th CONGRESS

March 12, 2009

NOT FOR PUBLICATION UNTIL RELEASED BY THE HOUSE ARMED SERVICES COMMITTEE

Madam Chairwoman and Members of the subcommittee, it is my pleasure to appear before you to provide the update of the Defense Commissary Agency's (DeCA) performance this past year. Since arriving at DeCA last June, I have been extremely pleased with the Agency's performance—both as a business in effectively delivering the commissary benefit to all those who proudly serve or served our Nation and in its efficiency as a governmental entity. In these trying economic times, the commissary benefit is more valuable than ever. More and more of our service members are taking advantage of their benefit to relieve their financial stress. DeCA continues to outperform many governmental entities, and in many areas has been held up as a model Government Agency. While these accomplishments are due in large measure to the dedication of the 18,000 employees who operate the commissary system and do such a great job running our 255 stores worldwide, I was extremely proud to be chosen to lead what can only be described as one of the military's most desired benefits. DeCA's past performance has been stellar and I can only hope to lead it to new highs as we continue to demonstrate for all our patrons that "The Commissary - It's Worth the Trip!"

We had another impressive year in fiscal year 2008—sales continued to grow; the cost of delivering the commissary benefit, both in actual and in constant fiscal year 2000 dollars, came in under budget; and customer service and patron savings levels remained steady. With today's strain on individual budgets we find authorized patrons have increased their commissary shopping. Our annual sales totaled $5.8 billion in 2008, a 5 percent increase over 2007 sales. While some of that increase was attributable to the rise in the cost of goods, we estimate about half was actual sales growth. But even more, the increase in use of the commissary by military patrons was demonstrated by an addition 1.5 million shopper visits during 2008. Unlike traditional supermarkets, whose sales growth will not keep pace with inflation, with support like

this from military families, we expect to continue increased usage of the commissary. In fact, thus far in 2009 we're already up over $160 million in sales, with more than 1 million additional shopper visits, over this same time period in 2008.

At the same time our costs again came in under program. It is particularly satisfying to note that while the costs of most Governmental entities are increasing, DeCA's operating costs, when measured in FY 2000 constant dollars, continue to decrease. Even with decreasing costs, the value provided by the commissary benefit continues to be confirmed, not only through the increased visits and sales, but also by our patrons' satisfaction ratings of our overall customer service as 4.61, on a scale of 5. This rating is approaching the theoretical limit of achievability. While it may have been the economy that have brought many retirees, who have not shopped the commissary for years, back to our stores, it is what I call the "wow" factor, that keeps them coming back. From those I have spoken with, most are amazed with the modern supermarkets they now find their commissary to be. They never thought the commissary they shopped in twenty years ago would be so well stocked, so well equipped and such a pleasure to shop. Again this year our internal measures were validated externally by the American Customer Satisfaction Index (ACSI). DeCA's fourth quarter FY 2008 customer satisfaction score equals the ACSI commercial supermarket industry average of 76. Customers also reported to ASCI higher scores in their expectations of DeCA, their perceptions of value and low customer complaints compared to industry

However, customer savings remains the heart of the commissary benefit. It is this level of savings and the fact that we deliver commissary items at the same price to all locations, including remote locations and overseas, that make the commissary a highly prized benefit provided military families. We have consistently yielded savings in excess of 30 percent and this

year's savings of 31.1 percent amounts to nearly $3,400.00 per year that an average family of four saves by purchasing all their grocery items at their commissary, and a single soldier saving nearly $1,200.00, according to the USDA Center for Nutrition Policy and Promotion. Of course, attaining this level of savings would not be possible without the tremendous support our extended team of trading partners—manufacturers, distributors and brokers—continues to provide in the pricing, promotion and in store support of products. Their support of military families and the commissary benefit remains stupendous and I would like to take this opportunity on behalf of DeCA and commissary patrons everywhere to publicly acknowledge and thank them.

Once again DeCA's performance reflects the Agency's commitment to maintaining accurate financial reports and overall fiscal responsibility. For the seventh year in a row, I am proud to report that independent auditors have given our financial statements an unqualified opinion. Accountability is entrenched throughout the organization, not just financially, but operationally as well. We continue to re-evaluate our metrics to better use and prioritize resources, increase support to our stores, and achieve desired outcomes in support of governmental goals. We continue to be in the top three in DoD for implementing the requirements of the Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*. Results have shown our internal controls to be strong and effective. In FY 2008, DeCA identified and tested 473 key controls. Ninety-three percent of these controls were found to be operating effectively with zero exceptions; three percent were operating effectively with limited exceptions; and the remaining four percent of the controls (none of which were material weaknesses) required corrective action plans to bring them to the required level of effectiveness. DeCA tied with two other Department of Defense

Agencies/Offices for the highest score in DoD on the Annual Statement of Assurance for FY 2007.

Additionally, the Fiscal Year 2008 annual Federal Information Security Management Act report showed the department awarding DeCA an "A" for its data accreditation and data security metrics; and the U.S. Office of Government Ethics presented its 2008 Ethics Program Award to DeCA – 1 of only 17 government agencies that received such recognition. That award recognized our continuous obligation, commitment, and adherence to federal guidelines, policies, and ethical standards as DeCA strives to practice honesty, integrity, and fairness in all of its business activities.

DeCA continues to utilize a strategic planning and management approach, that is used extensively in business and industry, government, and nonprofit organizations worldwide, to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. These actions have resulted in our commitment to providing a valued quality of life benefit to our service members, our commitment to providing services that add value to what customers receive, our focus on employee satisfaction, employee retention, and employee productivity culminating in increased accessibility of the commissary benefit without increasing the costs to provide the commissary benefit.

In 2009, DeCA continues to center on its four strategic initiatives: Focusing on people; supporting the Guard and Reserve; going "greener"; and increasing cooperation with the Exchanges.

Focusing on People: Last fall DeCA's employee satisfaction survey revealed that the agency had not only improved in every category, it set a new Department of Defense benchmark

score in customer orientation. The Organizational Assessment Survey, administered by the Office of Personnel Management, helps "take the temperature" of the workforce and its culture. The survey, returned by 5,704 DeCA employees worldwide, showed unprecedented improvements, averaging seven percentage points higher in every category across the board from the Agency's 2005 baseline. Learning from the 2005 survey, we highlighted areas for managers to review closely, and added items to the inspector general checklist. Each category was reviewed so improvements could be considered and implemented. The 10-point improvement in the training and career development score was particularly impressive and indicated we were headed in the right direction.

While the current state of the economy may have slowed the departure of employees in the federal sector, we look at this as a temporary reprieve, giving the Agency additional time to focus on attracting, developing and retaining high performing employees. Thus, we are deploying our 21st Century Leadership Development Program to provide a systematic career progression path and/or required professional certification to develop the competencies, skills and flexibility within DeCA's leadership and managerial staff to successfully meet future mission requirements. A major portion of this program is to ensure we maintain our leading edge through Continuous Process Improvement (CPI) Training, thus by 2015, we expect to have six percent of the targeted workforce trained in CPI and/or Lean Six Sigma. Another is to increase the number of employees with degrees to increase DeCA's knowledge base and decrease skill gaps. This is intended to result in a high-performing, motivated team that more effectively plans for, guides and supports our stores.

Of course, we continue to pursue individuals who have an investment in the Military Services and the commissary, such as wounded warriors and military family members. As part

of our effort to give back to the community and the patron base we serve, we have focused our recruitment efforts on hiring wounded warriors, disabled veterans, military spouses and other family members. Since June, 2008, we have hired 14 severely disabled persons and 70 compensable disabled veterans. Currently family members make up 38 percent of DeCA's workforce. Focusing on these groups goes much further than just providing them an employment opportunity. It allows us to significantly improve the delivery of the commissary benefit. These individuals not only understand the sacrifices our patrons have made, they have a personal stake in improving the success of the commissary benefit. Employing large numbers of employed spouses and family members also creates challenges with work schedule requirements, particularly when the military spouse is deployed; however, DeCA is committed to working with its employees, within mission requirements, to arrange convenient work schedules.

Supporting the Guard and Reserve: I am pleased with our initiative to reach out to Guard and Reserve Service members through on-site sales, which brings the commissary benefit to members of the National Guard and Reserve living in areas where DeCA does not have brick and mortar commissaries. Statistics reveal that in the Continental United States, 54 percent of Reserve and National Guard units are located more than 20 miles away from a commissary. Making the benefit accessible to them is a top priority, and the response to these sales has been overwhelming. For Fiscal Year 2008, 104 Guard and Reserve sales were held. Over 41,000 patrons bought $4.4 million in commissary items. For many, it was their first encounter with the tremendous value the commissary benefit provides. For Fiscal Year 2009, we expect to reach over 65,000 patrons at 150 Guard and Reserve sales. These sales have become the centerpiece to get information on other DoD benefits and programs to Guard and Reserve families. Often joined by the Health officials, MWR activities, and the Exchanges, offering information or other

goods for sale, on-site sales often take on a country fair flavor as we strive to take care of our Guard and Reserve family.

Of course, those active duty, guard and reserve and retired members living in the Fort Worth area were extremely pleased when the old Carswell BX Mart, a combined store operated by the Army and Air Force Exchange (AAFES) since the 1993, reopened as a commissary. Through close collaboration and coordination with AAFES, we were able to close the former store, do the required work to transform it back to a commissary are reopen with a full line of commissary products in only ten days. In ten months, patrons, at the now Joint Reserve Base Fort Worth commissary purchased over $22 million of an expanded selection of food and household items at commissary prices.

Going Greener: As you might imagine with all the refrigeration required in today's grocery stores, commissaries are energy intensive facilities; therefore, energy conservation has been a primary consideration in the development of DeCA's criteria for the design of both new stores and renovation of existing ones. Under its "going green" initiative, DeCA constantly seeks new technologies and has adopted many cost effective measures, such as fluorescent lighting, which has replaced high intensity discharge lighting in the typical grocery store. These fluorescent lamps are smaller and use less energy. DeCA updates its design criteria every 6 months, to include lessons learned from ongoing and completed projects, incorporating appropriate technology and approved changes identified by the Agency's Facilities Standards Review Board. Since its inception in 1995, our Energy Management Program has realized a cost avoidance over $50 million in utility costs. We've also reduced waste by recycling over 48,000 tons of cardboard and 268 tons of plastic wrap, earning more than $5 million in recycling fees that was deposited into our surcharge account.

Last summer the Defense Commissary Agency flipped the switch on its first solar-powered commissary at Los Angeles Air Force Base. Since "going solar" about 30 percent of the energy used by the store is being powered by the sun. The $840,000 project was funded through the Department of Defense Energy Conservation Investment Program. While Los Angeles is the first DeCA store to be partially powered by solar energy, the agency is seeking opportunities to use alternate sources of energy at commissaries in areas with the highest utility costs.

DeCA has also encouraged earth-friendly practices among its customers through the promotion and sale of "green clean" products such as compact fluorescent bulbs and reusable, recyclable shopping bags. In a little more than a year, commissary shoppers worldwide purchased more than 1.25 million bulbs. Shopping bags, however, have become a more emotional issue. Since 2007, more than 40 states, counties, and cities have considered legislation to institute mandatory or voluntary plastic bag recycling programs, impose a fee on the consumer for the privilege of using bags or ban their use altogether. The latest of these occurred last month here in the District of Columbia. Similar solutions are also being requested by military commanders across the United States and in Europe. Pressure to eliminate or charge for plastic bags is mounting. However, the deposit of both paper and plastic bags in landfills are of environmental concern. Consequently, as we seek an environmentally friendly alternative to existing shopping bags, we continue to educate customers about the availability of alternatives for transporting purchases from the point of sale to their homes, and provide reusable bags as alternatives. There has been great acceptance of this initiative from our patrons and since introducing reusable cloth bags for sale 14 months ago, they have purchased approximately 2.6 million of those bags.

Increase Cooperation with the Exchanges: Cooperation between DeCA and the exchanges continues to improve. We have truly entered an era where we seek to complement our activities to strengthen the military resale community. We Resale Directors and Commanders, as well as our collective senior staffs, routinely have open dialogues on issues that impact our resale business. In the past, besides the joint construction program, our best cooperative efforts occurred at store level where our local managers working with the local exchange held a number of joint sales events across the world. Other successful joint efforts occurred in joint marketing and outreach areas. We are continuing to build on those cooperative efforts and seeking joint solutions as we explore and leverage promotional affinities that make business sense, provide value to the patrons, or savings for commissaries and exchanges, but overall strengthen the overall military resale system. To that end, DeCA eagerly accepted an invitation to participate in the Exchange Cooperative Efforts Board working group. We seek to continue building upon this era of cooperation/collaboration to improve the overall Military Resale System.

A number of DeCA programs continue to provide value to our patrons and should be mentioned.

Food Safety: DeCA continues to lead the way, not only providing food from safe and secure food sources but by providing service members and their families with the information they need to practice safe food preparation in their homes. Joining the Partnership for Food Safety Education, we seek to bring renewed focus and a fresh new look to the four core food safety practices of "clean, separate, cook and chill." According to the Be Food Safe Web site, more than 75 percent of shoppers believe food-related illness is a serious threat to their health. Many believe the threat is greater today than in the past. DeCA's Be Food Safe program

includes shelf talkers, flyers, circular ads and informational brochures that are designed to educate the public on safe food handling practices.

Nutrition, Health and Wellness: Our "It's Your Choice, Make It Healthy" campaign continues to provide information to customers in an effort to help increase awareness and provide dietary guidance. This year DeCA and industry partners are joining USDA to focus on healthier eating habits by highlighting the MyPyramid.gov dietary guidelines in marketing and promotion throughout our commissaries. We're joining with the Department of Health and Human Services to promote the federal 2008 Physical Activity Guidelines, linking physical activity with healthy eating; and with TRICARE, HHS, AAFES and Military OneSource in the "Get Fit" Campaign to create awareness of childhood obesity to military families.

During Mental Health Month this past year, DeCA partnered with DoD's Mental Health Self-Assessment Program (MHSAP) to help military families embrace a healthier lifestyle and highlight the important relationship between physical and psychological health. Through this initiative DeCA distributed eco-friendly grocery bags and refrigerator magnets with a message promoting the free anonymous online and telephone mental health and alcohol use self-assessment help for service members and their families. With the message "Good for your body, good for your mind, good for your wallet," the joint campaign promoted the use of the commissary as well as the online and telephone screenings of the MHSAP.

Giving Back to the Community: Since the program started in 2003, the industry that supports commissaries and the general public has provided nearly $20 million to military families under the Gift to Groceries Program.

The Scholarships for Military Children Program remains a great example of the commissary's involvement with local military communities. Since its inception in 2001, the program has awarded more than $6.4 million in scholarships to more than 4000 children of

military families. Funded by industry and individual donations and administered without cost by the Fisher House Foundation, the goal of the program is to award a minimum of one $1,500 scholarship at each commissary location that receives applications from students.

Since last years update, the anticipated drain on the surcharge fund because of BRAC and Global Defense Posture Realignment (GDPR) actions has been resolved with the issuance of the Department's policy on the use of BRAC funding for those commissary projects required to implement BRAC and military construction (MILCON) dollars for the projects necessary due to strategic initiatives. This departmental decision had an almost immediate affect when BRAC funding was made available for the commissary at Fort Bliss and with the programming of military construction dollars for the Fort Riley commissary.

Since arriving at the Defense Commissary Agency about eight months ago, I have been most impressed with the Agency's delivery of a quality-of-life benefit to our country's most deserving customers and their families around the world. I unveiled my personal motto, "The Commissary - It's Worth the Trip!" to reiterate the value of this benefit to our Service members and their families who are sacrificing every day in support of their noble mission. Their demands are never unreasonable and surely attainable. **"The Commissary"** is a treasured benefit and a formidable tradition in our Armed Services; **"It's Worth..."** recognizes that DeCA team members understand our customers deserve top value for their hard-earned pay; and **"the Trip!"** ...reminds us that about 70 percent of our authorized shoppers do not live on an installation. We must make the trip so worthwhile and enjoyable that customers will not pass it up. As we face present and future challenges I remain confident in DeCA's commitment to enhancing our business processes to meet those challenges.

It has been my pleasure to tell you about the great things DeCA has accomplished this past year and of its contribution to the quality of life of our military families. I will be happy to answer any questions you may have.

NOT FOR PUBLICATION
UNTIL RELEASED BY
THE HOUSE ARMED
SERVICES COMMITTEE

STATEMENT OF
TIMOTHY R. LARSEN
DIRECTOR

PERSONAL AND FAMILY READINESS DIVISION
MANPOWER AND RESERVE AFFAIRS DEPARTMENT
HEADQUARTERS, UNITED STATES MARINE CORPS

BEFORE THE
MILITARY PERSONNEL SUBCOMMITTEE
OF THE
HOUSE ARMED SERVICES COMMITTEE
ON
MILITARY RESALE AND MORALE, WELFARE AND RECREATION OVERVIEW
ON
MARCH 12, 2009

NOT FOR PUBLICATION
UNTIL RELEASED BY
THE HOUSE ARMED
SERVICES COMMITTEE

Timothy R. Larsen

Director, Personal and Family Readiness Division
Manpower & Reserve Affairs Department
Headquarters, U.S. Marine Corps

Timothy R. Larsen is serving as the Director, Personal and Family Readiness Division, Manpower and Reserve Affairs Department, Headquarters, U.S. Marine Corps.

Mr. Larsen is from Denver, Colorado. After graduation from Brigham Young University, he was commissioned a second lieutenant in the United States Marine Corps through Platoon Leaders Course in 1973. Since his commissioning and completion of the The Basic School, Major General Larsen has held a variety of command and staff positions. He has commanded at every level from platoon through regiment.

In the operating forces, his command assignments include; rifle platoon, weapons platoon, Headquarters and Service Company, 3d Battalion, 7th Marines and Rifle Company, 1st Battalion, 7th Marines, 1st Marine Division (1974-1976); Weapons Company, 1st Battalion, 6th Marines, 2d Marine Division (1982-1983); 3d Battalion, 9th Marines, 3d Battalion, 4th Marines, 1st Marine Division (1994-1996); 4th Marine Regiment, 3d Marine Division (1997-1999); Assistant Division Commander, 1st Marine Division (1999-2001); and Commanding General, Coalition Joint Task Force-Kuwait (Forward) (2000-2001).

His other command assignments include the Marine Detachment, USS Saratoga, CV-60 (1976-1978); Marine Corps Recruiting Station, Phoenix, Arizona (1984-1987); Marine Corps Jungle Warfare Training Center (1997-1998); Camp Schwab, MCB Butler, Okinawa, Japan (1997-1999); and Commanding General, Marine Corps Base, Camp Smedley D. Butler, Okinawa, Japan (2001-2003); Deputy Commander, United States Forces, Japan, (2003-2007).

His staff assignments include battalion adjutant, company executive officer (1974-1976); fire support coordinator (1982-1983); battalion operations officer (1983-1984); Strategic Initiatives Officer, Policy and Strategy Division, Plans and Policy Directorate (J5), United States Central Command (USCENTCOM) (1988-1991). Major General Larsen deployed to Saudi Arabia with USCENTCOM during Operations Desert Shield and Desert Storm. Other staff assignments include G3 Plans Officer, 1st Marine Division (1993-1994); and Assistant Chief of Staff for Operations (G3), 3d Marine Division (1996-1997). He has attended several military schools to include; Marine Corps Amphibious Warfare School (1982); College of Naval Command and Staff, Newport, Rhode Island (1988); Japanese Language Course, Defense Language Institute, Monterey, California (1992); and Japanese National Institute for Defense Studies (NIDS), Tokyo, Japan (1993). Additionally, he holds an M.A. in International Relations from Salve Regina University (1988) and a M.A. in National and Strategic Studies from the Naval War College (1988).

His personal awards include: Legion of Merit, Bronze Star Medal, Defense Meritorious Service Medal, Meritorious Service Medal, Navy and Marine Corps Commendation Medal, and Navy and Marine Corps Achievement Medal.

Introduction

Chairwoman Davis, Congressman Wilson, and distinguished Subcommittee Members, thank you for this opportunity to report on the posture of Marine Corps Community Services (MCCS), which includes Marine Corps Morale, Welfare, and Recreation (MWR), family programs and the Marine Corps Exchange.

Your Marines carry on a proud tradition of being ready to answer the Nation's call at a moment's notice, serving always with distinction in the face of great challenge. With over 31,200 Marines deployed to dozens of countries around the globe, the young men and women who fill our ranks today continue to demonstrate an amazing resiliency in multiple deployments to dangerous lands.

As of the end of 2008, there were 198,902 active duty Marines and 189,929 dependent family members. Over the course of the year, 77,400 Marines deployed to Operation Enduring Freedom or Operation Iraqi Freedom (OEF/OIF). These deployed Marines had 65,500 family members. In fact, 68% of the active Marine Corps have a recent deployment to combat. Marines and their families know that these separations and their sacrifices are making a difference, that they are part of something much larger than themselves, and that their Nation stands behind them. We are grateful to the Congress and the American people for continuing to address their reasonable expectations of support.

Marine Corps Vision and Strategy 2025

During 2008, our Commandant published the *Marine Corps Vision and Strategy 2025* that established the future direction of the Corps. This important document reaffirms our core

beliefs as an institution and the warfighting concepts validated in war. Taking care of Marines and their families remains a point of main effort and the responsibility of leaders at all levels. The MCCS and its over 80 programs serves as a ready resource to unit commanders and other leaders but also an integrated partner dedicated to enhanced personal and family readiness of Marines and their families. To remain relevant and appropriately aligned to the future of the Marine Corps, MCCS developed its *Vision and Strategy 2025* plan. Every MCCS program must demonstrate contribution to the Marine Corps goals for recruitment, retention and readiness but also remain flexible and capable of supporting the needs of our "generations" of Marines and families, who have varying needs and support requirements. Regardless of generation, Marines and their families have reasonable Quality of Life (QOL) desires. The mission of MCCS is fairly simple--make it happen--regardless of duty station, environment, or mission.

I am pleased to provide the Committee with an overview of the program improvements we have made, and the status of our implementation efforts.

Unit Personal and Family Readiness Program and Supporting Role of MCCS

Throughout the proud history of the Marine Corps, unit commanders have been responsible for their unit's readiness and helping their Marines and families achieve a beneficial level of personal and family readiness. In discharging these duties, the commander typically called upon volunteers who utilized spouse-to-spouse connections and processes to contact family members. Wartime operations and ensuing deployments burdened our volunteer network and family contact requirements increased. It is also important to note that most of our MCCS family support programs had been established to support a peace time environment. While the MCCS was capable of flexing to support deployments, sustained deployments stressed our

service delivery model. Finally, making positive contact with Marines and families regarding their MCCS benefits and programs proved even more challenging. The combined effect of these issues demanded leadership action. Last year, we reported on some of the specific actions to increase staffing at the unit level, procure technology to simultaneously push out the "news you can use", and refresh the family programs of MCCS. This priceless investment of resources and focused effort of senior Marine Corps leaders last year was translated to results in FY08. As "helping Marines and families" became the focal and rallying point for MCCS and unit commanders, we initiated immediate action through compressed planning and implementation strategies. Nearly 400 civilian Family Readiness Officers (FROs) are now on duty throughout the Marine Corps. Serving as a special staff officer, the FRO makes direct contact with unit Marines and families to extend a commander's personal welcome, convey official communication, arrange required deployment or readiness training, and conduct information and referral. Our volunteers are still in strong support of our unit programs, but we have been able to significantly reduce the requirement for their extended volunteer service hours. A Mass Communication Tool enables simultaneous broadcast of communication via email, text messaging, or phone, and other technology enhancements to expand communications between the unit and Marines and their families regarding official communication or important unit training events.

The Marine Corps Family Team Building Program (MCFTB) provides a strong support arm to the Unit Family Readiness Program and provides high-quality training that supports the life cycle of the Marine and family through mission, career and life events. We have expanded and enhanced our pre, during, and post-deployment training to address the increased demands and potential impact of multiple, sustained deployments on Marines and their families. We have

developed an inventory of LifeSkills training courses that specifically address challenges of military life, but also personal and family life. Acknowledging the role extended family members play in fostering personal and family readiness, we have extended our family readiness support to embrace parents of single Marines. Finally, our MCFTB staff provides Unit Command Teams training on the roles, responsibilities and supporting tools that are available to foster personal and family readiness.

One of the most beneficial results of these investments is having a unit level representative cognizant of the wealth of MCCS family support programs and capabilities. FROs have been specifically trained on the capabilities and programs of MCCS. As a trusted agent of the commander and having direct access to unit Marines and families, the FRO introduces the capabilities of MCCS as a positive force multiplier. The partnership of unit commanders and MCCS will continue to pay dividends for years to come.

Exceptional Family Member Program (EFMP) and Respite Care Program

In many ways, our EFMP families must cobble together care from a variety of sources. We believe that our EFMP enrolled families are the best advocate for their special needs family member and, therefore, our program initiatives have been focused on providing a continuum of care for our Exceptional Family Members (EFM) but also supporting and growing strong advocates. We are actively helping nearly 6,200 families gain access to medical, educational, and financial services that may be limited or restricted at certain duty stations. In addition, we are working to ensure that our EFM programs for recreation, leisure and other quality of life support, such as respite care, are sufficient and effective. To achieve these goals, we have fully staffed these programs at both the installation and headquarters level.

We have also procured two technology aids at each EFMP office – a case management system and digital document senders– to assist in enrollment, case management services, and providing a robust reporting capability for our Program Managers.

The heightened stress on families who are caring for one or more family members with special needs, as well as handling the deployment cycle of one of the parents, required our attention. EFMP Respite Care is a program intended to reduce stress on Marine families by providing temporary rest periods for family members who have disabilities or are responsible for regular care of persons with special needs. Funded by the Marine Corps, this program provides up to 40 hours of care per month to all enrolled families, and can be used in conjunction with the TRICARE Extended Care Health Option (ECHO) benefit.

We are working with the Bureau of Naval Medicine and Surgery and TRICARE to resolve health care access and availability issues for EFMP families at several of our bases. In addition, legal counsel is now on staff to advise our exceptional family members on state and federal entitlements and processes.

In areas where these services are available, a National Association of Child Care Resource & Referral Agencies (NACCRRA) respite care program is provided for children with severe special needs. Respite care may also be provided to children who have EFM siblings or parents.

Gaining access to services can be most challenging to families who have members diagnosed with Autism Spectrum Disorder. We sincerely appreciate the increased Government limit that Congress approved for Fiscal Year 2009 for certain benefits available through ECHO, in particular, the Special Education benefit. When fully implemented, this increase will provide

a more robust level of Early Intervention Services, especially Applied Behavior Analysts, to beneficiaries with ASD.

School Liaison Program

The education of over 52,000 school-aged children of Marine Corps parents directly contributes to the overall state of family readiness within our Corps. We recognize that our children, who are often as mobile as their military parents, face additional challenges associated with frequent moves between schools and educational systems of differing quality and standards. Some of these restrictive practices involve the transfer of records; course sequencing; graduation requirements; exclusion from extra-curricular activities; redundant or missed entrance and/or exit testing; kindergarten and first grade entrance age variations; and the power of custodial parents while parents are deployed. To address these challenges, we established School Liaison positions at each of our installations to help parents and commanders interact with local schools and districts. Installation School Liaisons work at local and district levels, while Regional School Liaisons work state issues. The national level School Liaison appropriately addresses Federal level issues and coordinates state agendas as necessary. Specifically, the School Liaisons advocate for school-aged children and form partnerships with schools and other agencies to improve access and availability to quality education as well as to mitigate education transition issues. School Liaisons are actively involved in efforts to assist school districts in applying for available competitive and noncompetitive grants focusing on issues arising with military school-aged children. Complimenting these efforts, the Marine Corps supports the work of the Office of the Secretary Defense (OSD) with respect to gaining the support of more States as signatories to

the "Interstate Compact on Educational Opportunity for Military Children" to enable reciprocal acceptance of entrance, subject, testing, and graduation requirements.

Child Development Program and Meeting Potential Need

The purpose of the Marine Corps Children, Youth, and Teen Programs is to provide quality, affordable child care and youth and teen services. To ensure these programs continue to meet the unique and changing needs of Marines and their families living both on and off our installations, we conducted a Functionality Assessment of the programs in June 2008. We are now in the process of implementing improvements to service delivery.

This year, we are using multiple strategies to increase our child care capacity, including expanded hours to address increased operational tempo, as well as partnering with other organizations, on and off-base, to provide family child care and Child Development Home spaces. We are now providing 16 hours of reimbursed respite care per month for families with a deployed Marine. In addition, the Marine Corps developed partnerships to provide long and short-term support for Marines and their families who are not located near our major installations. Through our partnership with the NACCRRA, we have been able to provide an additional 798 child care spaces to geographically-dispersed, deployed and severely-Injured service members' children. Home based child care programs, which are encouraged to become nationally accredited, are a viable means of expanding care in addition to center-based programs. Family Child Care (FCC) providers are private contractors certified and monitored by the command. Headquarters Marine Corps will provide training at the Children, Youth and Teens Programs (CYTP) Conference of the National Association for Family Child Care (NAFCC accreditation).

We will also continue to conduct Technical Assist Visits to our installation programs in order to ensure a consistent program quality from base to base.

In our on base child development programs, we are providing 11,757 child care spaces and meeting 63.6% of the calculated total potential need. It is important to note that the Marine Corps has initiated rigorous data collection and analysis improvements. As a result, it will be necessary to correct the 2007 annual summary due to identified reporting errors. Our reported rate of 71% of calculated total potential need last year is more accurately stated as 59.1%.

The spaces are within a variety of settings:

Child Development Center:	4,519 spaces
Family Child Care Homes (FCC):	2,052 spaces
School Age Care:	2,134 spaces
Resource and Referral:	3,052 spaces.

We are not satisfied with our progress to date and have made plans for 10 Child Development Center Military Construction projects. Two of these projects were approved in 2008, and one was approved this year. These approved projects will provide an additional 915 spaces.

To relieve deployment-related stress, we offer "Kids-N-Deployment" and "Kids-N-Reunion" age-specific workshops for children (thru age 18), which include puppet shows, games, and lessons on communication with a deployed parent. We will also soon launch L.I.N.K.S. for Teens and School-Age Children and LifeSkills training.

Remote and Isolated Installations

Recognizing that local communities surrounding our remote and isolated bases often have limited or less robust support services and leisure/recreation capabilities, we conducted assessments at these commands to determine requirements. We have initiated substantial

improvements to infrastructure and quality of life programming with upgraded child care availability and support, playground equipment, youth sports equipment, fitness center equipment, bike paths, and facilities. These enhancements will further promote the sense of community required to form strong bonds among our Marine families that contribute so directly to readiness.

Expanding Communications Between Deployed Marines and Their Families

We learned that effective communications with family members is of paramount importance. For our families with deployed Marines, it is a critical quality of life requirement. To better connect Marines and their families and to enhance our morale and recreation capability on installations, we are installing wireless networks and access points at over 230 facilities across the Marine Corps. Full implementation is anticipated by the end of FY09. We are also testing a Morale-Portable Satellite Communication Suite (M-PSC) capability that provides an internet and web-cam capability to Forward Operating Bases (FOBs) in Afghanistan where traditional "Internet Cafés" are unavailable. This not only provides Marines with an opportunity to connect with their families, but also provides a recreation outlet at these austere and remote locations. Two systems were delivered to our forces in Afghanistan in December 2008. Initial capability tests under these austere, combat conditions in the FOBs have been very encouraging.

Personal Financial Management

In difficult economic times, our Marines and their families face challenges that are no different from the American population in general, such as taking on too much debt, incurring expenses of a new child, and facing increased housing costs. Our Marines also confront unique

challenges because of their service, such as unexpected or short notice deployments, extended separations, and directed permanent reassignments, all of which can compound existing financial difficulties.

During July 2008, we conducted a Financial Quick Poll to help determine the level of financial stress on active duty Marines and their families as a result of the downturn in the economy. Of the over 9,000 Active Duty Marines who responded to the survey, 15% of enlisted Marines and 5% of officers classified themselves as being in financial distress. Respondents reported that the most frequent financial problems experienced within the past year were increases in housing costs (utility, rent and insurance), and taking on excessive debt.

We appreciate the efforts of the Congress to address the payday lending problem with the Talent-Nelson Amendment to the FY07 National Defense Authorization Act. Following up on that positive legislation, we worked with the Navy-Marine Corps Relief Society to establish a quick assist loan program that offers a $300 interest-free loan for emergency basic living expense needs. We also conducted a functionality assessment of our Personal and Financial Management Program in October 2008, and found deficiencies and opportunities for improvement that we will pursue in 2009, to include increasing the financial literacy of our Marines and spouses. As the economy continues to decline, we anticipate that economic impacts may become more pronounced. We will continue to monitor the Corps' financial health and the success of our efforts to improve the program, and we will conduct another Quick Poll this year.

Family Member Employment Assistance

The Marine Corps' Family Member Employment Assistance Program (FMEAP) provides comprehensive career-coaching assistance aimed at preparing family members to enter, maintain,

and sustain employment and career growth. Certified Workforce Development Professionals provide family members one-on-one coaching, various employment-related workshops, such as resume writing and job search skills, as well as web-based assistance.

Recently, we completed a Functionality Assessment of our FMEAP Program and identified several promising areas that would expand and improve the program, such as engaging family members earlier in the employment search; increasing job referrals through partnerships with local and national companies; providing follow up assistance after services are received; and improving program visibility.

Last year, two Marine Corps installations - Camp Pendleton and Marine Corps Base Hawaii –participated in an OSD-led demonstration project for military spouse career advancement. The Military Spouse Career Advancement Accounts (MSCAA) allow military spouses to obtain a maximum of $6,000 over a two year period for expenses that directly relate to post-secondary education and training resulting in licensure, certification, credentials or a degree. This program is designed to be a flexible, self-managed education funding account that enables the military spouse to gain the skills needed to successfully enter, navigate, and advance in portable careers in 10 fields. We welcome the decision to expand this program to allow all active duty spouses an MSCAA.

Tuition Assistance (TA)

The off-duty voluntary education benefit is an important component of personal and career development for our Marines. In Fiscal Year 2008, 25,354 Marines participated in the TA program at a rate of about 2.6 courses per individual. Distance learning still accounts for 61% of TA enrollments while courses on base account for 19%. The Marine Corps' participation in

tuition assistance has historically remained around 13%, indicating that deployments appear to have little impact on utilization rates.

Library Services

We are quite proud that Marine Corps General Libraries continue to be recognized for excellence. Three of the Marine Corps General Libraries have been awarded Premiere General Library certificates from OSD and are the only Premiere Libraries within the Department of Defense.

Through the Lifelong Learning program, the Marine Corps procures online databases to provide academic research, professional resources, and recreational material that are available anytime, anywhere for Marines and their families. On the General Library's website we offer five full text newspapers and over eighteen collections of databases that cover needs such as academic research, health, criminal justice, and elementary through high school interests.

Thirty-one foreign languages can be learned on-line though the Rosetta Stone library program. The courses are available to eligible library patrons 24 hours a day, 7 days a week. Eleven foreign languages are available on pocket-sized, battery operated, Playaway devices that are convenient for deployed Marines This initiative is being supported in unison with efforts to encourage publication of the Commandant's Professional Reading List titles on portable devices.

SEMPER FIT

The Semper Fit program provides commanders with a combined arms team of fitness experts, health educators, and sports and recreation professionals to encourage and support healthy lifestyles which result in increased productivity, reduced stress, reduced medical costs,

and greater readiness. The Semper Fit program is the primary focus in promoting healthy lifestyles through which a variety of programs are provided to our Marines (active, reserve and retired), Civilian Marines, and their families. The Semper Fit Program includes the following standard programs: health promotion, fitness, sports and athletics, parks and outdoor recreation, recreation aquatics, basic social recreation (Single Marine Program (SMP) and recreation centers/ recreation rooms) and Semper Fit deployment support, which encourage and support healthy lifestyles.

Functional fitness, specifically training Marines and Marine leaders for the Combat Fitness Test (CFT), has been a focused priority in the past year. In support of this emerging requirement, Semper Fit and the Training Command developed a Combat Fitness Training course to enhance operational readiness and develop tactical performance. The rigors of the battlefield require holistic physical skills combining endurance, strength, flexibility, power, speed, coordination, agility, balance, and accuracy. Functional fitness integrates the individual needs of our Marines and the demands of today's battlefield, while using the skills and capabilities resident in our fitness centers.

Recreation for the Recovering Marine

Recognizing the importance of providing recreational opportunities for our wounded, the Marine Corps has partnered with Pennsylvania State University to train recreation professionals on Inclusive Recreation for Wounded Warriors. This state-of-the-art training program for military recreation managers ensures that Marines and their families can create a "new normal" as soon as possible. Some of the best practices in place at our installations include: bowling; golf (enhanced by the purchase of specialized golf carts for disabled golfers); expanded personal

fitness training; and alternative activities for those who have been diagnosed with Traumatic Brain Injury, such as yoga, meditation, deep and shallow aquatic classes, personalized swim coaches, wall climbing, nutritional counseling, and referral to the "Back on Track" program.

Obtaining Quality of Life Feedback

As I noted earlier, it is important to measure the effectiveness of our quality of life programs. The town hall meetings the Commandant regularly conducts at our installations provide him an opportunity to address directly issues or potential concerns that are voiced by our Marines and family members. These meetings, in addition to locally-established feedback mechanisms such as Interactive Customer Evaluation (ICE), provide our Program Managers information they can quickly use to respond to identified concerns and improve the program.

In late 2007, the Marine Corps conducted its fourth Quality of Life in the Marine Corps Study (prior studies were conducted in 1993, 1998, 2002). This is the first study conducted since the start of OIF/OEF, and it measured Marines and their spouses' perceptions and satisfaction with the quality of life across a wide range of issues. As a statement of the morale and commitment of today's Marine, this most recent study found that during the Global War on Terror and the high operational tempo, Marines and their family members are generally satisfied with their mission and the support provided by the Marine Corps. In fact, a very important finding from the study was that Marines with a deployment history in support of GWOT actually have a slightly higher overall QOL score than their counterparts without a deployment history.

Spouses, in particular, were another good news story from this study. We found that there was an increase in overall and specific satisfaction across the board for the spouses when compared with the results from the pre-OIF/OEF 2002 study. Spouses greatly appreciate the

health care benefits provided by the Marine Corps, the quality of professional child care they receive, and the educational opportunities for their children. These factors and others had a positive impact on the family decision to remain part of the Marine Corps.

Warfighter and Family Support as Category A MWR Activities

The Marine Corps intends to fully implement the recent OSD policy change that allows Warfighter and Family Services (WFS) programs to be treated as MWR Category A activities. This welcome change will greatly improve how we provide WFS programs to Marines and their families. This change will allow us to use nonappropriated fund (NAF) support practices, such as NAF human resource and procurement practices. MWR and WFS programs are both vital to building the social fabric of the military community, and directly impact readiness and retention. Operating them via the same NAF mechanisms will offer a more integrated approach to providing service for Marines and families, and mission support for commanders.

Marine Corps Exchange (MCX) Operations

The Marine Corps Exchanges (MCX) are focused on a vision that encompasses four components: creating a great shopping experience curb to register; being the first place our customers think of to shop and confident in our assortments; being clear in our customer value story; and remaining emotionally connected to the Marine Corps customer. Our logo of "MCX Core Brands, Corps Value" links the Exchange to the pride of the Marine Corps and represents our commitment to our customers to provide brands and value each time they shop the MCX. The seeds of transformation were planted about five years ago, with centralized buying, aggressive recapitalization and branding the customers shopping' experience. We are seeing the

results of these efforts in sales, profits, savings and customer satisfaction. In one of the toughest retail economies in recent memory, the MCX exceeded all our performance measures. Although we are not immune to larger economic forces, I am confident we are well-positioned in the current retail environment with a strategy that provides value and service to our customers.

Store Improvements

I am pleased to report that we had three grand re-openings in the fourth quarter of 2008, MCX Parris Island, MCX New River and Quantico Marine Mart, to bring the total count of MCX main store locations "On Brand" to six. In November 2008, the MCX New River expansion and renovation and the newly constructed MCX Parris Island had grand opening celebrations that were filled with much customer anticipation and excitement. From grand opening to year end, MCX New River experienced a sales increase of 32.2% compared to the baseline year 2006 and MCX Parris Island experienced a sales increase of 21.1%. Both of these stores are the small store format, which combines the Marine Mart convenience store and Main Exchange in one building. The small store format prototype model, MCX Camp Allen, continues to be successful with strong sales growth and reduced operating expenses. MCX Miramar, MCX Quantico and MCX Cherry Point are all performing well, after their grand openings in 2007. For FY08, merchandise sales are up 8% at Miramar, 24% at Quantico and 21% at Cherry Point. The Quantico Marine Mart experienced a 23.7% sales increase from the November 2008 grand opening to year end FY08, compared to the 2006 baseline year. In addition to sales increases, customer and associate satisfaction has also improved at these stores, validating our focus on renovation and branding.

We are on track for two main store grand opening celebrations scheduled for 2009; a new exchange at MCX Yuma and a renovated exchange at MCX Albany. I look forward to reporting the success of these "On Brand" stores next year. Additionally, because of the success of our main store "On Brand" capitalization efforts, we are developing a system-wide recapitalization master plan for Marine Marts. We have had great success with recent Marine Mart renovations and are developing the same standards that we have institutionalized with MCX main stores. We have two new construction Marine Mart locations that will open in 2009, at MCAGCC 29 Palms and Marine Corps Base Hawaii.

Tactical Field Exchanges

In Operation Iraqi Freedom (OIF), the Marine Corps partners with the Army and Air Force Exchange Service (AAFES) to provide Tactical Field Exchange (TFE) services. Marines in Iraq and Afghanistan have access to a variety of items, from health and comfort, to movies, CD's, and snack foods. Many of our MCCS Marines are serving their fourth tours in Iraq in support of the TFE operations.

Additionally, MCCS has an average of 25 MCX civilian volunteers serving the TFEs in Iraq, many of whom have volunteered to go back for a second time. We appreciate and value the service and dedication of these employees, which ensures deployed Marines receive "touches of home" no matter their location.

In Fiscal Year 2008, it is estimated that the TFEs generated $104M in sales, slightly down from 2007 due to site closures. We deployed two MCCS Marines to Afghanistan in November 2008. They are operating out of a TFE and using mobile Warrior Express Service (WES) Teams to provide MCX service to our Marines in outlying camps. Through our

partnership with AAFES, a 50,000 square foot facility is being constructed to provide MCX service to our growing population in Afghanistan. We are preparing for increased exchange and MCCS support requirements as troop strengths increase.

Price Survey

The Marine Corps Price Survey, as a Cooperative Effort with AAFES and NEXCOM, was conducted 13 - 18 October 2008 in three market locations (Arlington, Virginia; San Diego, California; and Honolulu, Hawaii). Since the Price Survey is used as a standard performance metric for all three Service Exchanges, it is important that Exchange survey methodologies be closely aligned. Therefore, MCX markets were selected to better parallel with AAFES and NEXCOM market locations. A product list consisting of 331 line items representing 33 merchandise categories was used to accumulate pricing data across the specified market locations. Merchandise categories were used that are important to our customers such as health and beauty, electronics and apparel. I am pleased to report that in the aggregate, our 2008 MCX savings is 27.2 % before taxes. This represents a savings increase of approximately 5% over last year. To optimize savings for the items Marines and their families most desire, we focus on significant customer touch points, thus ensuring high velocity items, such as razors and beef jerky, are competitively priced. We are using innovative pricing strategies to help relieve the financial strain on our young families, by selling items such as baby formula, baby food, diapers, bread and milk at or near cost.

Customer Satisfaction

In September 2008, MCXs across the Marine Corps participated in a Customer Satisfaction Index (CSI) Survey. The survey measures satisfaction levels at regular intervals, thereby allowing us to identify areas requiring closer attention. MCX customers continued a five-year favorable trend by rating their overall satisfaction score higher in 2008 than they did in 2007. Key customer findings showed that pricing and the influence of our associates remain strengths for our organization and continue to be key drivers of satisfaction. We strive to have the preferred brands that are important to our customers and continue to be "expeditionary" in business. Our steady increase in CSI over the past five years is also an indicator that our vision and strategies are working. The Headquarters buying teams and Command representatives have worked closely to get the assortments right; and the proof of their success is customer satisfaction with our assortments, unprecedented sales increases, and continued price savings. Our customers also recognize the facilities investment we are making that improve the shopping experience.

Additionally, our American Customer Satisfaction Index (ACSI) results continue to remain consistent with the industry average. After an improvement in 2007, the overall MCX score decreased slightly in 2008 to slightly below the industry average. However, MCX continues to beat the industry average by a significant margin in service quality and remains above the industry average in product quality as well.

Exchange Cooperative Efforts Board

We continually look to develop methods and practices that will improve the efficiency and effectiveness of our Exchange System. The Exchange Cooperative Efforts Board (ECEB)

plays a large role in this capacity as we work with the other retail activities to leverage best practices for the benefit of Marines and their families.

In 2008, the ECEB focused on the areas of Indirect Procurement and Supply Chain. Indirect Procurement Commodity Councils leveraged overhead from 2008 collaborative efforts by $5.5M. Currently, the Exchanges have 150 collaborative contracts which reduce costs, generate revenue and improve efficiency. Related to supply chain, the Exchanges have participated in numerous import buys this year, combining the total orders of each Exchange to leverage best product costs and reduce logistics costs. Although our business models are different, the ECEB is working with DeCA to determine opportunities for cooperation between the Commissaries and Exchanges. We look forward to another year full of collaboration and promoting the benefit to Service members and their families.

MCX Sales and Profits

Although the retail industry, in general, experienced unprecedented challenges last year, the MCX is proud to report we had a year of remarkable performance. While most retailers posted sales declines, the MCX posted a 9.3 % increase. In Fiscal Year 2008, our Exchange sales are estimated to be $880.8M, an increase of 9.3 % over the prior year. During this period, we had two stores under renovation. Considering the renovations, impact of deployments, and the performance of outside retailers in 2008, we are very pleased with our results. Our estimated MCX profits for Fiscal Year 2008 are $69.7M, an increase of 30.3 % over last year. Our Exchange dividend for MWR for FY08 is estimated at $46.4M.

Clubs & Lodging

In 2008, we began expanding the capability of our Marine Corps clubs to contribute to readiness and retention by providing increased mission essential support to commanders. Club dues were eliminated, effectively making all Marines members of the Club without having to pay for the privilege. We convened a cross-functional Club Operation Planning Team (OPT) to look at the future state of clubs that more positively links them to the Marine Corps institution and expectations of today's Marines and their families. The OPT developed a Clubs Transition Plan containing a new mission statement, strategies for the Club Concept of Operations, supporting policies, measures of effectiveness, and operational initiatives. In the coming year, we expect to continue club improvements by providing multi-media, Wi-FI, and video gaming capabilities at these facilities.

Our successful temporary lodging facilities (TLF) program, primarily for permanent change of station Marines, continues to expand with the November 2008 opening of 12 additional rooms at MCAS Yuma and the projected openings this year of a 69-room facility at MCB Camp Pendleton in May, and a 24-room addition at MCB Hawaii in July. We have completed the upgrades of the lodging property management systems and look forward to implementing web reservations as a service to our guests. To ensure the lodging program is meeting market demand and offering quality accommodations, amenities, and services to Marines and their families, a lodging master plan will be developed this year. The plan will be our guide for building new and renovating existing rooms, as well as identifying operational elements to include in the "Inns of the Corps" branding initiative.

Morale, Welfare, and Recreation Facilities Modernization

The MCCS nonappropriated fund (NAF) MWR construction program continues on a stable path. Our patrons should have nothing less than high-quality MWR facilities and our sound program reflects a philosophy of continual assessment and response.

In Fiscal Year 2008, we completed:

- Marine Corps Base Quantico, Virginia, construct Food Court at MCX ($2.3M);
- Marine Corps Base, Camp Lejeune, North Carolina, renovate Location Exchange MCX ($366K);
- Marine Corps Air Station New River, North Carolina, major renovation to MCX ($6.3M);
- Marine Corps Recruit Depot/ ERR, Parris Island, South Carolina, construct MCX ($15.5M);
- Marine Corps Recruit Depot/ERR, Parris Island, South Carolina, renovate Furniture Store (MCX) ($1.7M);
- Marine Corps Logistics Base, Barstow, California, construct Retail Store (MCX) ($720K);
- Marine Corps Base, Iwakuni, Japan, construct Bowling Center ($7.6M);
- Marine Corps Air Station, Yuma, Arizona, addition to Temporary Lodging Facility ($1.7M);
- Marine Corps Base Hawaii, construct Driving Range ($2.0M);
- Marine Corps Base, Quantico, Virginia, construct addition to Marine Corps Community Services Headquarters ($6.7);
- Marine Corps Air Station Miramar, RV Storage ($3.9M).

In Fiscal Year 2008, we began:

- Marine Corps Air Station Miramar, California, replace Golf Course Club House and SNCO Club ($7.1M);
- Marine Corps Base, Camp Pendleton, California, renovate two location Exchanges at Gas Stations ($0.6M each);
- Marine Corps Air Station, Yuma, Arizona, construct MCX ($17.5M);
- Marine Corps Recruit Depot/ERR, Parris Island, South Carolina, construct Youth Center ($4.2M);
- Marine Corps Air Station New River, North Carolina, replace Auto Hobby Shop ($2.3M);
- Marine Corps Air Station New River, North Carolina, replace Car Wash ($1.0M);
- Marine Corps Base Hawaii, renovate Golf Clubhouse ($2.6M);
- Marine Corps Base Hawaii, construct Convenience Store with Gas Station ($4.9M).

In Fiscal Year 2009, we plan the following:

- Marine Corps Base Quantico, Virginia, renovate/expand Package Store ($3.6M);
- Marine Corps Logistics Base Albany, Georgia, renovate MCX ($3.4M), renovate Bowling Center ($0.4M), and renovate Base Restaurant ($0.4M);
- Marine Corps Air Ground Combat Center Twentynine Palms, California; construct Auto Skills Center addition ($2.4M), construct Marine Mart and Gas Station ($5.2M) and construct addition to Convenience Store ($2.1M);
- Marine Corps Base Camp Pendleton, California, construct Car Wash expansion ($1.3M);
- Marine Corps Air Station Cherry Point, North Carolina, renovate Marine Mart ($1.2M);
- Marine Corps Air Station Cherry Point, North Carolina, construct Consolidated Club ($8.4M);
- Marine Corps Base Camp Lejeune North Carolina, renovate Bowling Center ($0.7M);

- Marine Corps Recruit Depot Parris Island, South Carolina, construct RV Park ($0.5M);
- Marine Corps Base Hawaii, construct Youth Center ($12.7M), expand Temporary Lodging Facility ($7.5M); construct Gas Lanes at Convenience Store ($1.9M).

Fiscal Year 2008 Financial Results

Our appropriated fund (APF) financials continued to support the OSD MWR 85/65 standards for Categories A and B, respectively. For FY 2008, the Marine Corps achieved APF support of 91% for Category A and 83% for Category B. MWR APF direct support increased by $117 million over FY 2007. Overall, the Marine Corps executed $141M more MWR funding in FY 2008 than originally budgeted. This was due to additional contingency operations funds, enhanced emergency child development support, and execution decisions by Installation Commanders. For FY 2008, the Commandant directed increased programs funding to improve the quality of life for our Marines and their families. Support for these programs in FY 2008 and 2009 has been provided through GWOT Supplemental funding.

Credit Card Fees

While we understand that the credit card industry must rely on a transaction fee-based model to generate profits, it naturally impacts our profitability, and ultimately our support to Marines and their families. Credit card interchange fees, which all retailers are required to pay, cost the Marine Corps MCCS activities over $8,256,000 last year. Non-negotiable interchange fees and complex transaction rate structures make it difficult to monitor and budget for this ever-increasing expense. We look forward to the results of the Government Accountability Office (GAO) impact study.

Payment of Post Allowance

Upon a March 2008 determination by OSD, all overseas NAFIs began paying post allowance to US citizens hired overseas in NAF positions. Our MCCS operations in Japan at Okinawa and Iwakuni were affected by this decision. Both NAFIs certified compliance with this policy by 24 April 2008.

Additionally, the Marine Corps was directed to pay retroactive post allowance to eligible employees for the period from December 2001 through December 2007. The cost for the retroactive claims significantly impacts the operational costs for our NAFIs. Clarification on the permissibility of using reverted appropriated funds to address this liability is important.

Conclusion

This has been a highly successful year for Marine Corps Community Services, but much remains to be done. Our family readiness programs provide for the reasonable expectations of our Marines and their families, while benefiting overall readiness and retention. Our retail operations continue to succeed, generate revenues for our programs and are viewed as an important benefit by our patrons. At the Headquarters, in our regional Commands, and at each installation, we seek to improve the quality of life for Marines and their families. On behalf of the Marine Corps and Marine families, I thank the Committee for your continued advocacy and attention to the well-being of all America's Service Members and their families. It is most sincerely appreciated.

RECORD VERSION

STATEMENT BY

MR. RICH GORMAN
EXECUTIVE DIRECTOR / CHIEF OPERATING OFFICER
FAMILY AND MORALE, WELFARE AND RECREATION COMMAND

BEFORE THE

SUBCOMMITTEE ON MILITARY PERSONNEL
COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

FIRST SESSION, 111TH CONGRESS

ON ARMY FAMILY, MORALE, WELFARE AND RECREATION PROGRAMS

MARCH 12, 2009

NOT FOR PUBLICATION
UNTIL RELEASED
BY THE COMMITTEE ON
ARMED SERVICES

STATEMENT BY
MR. RICH GORMAN
EXECUTIVE DIRECTOR / CHIEF OPERATING OFFICER
FAMILY AND MORALE, WELFARE AND RECREATION COMMAND
ON ARMY FAMILY, MORALE, WELFARE AND RECREATION PROGRAMS

Madam Chairwoman and Members of the Subcommittee, our previous commander, Major General John A. Macdonald, recently deployed to serve this Nation in Afghanistan. As the Executive Director and Chief Operating Officer of the Army's Family and Morale, Welfare and Recreation Command (FMWRC), I am privileged to appear before you to share the progress we are making in our mission of providing our Soldiers and their Families a quality of life commensurate with the quality of their service.

In her "First Lady's Message to Families," commenting on the people she had met on the campaign trail, Michelle Obama remarked, "I particularly cherished my visits with military Families all across the country...And if there's one thing I learned, it's that when our servicemen and women go to war, their Families go with them." She has learned what this Subcommittee and the Army have known for a very long time. Army Families have stood shoulder to shoulder with their Soldiers throughout the challenges of the military lifestyle and particularly during this difficult era of multiple deployments.

By co-sponsoring a Joint Resolution urging the President to designate 2009 as the "Year of the Military Family," you are demonstrating to military Families that their service and sacrifice have not gone unnoticed and is deeply appreciated by the United States Congress. On behalf of America's Soldiers and their Families, I would like to thank you for expressing your appreciation and acknowledging the contributions that military Families make.

SUPPORT TO DEPLOYED SOLDIERS

Our current Family and Morale, Welfare and Recreation (FMWR) programs are rooted in the Salvation Army and Red Cross efforts during World War I. After the War was over, funding stopped and morale programs were mothballed until July 1940 when the Morale Division—later named Special Services—was established within the Adjutant General's Office. Special Services underwent much reorganization and had many names before coming to its present configuration as morale, welfare, and recreation. Though programs are far more sophisticated today and have expanded to include Families, the MWR mission remains essentially unchanged, and the services we offer to Soldiers and their Families truly remain "special."

MWR supports America's Army wherever it serves. We maintain MWR facilities at 58 sites in Iraq, Afghanistan, Kuwait, and Bosnia. Eighty-five civilian MWR professionals have deployed in the seven years since September 11, 2001. Twenty-six are currently deployed, serving Soldiers who can now expect a basic level of MWR support wherever they may be assigned. Tens of thousands of deployed Soldiers have received portable pocket fitness kits that can be used at any time and any place. Popular with Soldiers, these kits contribute to their overall well-being as well as to the Army's war fighting capability.

Recreation facilities include theaters, electronic games stations, traditional board games, ping-pong, and paperback book libraries that offer preloaded audio books. Fitness facilities include pools, self-powered aerobic machines, cardiovascular and strength training equipment, and assorted free weight equipment.

MWR programs help Soldiers to maintain physical fitness, to alleviate combat stress by temporarily diverting Soldiers' focus from combat situations during deployments, and to foster total Army Family readiness, as mission accomplishment is directly linked to Soldiers' confidence that their Families are safe and capable of carrying on during their absence until they return home from deployment.

Soldiers can take advantage of rest and recuperation programs offered at the Edelweiss Lodge and Resort, Hale Koa Hotel, and Shades of Green, which provide discounted guest room and food and beverage packages for Service members and their sponsored guests during mid-tour leave or upon return from either Afghanistan or Iraq.

SUPPORT TO FAMILIES

In a February 27, 2009, speech to Marines at Camp LeJeune, President Obama referenced his wife's commitment to military Families: "My wife Michelle has learned firsthand about the unique burden that your families endure every day. I want you to know this: military Families are a top priority for Michelle and me, and they will be a top priority for my administration." Families have been, and will continue to be, a top priority for the Army.

The Army Family Covenant: Recognizing that the strength of our Army comes from the strength of our Army Families, Army leadership unveiled the Army Family Covenant in October 2007. The Covenant institutionalizes the Army's commitment to provide Soldiers and Families—Active Component, Guard, and Reserve—a quality of life commensurate with their level of commitment and service to the Nation and recognizes the important sacrifices they make every day to defend the Nation. The Covenant commits the Army to improve Soldier and Family readiness by standardizing Soldier and Family programs and services, increasing accessibility to health care, improving Soldier and Family housing, ensuring excellence in schools and child and youth services, and expanding education and employment opportunities for Family members.

The Army Family Covenant is in its second year, and the commitment is enduring. The Soldier and Family Action Plan provides the roadmap to address and improve gaps in existing programs and services. Although there is much work to do, significant progress has already been made in Soldier and Family programs, health

care, housing, child and youth services, recreation, and education and employment opportunities.

The Army Family Covenant continues a legacy of service and support to Soldiers and Families. It reflects a continuum of Army dedication to sustain and partner with Soldiers and their Families to build an environment where they can prosper and realize their potential, all essential in sustaining an All-Volunteer Force.

The Army Family Action Plan (AFAP): The Army recently celebrated the 25th Anniversary of the creation of the Army Family Action Plan (AFAP). On August 15, 1983, Army Chief of Staff General John A. Wickham published a groundbreaking white paper *The Army Family,* which identified the need for the Army to increase support to its Families. General Wickham asserted that a healthy Family environment allows Soldiers to concentrate more fully on their mission. The Army was in transition in 1983, moving its programs from those which supported an organization composed mostly of draftees and short-term enlistees, to an all-volunteer, professional force, more than half of which is married. General Wickham set a new vision and course for Army Families that carries on to this day.

Created in 1980 through focus groups, AFAP was fully developed with the first official AFAP Conference in July 1983. Its mission is to help Army leaders address the needs and concerns of the Army Family from a grass roots perspective. The program uses Army Family representatives from around the world to identify issues that will improve the standard of living for Soldiers and Families. This feedback to leaders provides a way for policy change to become a tangible end-product for the Army Family. It addresses quality of life issues for Soldiers, retirees, Department of Army civilian employees, and their Family members, and now includes Wounded Warriors and Survivors of Fallen Soldiers. The Army remains committed to AFAP as a means for Soldiers and Families to let the Army know what works, what doesn't, and what they think will fix it.

During AFAP's 25 years, 651 issues have been worked by Headquarters, Department of the Army. Of those: 84 are active, five have been combined with other active issues; 442 have been completed; and 120 have been determined to be unattainable. AFAP issues have resulted in 110 legislative changes, 155 changes to Department of Defense (DoD) or Army policies; and 177 new or improved programs or services. Over 60 percent of AFAP issues impact all Services. The majority of issues in the AFAP are related to Force Support (32%), followed by medical (21 percent), relocation (20 percent), Family support (17 percent), and Youth (10 percent).

Quality of life and support to Soldiers and Families will remain a primary focus through AFAP and the Army Family Covenant. AFAP will continue to support the Army Family as emerging quality of life issues are brought to the Army leadership for resolution. AFAP will continue to be the "Voice of the Army Family," taking on issues such as increasing support for Wounded Warriors and Survivors of the Fallen, refining Soldier Family Action Plan (SFAP) tasks, and reaching out to geographically dispersed Soldiers and Families.

Army OneSource (AOS): AOS is the centerpiece of the Army's efforts to integrate Family Programs and services. It establishes a comprehensive multi-component approach for community support and services for Active, Guard and Reserve Soldiers, Families, and employers throughout the entire deployment cycle. AOS is a cohesive support system with alternative delivery options to meet the diverse needs of Soldiers and Families regardless of where they reside. Soldiers and Families can connect to support services by personal touch (telephone or office visit) and high tech (www.armyonesource.com).

AOS provides 14 baseline services at installation Army Community Service (ACS), Army National Guard Family Assistance Centers, and U.S. Reserve Readiness Centers. Baseline services include Information referral and follow-up, employer support for the Guard and Reserve, child care, legal assistance to Wounded Warriors and Survivors. AOS supports 87 ACS centers, 249 Guard Family Assistance Centers, Army

Child and Youth Programs, Operation Military Kids in nearly every state and Operation Military Child Care in all 50 states, Reserve Readiness Centers, and Recruiting Battalions.

A new and innovative component of AOS is the eArmy Family Messaging System. The messaging system is a state-of-the-art multimedia tool for commanders to instantaneously communicate with Soldiers and Families by broadcasting a message through various communication devices (e.g., cellular phones, e-mail, text messages) to help fulfill their Family readiness mission.

Survivor Outreach Services (SOS): The loss of precious life is a reality of combat operations that we must unfortunately address, and our concept of readiness must include being prepared for that possibility. SOS is how the Army supports Soldier and Family readiness during and after the painful and devastating experience of the loss of a loved one. It provides a holistic and multi-agency approach that decentralizes services to installations and communities closest to where Families live. The SOS process places emphasis on the Soldier's responsibility of preparing before deployment for the possibility of death. This preparation involves the Soldier, the Soldier's spouse, children, and extended Family.

SOS provides support to casualty assistance officers to ensure Families receive the most current information on benefits and entitlements and have access to long-term financial and emotional support. Legal support for survivors includes estate planning, will preparation, probate planning, and assistance in preparing estate-related tax documents.

Service delivery strategies include a variety of modalities such as Web-based accessibility, outreach, face-to-face, and group services. SOS is available 24/7 with foreign language and special needs accommodation capabilities. Services are offered at stateside, overseas, and geographically dispersed locations.

Family Readiness Groups (FRGs): The Family Readiness Group (FRG) is a unit commander's program that includes unit Soldiers, civilian employees, Family members (immediate and extended), and volunteers. FRGs are critical to maintaining the strength, morale, and information chain for Soldiers, Families, and commands, and are vital to the morale and support of Soldiers and Families before, during, and after deployments.

FRGs provide mutual support and assistance and function as communication mechanisms, bringing accurate information to Families from commands, and serving as an informal chain of concern to bring issues back up to commands. Structured by the needs of the unit, some FRGs are large, active, and all encompassing, while others are small, tailored only to the immediate requirements of a non-deployed unit.

Family Readiness Support Assistants (FRSAs): FRSAs provide administrative and logistical support to volunteer FRG leaders and lend consistency to the unit FRG and rear detachment team. Primary missions of FRSAs are coordination of training for rear detachment commanders (RDC) and FRG leaders, maintaining the critical communication link between RDCs and FRG leaders, and ensuring the responsiveness of established community resources.

FRSAs are paid employees and components of the commander's Unit Family Readiness Program. As members of the brigade or battalion commander's staff, FRSAs coordinate FRG activities within units and update commanders on program status and services available to Soldiers and their Families. FRSAs link Family members with other Army support agencies and programs.

FRSAs assist with the preparation of pre-deployment and redeployment activities, schedule and coordinate Family readiness or unit-sponsored training, assist in development and distribution of unit newsletters, coordinate video teleconferences for Families and deployed Soldiers, and serve as links between garrison community agencies and units. The FRSA position remains in place even when the unit is not

deployed, providing continuity in a world climate that requires units to participate in multiple deployments. There are 1,029 FRSAs located in deployable Active, Guard, and Reserve battalions.

Virtual Family Readiness Groups (vFRGs): vFRGs provide all of the functionality of traditional FRGs in an ad hoc, online setting to meet the needs of geographically dispersed Families. vFRGs leverage technology for providing up-to-date information and connecting Families and commands.

The vFRG links the deployed Soldier, Family, FRG leader, unit and RDCs, and other Family readiness personnel on their own controlled-access Web portal to facilitate the exchange of information and provide a sense of community, using technology to automate manual processes and provide enhanced services and communications. Unit commanders are responsible for maintaining vFRG content and user access. To date, the Army has established approximately 2,000 vFRGs.

CHILD, YOUTH & SCHOOL SERVICES

Child & Youth Services is now Child, Youth & School (CYS) Services to reflect added emphasis on the support we provide to school personnel who work with our military students. Longer and multiple deployments are increasing the stress on our Families, and the support they need includes strengthening the connection with folks who teach and monitor our children every day in school settings. In the last year, we have added 40 more School Liaison Officers, which now total 140 throughout the Army, and increased the number of school districts to 350 that have signed a memorandum of understanding to help minimize academic disruptions for transferring military students. We have also expanded training to help school officials understand challenges faced by military students.

Our CYS Services Programs are a key component of the Army Family Covenant because they reduce the conflict between mission readiness and parental responsibility.

Garrison Child Development Centers and Family Child Care Homes have extended their operating hours to better accommodate the current high operating tempo. We have extended hours to cover weekends, evenings, and even 24/7 services and crisis care where necessary.

Soldiers who work an extended duty day are not charged for the extra child care hours. Families of deployed Soldiers receive child care discounts and 16 hours of free respite child care per month per child. This respite gives parents time to tend to personal needs or take breaks from the everyday stresses of parenting. Our Families are grateful for this well deserved service.

Families of our Wounded Warriors are especially vulnerable and we provide child care for them during medical appointments and support group meetings. Army Families of Fallen Soldiers receive child care during the bereavement period and special consideration thereafter.

When Soldier parents are absent, many children no longer have transportation that allows them to participate in after school programs and sports. The Army Family Covenant has enabled us to add more bus routes and transportation options to assist children in accessing these vital activities.

We are truly grateful for your support of our Child and Youth Construction Program which will significantly reduce our child care shortfall. Our Military Construction Program reflects this commitment: 36 Child Care Centers funded in fiscal years 2008 and 2009 with an additional 17 Centers programmed for fiscal years 2010 through 2014. In addition, we have used the temporary authority provided under the National Defense Authorization Act for 44 Child Care Centers in fiscal year 2008 and four in fiscal year 2009 with Operations and Maintenance (OMA) dollars. We thank you for your support to enable the Army to rapidly meet installation child care requirements.

We are attentive to the need to ensure the health, safety, and well being of the children in our care and take great pride in the fact that in fiscal year 2008 all of our eligible Child Development Centers and Army School Age Programs were nationally accredited. This is a milestone representing the culmination of years of hard work which addresses quality as well as quantity.

Initiatives used to transform the military child care system into a model for the Nation can be implemented in civilian communities to improve the quality of care for all children. A report released on November 24, 2008, "Making Quality Child Care Possible: Lessons Learned," from the National Association of Child Care Resource and Referral Agencies (NACCRRA) Military Partnerships examined lessons learned from the Military Child Care System that could be applied in the private sector. The report concludes that many of the basic initiatives implemented by the military can significantly improve the quality of child care in civilian communities across the nation. These initiatives include establishment of basic child care health and safety standards, routine inspections and oversight, and training and incentives for child caregivers.

I would like to emphasize that our CYS Services Program is a force multiplier that helps reduce lost duty time, impacts Soldiers' decisions to remain in the Army, and sends a message that we care about our Families. The Army considers these programs critical to mission readiness–our investment contributes to productivity and retention today as well as productive citizens in the future.

COMMUNITY SUPPORT TO FAMILIES

The Army Community Covenant: The Army Community Covenant, a companion initiative of the Army Family Covenant, is a commitment of support at the state and local level by individuals, organizations, and government agencies to Active, Guard, and Reserve Soldiers and Families. It is designed to develop and foster effective state and community partnerships with the Army to sustain and improve Soldier and Family quality of life.

There are many communities, organizations, and civic and business leaders across the country already supporting Soldiers and Families through a number of programs and initiatives. The Community Covenant recognizes that effort and advances initiatives like the Interstate Compact on Education Opportunity for Military Children, which replaces inconsistent treatment of transitioning military students with a unified, comprehensive approach that provides consistent policy in every state. Homes for Our Troops builds new homes or adapts existing homes to meet handicapped accessibility requirements for Wounded Warriors. These are just two of over 1,500 best practices highlighted on the Army Community Covenant Web site (www.communitycovenant.army.mil).

Since the Community Covenant's inception on April 17, 2008, there have been 88 covenant signing ceremonies in 37 states that included 19 governors and lieutenant governors, 37 Members of Congress, 96 state representatives, and 216 mayors.

SUPPORT FOR SINGLE SOLDIERS

While steadily increasing focus on Family issues in recent years, the Army has not lost sight of the 44 percent of the force that is not married—our single Soldiers.

Better Opportunities for Single Soldiers (BOSS): The mission of the BOSS program is to enhance the morale and welfare of single Soldiers, increase retention, and sustain combat readiness. BOSS is the collective voice of single Soldiers through the chain of command. The program also serves as a tool for commanders to gauge the morale of single Soldiers regarding quality of life issues. BOSS also sponsors a variety of activities before, during, and after deployment to maintain the morale of single Soldiers affected by increased operational tempo and deployment stress.

The BOSS program is facilitated through its three core components aimed at maintaining a balanced life: leisure and recreation, community service, and quality of

life. BOSS affords Soldiers the opportunity to assist in planning and execution of recreational activities for single Soldiers and provides direction for Soldiers interested in performing military and civilian community service-related projects. Community service projects provide Soldiers valuable experience, skills, and a sense of community pride and ownership. In fiscal year 2007, 22 garrison BOSS programs received the President's Volunteer Service Award for efforts representing over 150,574 volunteer hours.

The BOSS program also serves as a tool to address many of the issues and concerns that our Army faces today. The program gives the Army the ability to tackle tough issues through peer to peer leadership. Single Soldiers assist the chain of command in dealing with suicide prevention, sexual assault, and sexual harassment issues that single Soldiers living in barracks might experience.

There are 83 BOSS Committees Army-wide (43 stateside; 40 overseas); between 30 and 40 percent (about 75,000 to 100,000) of the Army's single Soldiers are involved in the BOSS Program. BOSS supports Year of the NCO fitness, leadership, and pride in service initiatives to enhance and accelerate the development of NCOs. BOSS representatives are encouraged to share their stories and successes with the BOSS program.

YEAR OF THE NON-COMMISSIONED OFFICER (NCO)

Family and Morale, Welfare and Recreation (FMWR) programs and services support the Army Chief of Staff's designation of 2009 as "The Year of the NCO." This recognition thanks and honors our NCOs and their Families for their service and sacrifice to our Nation. The Year of the NCO also tells the Army NCO story to internal and external audiences, and helps preserve the strength of the All-Volunteer Force. Over the year, specific initiatives will be launched that highlight and benefit the NCO Corps.

Our NCOs volunteer in ACS Programs, demonstrating that the Army takes care of its own. They participate in myriad sports programs such as All-Army teams, Wounded Warrior Sports, and the World Class Athlete Program, where our Soldiers excel in international competitions and have repeatedly medaled in the Olympics. NCOs donate their time and efforts as mentors in CYS Services and volunteer in scores of other MWR programs.

RECREATION PROGRAMS

Soldier and Community Recreation dramatically improved service to Soldiers and their Families by standardizing and increasing the quality of fitness center equipment and Wounded Warriors Sports programs, and providing entertainment "for the Soldier, by the Soldier" at garrisons and for deployed forces in Iraq and Afghanistan.

The Wounded Warrior Sports Program: The Wounded Warrior Sports Program is gives active-duty Soldiers with life-altering injuries an opportunity to compete in state and national level sporting events by paying for their athletic attire, registration fees, transportation, lodging, and per diem. Physically impaired Soldiers are able to apply for select competitions at which they believe they would be competitive. Selection is based on the Soldier's prior experience and participation at local and regional competitions. Soldiers must qualify to compete in a state or national level sport competition for permanently physically impaired athletes. Participation eligibility is limited to those Soldiers who have been approved to remain in the Army after completing a Physical Evaluation Board.

Inclusive Recreation for Wounded Warrior Training: We have partnered with OSD in conjunction with the Pennsylvania State University Outreach Programs, to provide twelve "Inclusive Recreation for Wounded Warrior" training sessions over the next three years. This training is a four-day (32 hour) course designed to train staff who are recreation programmers/managers to successfully integrate active duty Wounded Warriors into existing MWR Recreation programs and services. This involves the ability

to recognize the unique needs and characteristics of Wounded Warriors who have sustained war-related injuries (e.g., post traumatic stress disorder, traumatic brain injury, and amputations) and be able to respond to their needs. Students will also develop an "Inclusion Action Plan" to implement upon return to their installations and will be able to apply the knowledge learned in this course to successfully meet the recreational needs of active duty Wounded Warriors. A byproduct of this course is the ability to integrate retirees and exceptional family members who may also have a disability. A total of 60 recreation staff from all of the Services (20 from Army) has been trained since the program's inception in January 2009.

Army Entertainment Division (AED): AED provides direct entertainment support to Soldiers and installations worldwide, carrying on the tradition of "entertainment for the Soldier, by the Soldier" as coined by Sergeant Irving Berlin, who started the Soldier Show in 1917. AED programs provide opportunities for Soldiers' personal aspirations and development, and recognition for excellence in entertainment pursuits. This program contributes to morale by responding to the basic human need for entertainment/diversion. AED programs include:

- **U.S. Army Soldier Show:** In its 26th consecutive year, the Soldier Show of today includes a cast and crew of 26 Soldiers. In its six-month tour, the Soldier Show plays to yearly audiences of over 140,000. Highly popular at installations worldwide, the Soldier Show generates more than $350,000 in commercial sponsorship per year and supports recruitment, Army community, and host country relations.

- **Army Summer Concert Tour:** In its 16th consecutive year, the tour includes at least eight outdoor concerts at major installations with celebrity talent, generating over $200,000 in commercial sponsorship. The program provides professional concerts at reasonable prices for Soldiers and the military community, and income for installation MWR programs.

- **USA Express:** In its 17th year, USA Express is a small (six to eight Soldier-performers), highly deployable show-band. It provides entertainment for remote and deployed locations abroad, primarily in southwest Asia, and supports Army recruitment initiatives.

- **Army Entertainment Competitions:** AED sponsors Army-wide annual contests and competitions in entertainment, theatre, and music. Contests generate local programming, skill development, and encourage personal development. All contests are pyramid in concept, starting at the unit level and culminating in Department of the Army-sponsored worldwide finals.

ENTERPRISE INITIATIVES

As a subordinate command of the Army Installation Management Command, FMWRC has undertaken a range of initiatives to standardize equipment and services throughout the Army to achieve a common customer expectation, aggregate total purchase requirements to drive down costs, and save substantial administrative purchasing time. Examples of successfully concluded acquisitions include golf carts, strength-training equipment, treadmills and cross trainers, soda fountain syrup, food/food supply prime vendor, and bed and bath linens. We have also formed a very productive partnership with Army and Air Force Exchange Service (AAFES) to combine purchasing power and leverage our strengths in the area of unofficial personal information services, transportation, warehousing, and beverage sourcing, among other initiatives.

BUSINESS PROGRAMS

Business programs maintain their own facilities and fund other critical MWR programs not capable of being self-sustaining. The Business Initiatives Group successfully implemented an MWR and AAFES warehousing partnership, closing MWR food and beverage warehousing operations in Germany and enabling activities to

purchase products directly from AAFES with a projected annual savings of $4.9 million. Also during fiscal year 2008, the Army Lodging Success program saved $4.3 million for travelers compared to lodging per diem on the economy, and the Temporary Change of Station Program saved $15 million.

Business Operations guided the Joint Services Prime Vendor program to a 13 percent savings in fiscal year 2008. They also supported the Army Family Covenant by offering discounted bowling and golf recreational opportunities for Soldiers and Families affected by extended deployments.

Joint Services Prime Vendor Program: The Joint Services Prime Vendor Program facilitates food procurement for hundreds of installations and reduces the costs of goods and overhead administration. The Army, Navy, Navy Exchange, Marine Corps, and Coast Guard participate in this NAF food procurement program.

The first Prime Vendor contracts were awarded in fiscal year 1992. Contracts are centrally administered and managed by NAF contracting personnel at FMWRC. The contracts contain a base year and nine one-year options. FMWRC currently administers 32 contracts with 40 food distributors on a cost-plus basis for food and food-related products.

Rebate agreements are in place with over 150 manufacturers. Rebates are earned for purchases made through the Prime Vendors and are paid directly to the ordering activities on a quarterly basis. Overhead cost avoidance and lower inventory requirements increase savings and cash flow for MWR activities. Fiscal year 2008 combined purchases totaled $136.4 million, and generated a savings of $17.8 million.

Food, Beverage, and Entertainment (FBE) Programs: Food, beverage, and entertainment programs that give today's Soldiers and Families "what they want" are a priority MWR program focus. MWR food and beverage operations strike a balance between improving quality of life and financial performance. They closely mirror those

activities that Soldiers and Families experience at home and provide another link to home and Family. Professional assessments of all installation food and beverage operations are performed to determine improvements needed to enhance MWR food operations.

- **The Name Brand Fast Food (NBFF) Initiative:** Provides Army installations the ability to offer Soldiers and their Families nationally recognized quick service chain restaurants in MWR facilities. AAFES and MWR are partners in this joint venture, and work closely to conduct installation assessments in determining food service needs. To date, 55 installation assessments have been completed resulting in 23 recommendations for implementation. There are currently 12 units in operation: seven in Korea, and five in the U.S.

- **The Name Brand Casual Dining Initiative:** Provides Army installations the ability to offer Soldiers and Families nationally recognized casual dining chain restaurants in stand-alone and MWR facilities. The initiative provides installations with familiar American-style restaurants. Currently, there are Huddle Houses at Fort Gordon, Georgia; and Fort Polk, Louisiana. Plans call for a Chili's at Fort Hood, Texas. A solicitation to open National Brand Casual Dining Initiative operations on 22 stateside installations is currently in progress. Contract awards are expected in April 2009, further advancing dining opportunities on Army installations through partnerships with industry.

- **MWR Branded Restaurant Operations:** The FMWRC Branded Restaurant Operations program has expanded to include the Marine Corps and Air Force. MWR Branded Restaurants are open on Marine Corps Air Station Beaufort, South Carolina; Marine Corps Recruit Depot, Parris Island, South Carolina; Marine Corps Base Quantico, Virginia; and Menwith Hill Station Air Force Base in England. Eighty-nine quick and full service operations are open with five projects in construction, three projects in contracting, 19 projects in design, and 26 more in planning stages.

Bowling: Army bowling centers are Soldier and Family entertainment centers, which offer a multitude of amusement options including glow bowling, party rooms, video arcades, billiards, and Strike Zone snack bar operations. In fiscal year 2008, patrons bowled eight million games at the Army's 87 bowling centers worldwide. A new bowling entertainment center was opened at Vicenza, Italy; a new center was designed for Wiesbaden, Germany; and a center renovation was undertaken at Fort Lewis, Washington.

To support the Army Family Covenant, bowling centers provide discount bowling to Soldiers and Families affected by extended deployments. Bowling managers are being trained to coach adaptive needs bowling to better serve Warriors in Transition and others with adaptive needs.

Golf: The Army Golf Program provides high quality sports and leisure activities for the Soldiers and Families, supports the MWR "First Choice" service standard, and generates income to support other MWR programs. In fiscal year 2008, the Army Family enjoyed two million rounds of golf at the 53 separate Army-operated golf courses.

Future program plans include continued implementation of revised income standards adjusted for regional geographic differences, standardizing staffing levels, and increasing accessibility and instruction for disabled patron play. Also planned is a review of fees and charges with minimum fees established for all tiers of patrons, ensuring affordability for all ranks.

FINANCIAL ASSESSMENT

Operationally, total Appropriated (APF) and Nonappropriated Fund (NAF) support to the Army's MWR program for fiscal year 2008 amounted to $2 billion, including construction. This represents a $400 million increase over fiscal year 2007.

NAF revenue was $1.049 billion, an $18 million increase from fiscal year 2007. The APF support was $1.1 billion, including construction, a $420 million increase over the previous year.

The Army MWR Funds' collective financial position is sound as of September 30, 2008, with liquid assets (including cash reserved in sinking funds) exceeding current liabilities at a rate of 1.4 to 1.

The DoD standard is to use Appropriated Funds to fund 100 percent of costs for which they are authorized. No standards are specified for uncategorized, APF-authorized common service support, or overhead expenses, and these expenses represent the major use of NAF in lieu of authorized APF. The metrics specify funding minimums of 85 percent for Category A (CAT A) activities, and 65 percent for Category B (CAT B) activities. In fiscal year 2008, the ratio of APF support for CAT A was 84 percent, one percent higher than it was in fiscal year 2007. A revised methodology for allocating overhead, which more logically portrays the application of APF and NAF support, was instituted in fiscal year 2006. However, for CAT A activities, excluding the overhead proration, the metrics were 95 percent for fiscal year 2008 and 91 percent for fiscal year 2007. APF support to CAT B, to include overhead proration, was 77 percent for fiscal year 2008, versus 65 percent for fiscal year 2007.

The Army is in its second year of full implementation of Uniform Funding and Management (UFM), authorized by the fiscal year 2003 National Defense Authorization Act. This major business reengineering initiative merges APF and NAF for the purposes of providing MWR services using NAF rules and procedures. The process of UFM does not increase or decrease the levels of APF supporting MWR. Rather, it is a new way of executing the program with an emphasis on eliminating redundancy and improving business practices in providing support for the functions of procurement, financial management, and human resource management.

CONCLUSION

The Chairman of the Joint Chiefs of Staff, Admiral Michael G. Mullen, in referring to the Army, recently explained "how this Sailor has come to see it." "The first thing I learned about the Army is "hooah." There are 1,000 or 10,000 or 100,000 different ways to say "hooah," he continued, "But I learned that it is more than just a battle cry; it is a ***way of life***. It says that you will never quit, never surrender, never leave your buddy. It says that you are proud of the hardships you have endured because there is deep meaning in every one of them." After awarding medals to paratroopers assigned to the 173rd Airborne Brigade Combat Team in the Korengal Valley in Afghanistan, he observed, "When those Soldiers yelled 'Hooah!' after the ceremony, I understood that it was not because they were proud of their new medals; it was because they were proud of the difference they knew they were making together, ***as a team—as an Army***."

The men and women of the Army's Family and MWR community will "never quit, never surrender," and never stop striving to provide the quality of life our Soldiers and Families so richly deserve. We will continue to serve America's Army wherever America's Army serves. Thank you for the committed and unwavering support of this Subcommittee which contributes significantly to our success. We are proud of the difference we know we are making together, ***as a team with—your support***. And so we say ***"Hooah!"***

NOT FOR PUBLICATION UNTIL
RELEASED BY THE HOUSE ARMED
SERVICES COMMITTEE

STATEMENT OF

MR. JOHN BAKER

DIRECTOR, FLEET AND FAMILY READINESS

COMMANDER, NAVY INSTALLATIONS COMMAND

BEFORE THE

HOUSE ARMED SERVICES COMMITTEE

SUBCOMMITTEE

ON

MILITARY PERSONNEL

MARCH 12, 2009

NOT FOR PUBLICATION UNTIL
RELEASED BY THE
HOUSE ARMED SERVICES COMMITTEE

Opening Remarks

Chairwoman Davis, Ranking Member Wilson, and Military Personnel Subcommittee members, I am pleased to report that the Navy continues to provide world-class Morale, Welfare and Recreation (MWR) programs to our Sailors and their families. Navy MWR and Child and Youth Programs (CYP) have developed and enhanced a wide array of outstanding programs in 2008 to meet the needs of our Sailors and their families.

MWR is everywhere Sailors and their families are stationed or deployed, providing a diverse array of programs vital to their morale and well being. To the people we serve, MWR could be a place to workout, enjoy some quiet time, read, watch a movie, enjoy world-class entertainment, or grab a bite to eat. It might be where they can leave their children while they are on duty, knowing that they are safe and in good hands, or where they know they can get a good deal on their leisure travel needs. Whatever the service they use, our patrons know that MWR is focused on taking good care of them.

Overview

During the past year, MWR has placed particular focus on family-oriented programs with significant growth in CYP and general recreation programs that appeal to family members. We have 78 family fitness areas operating in fitness centers at most of our major installations. A Navy-wide dynamic youth fitness program called "Fit Factor" has been implemented that encourages our youth to develop and apply good nutrition and exercise habits. Respite child care is now being offered to families of deployed Sailors and we continue to provide 24/7 child care for shift workers and watchstanders. We are also installing Mobile Learning Centers (MLCs) funded through the National Defense Authorization Act (NDAA) authority that you provided to the Services last year. This authority has enabled us to begin installing up to 60 MLCs over the next two years to help address current as well as emerging demands. This commitment will have a direct and positive bearing on the readiness of the Navy family.

We have continued to expand the Navy's "Fitness for Life" programs for all ages. MWR has taken on an essential training role in supporting the Navy's Physical Readiness Program and implemented a test program for personnel over age 40 in Norfolk, San Diego and Pearl Harbor. We continue to develop and

implement innovative support programs for our Sailors wherever they may be, as well as for our wounded warriors. MWR is proud to serve our Sailors and their families, and we are gratified that our efforts contribute in some way to their readiness and happiness.

MWR continues to operate on a solid financial footing, despite challenges. MWR appropriated funds (APF) are provided through the Base Operating Support (BOS) budget line in the Operations and Maintenance (O&M) account. The funding environment continues to challenge us to seek efficiencies while providing increasingly important MWR programs for the Navy family.

Wounded Warrior Initiatives

To address the needs of wounded warriors more effectively, MWR professionals at key locations are receiving valuable training from the National Institute for Recreation Inclusion at Pennsylvania State University to learn how to support these deserving service members' unique recreational needs. We are especially grateful to the Office of the Secretary of Defense (OSD) Personnel and Readiness programs for reaching out to organizations such as the National Recreation and Park Association, Armed Forces Recreation Society, and Penn State University in support of this important aspect of our program. Such effort on their part and communication at the Navy deck plate level ensures visibility of our community needs inside and outside the fence line.

MWR support is being provided for severely injured service members throughout the Navy. Innovations in this area were enhanced at 17 locations by the distribution of more than $100,000 in grants for inclusive programs, such as fly fishing trips, golf clinics and specialized recreation gear.

The bowling program staff at several installations participated in training sessions on inclusive bowling to increase availability of programs for wounded warriors at National Naval Medical Center Bethesda and other locations. In addition, we participated with the Bowling Salutes America's Troops campaign sponsored by the Bowlers to Veterans Link organization, by delivering portable carpet bowling lane kits to ships and camps in Iraq and Afghanistan.

The Navy MWR Golf Program achieved 100 percent compliance with congressional legislation and OSD direction to provide specialized golf carts for disabled golfers to play at all Navy golf courses. Fifty-two single rider carts were delivered to Navy golf courses worldwide. To assist our wounded warriors, golf clinics were developed and hosted at several of our facilities. Wounded warriors are also being introduced to the game of golf. With support from the United States Golf Association, a new "Train the Trainer" program was initiated to enhance the abilities of all of our golf instructors when working with any disabled golfer, and this program was offered at Navy golf courses at Seal Beach, CA and San Diego, CA. Volunteers, in addition to the golf professional staffs, were used to provide one-on-one instruction. At Seal Beach, the clinic opened with a ceremonial color guard and a grand welcoming of the wounded warriors when they arrived at the course.

Commander Navy Installations Command (CNIC) and Navy Safe Harbor have established a working group to effectively identify resources and programs best suited to aid the seriously wounded, ill and injured. The Navy will continue to work closely with OSD to ensure we are providing a well-planned program that supports these heroes in every way possible.

Individual Augmentees (IA)

MWR continues to provide quality-of-life support to Navy IA personnel and their families prior to, during, and following deployments. For example, as a result of a team effort between CNIC and the Army, IAs have access to Internet and wireless connectivity at training facilities. Additionally, fitness equipment, recreation deployment kits, various electronic game systems (e.g., Xbox 360 and Wii), flat-screen televisions, satellite TV service and portable 8mm movie systems have been delivered. The type of support provided to IAs is similar to what is typically available to Navy personnel aboard ships and at almost every shore installation. The positive reception of this program by our IAs continues to be very gratifying.

Navy Entertainment Program

The Navy Entertainment Program continued its offerings of quality performances ashore and afloat. Musicians, comedians, and specialty performers such as the Harlem Globetrotters and various NFL cheerleaders were contracted to perform on 27 ships

at sea and at our forward deployed installations. MWR also organized a global talent competition for some of our musically inclined Navy personnel in a partnership with the National Broadcasting Company and its nationally televised "Nashville Star" program. Installations around the world, including Afghanistan, hosted local competitions which culminated in a DOD-wide talent search hosted aboard USS IWO JIMA in Norfolk, VA. Of the 1,500 contestants, one Sailor was selected for one of twelve finalist slots in the overall national competition televised in the summer of 2008. Our Sailor finished in sixth place overall. The program's debut featured a salute to the military that included footage of the Norfolk event.

Child and Youth Programs

Navy Child Development and Youth Programs help families balance the competing demands of mission readiness and family responsibilities. The Navy provides high-quality child care, youth development and school transition services for 120,780 children, from four weeks to 18 years of age. There are 103 Child Development and Youth Programs, 128 Child Development Centers, 3,000 Child Development Homes and 86 School Age Care Programs.

The Department of Defense (DoD) goal is to achieve capacity for 80 percent of the potential need, which is established by DoD and includes the following eligible users: active duty, DoD civilians and contractors. Potential need also takes into account the highest priorities for care - dual and single military and DoD civilians. Achieving this goal will enable Navy to place children from waiting lists within one to three months after care is requested. Our current capacity meets 72 percent of the potential need with three through six month placement, except in fleet concentration areas where placement can take longer.

The availability of child care remains a top issue among our dual-income families and single parents. To attain the DoD goal, the Navy's expansion plan is adding about 7,000 new child care spaces and 25,000 additional hours of respite child care and youth services for families of deployed Sailors. In addition to the new spaces, the Navy is converting 3,000 existing 3 to 5-year-old spaces into infant to 2-year-old spaces to meet the greatest demand for care for children under the age of 3. Combined, these initiatives will reduce the waiting time for

child care to less than three months Navy wide, with first priority given to single military parents.

Support to our children of deployed members continues and includes the use of Child and Youth Behavior-Military Family Life Consultants embedded in our programs. The consultants provide a resource to observe and train our providers on interventions to assist children and their families having challenges during deployments.

Navy has launched a new School Liaison Officer Program, which is designed to help Navy families address dependent education issues that arise from frequent moves and deployments. This initiative has recently been expanded to reach most major installations within the coming year.

During the coming year, we will also initiate a program to install Mobile Learning Centers (MLCs) funded through the 2008 NDAA authority provided by Congress. This authority is timely and will enable us to install up to 60 MLCs over the next two years. Our learning centers will address unmet capacity and be located adjacent to child development centers and before-and-after school facilities. In most instances, MLCs are necessary to meet demand until a MILCON facility is completed or another method of supporting unmet need is available. The modular facilities will meet all compliance standards and codes.

We anticipate that this aggressive approach to meeting the child care and youth program needs of Navy families will significantly enhance their ability to cope with the many demands of military life.

Fitness

The goal of the Navy Fitness Program is to create a total fitness regimen for all members of the Navy community in accordance with Department of Defense and Navy instructions, which acknowledge fitness as essential to the general health and well-being of all personnel.

Fitness is an essential component of the readiness for Sailors and maintaining good health for their families. MWR programs continue to promote a "culture of fitness" agenda for all members of the Navy Total Force. The primary goal is to promote healthy lifestyle changes by building programs, services and activities that assist all ages in practicing good physical

fitness. The campaign slogan for this initiative is "Exercise Your Options."

Fitness Ashore

In January 2009, the Navy MWR team began delivering, training and certifying the Navy Command Fitness Leaders. As a result, this vital fitness training has improved from 12 classes at 12 locations, to 105 classes at 50 installations. These programs simplify travel requirements and allow better engagement with our fitness professionals. Additionally, Navy has opened 78 family member fitness areas within our fitness centers so parents can set the example of healthy lifestyles for their children. The Senior Health Assessment Program Enterprise (SHAPE) rounded out our commitment to creating a culture of fitness by offering a program designed for more mature individuals, in senior level positions, who need to be in good health to execute their rigorous responsibilities. While our Navy Fitness professionals designed the program, we partnered with Indiana University to deliver it. In the program's first three months, we provided 247 fitness assessments and 191 personal fitness plans to participants. Results included increased aerobic capacity, increased strength, decreased weight, and body fat loss.

Additionally, Navy Fitness Centers continued to maintain very high-quality standards in 2008, with 97 percent compliance with DoD core Physical Fitness Standards. In looking to the future, our MWR Fitness Centers continues to compete for MILCON funding for 28 fitness complexes that will enhance fitness opportunities for the Navy community. We appreciate your support in approving six fitness MILCON projects since 2006.

Deployed Fitness - Recreation Support

The long arm of MWR support extends around the world. The Navy's Deployed Forces Support continues to provide quality-of-life programs for personnel assigned to ships and forward-deployed Navy ground forces, especially in areas where base infrastructure support does not exist. Examples include the procurement and delivery of fitness and recreation equipment, optimizing shipboard spaces for fitness areas, management of the Afloat Fitness and Recreation Civilian Program and oversight of MWR funds and programs on Navy ships.

Last year, 180,000 shipboard Sailors and Marines and more than 15,000 forward-deployed Navy ground forces were supplied with equipment and programs that provided stress relief, improved physical conditioning, and helped maintain mission readiness. We are excited about the current and future challenges this vital program faces, as we continue to explore ever-changing avenues of support for our deployed forces.

In Fiscal Year 2008, more than 60,000 fitness and recreation items were provided to ships and forward-deployed sites, doubling the previous year's total due in part to increased supplemental funding. This equipment provides a means to reduce stress, stay healthy and meet Physical Readiness Program requirements and, thus, helps maintain mission readiness while forward deployed. The maintenance of this equipment is a high priority, with parts depots being maintained in all fleet concentration areas and in the Middle East. Additionally, the Navy is involved with fitness equipment research and development projects. The most recent success story involved the development of a treadmill designed specifically for use on board fast attack submarines.

Our Afloat Fitness and Recreation civilian team continues to deploy with large deck ships such as aircraft carriers and amphibious ships. Thirty-six specialists, an increase of nine from the previous year, assist Sailors and Marines with maintaining or improving healthy life styles, fitness regimens, and social, cultural and recreation programs.

Our Waterfront Fitness Program continues to win praise from the fleet. The purpose of the program is to educate Sailors on developing and maintaining healthy lifestyles and using those skills when they deploy. During the past year, we have provided fitness activities for Sailors who are stationed on board smaller ships at pier side in Norfolk, VA.

Motion Pictures

The Navy Movie Program remains one of the most popular MWR activities for Sailors and their families. The program is flexible and adaptable, offering consistent quality at several venues, including commercial-style base theaters, Liberty Centers, Recreation Centers, Youth and Teen Centers, aboard ship and at isolated and remote shore stations.

This past year, the Navy Motion Picture Service licensed and distributed 198 movie titles, processed 300,000 videotapes and 6,321 35mm prints to 807 Navy, Marine Corps and Coast Guard shore and afloat commands, while generating more than 23 million fleet viewing hours for 4.65 million ashore program attendees.

Special programming and equipment packages for forward-deployed forces included shipment of 21 video tapes that were released earlier than those provided commercially, distribution of 10 additional Theater in a Box (TIB) units to remote deployed shore units, refit of six ships with Cinema At Sea Initiative (CASI) systems, and provision of CASI systems to three new ships.

Personnel assigned to OCONUS bases enjoyed 38 first-run features on the same day or just one week after their release to U.S. first-run theaters, in addition to the standard movie programming. About 66,000 customers at CONUS base theaters were treated to eight free "sneak previews" for Sailors and family members.

Navy hosted six Sailors at the world premiere of "National Treasure 2" and four Sailors at the world premiere of "The Chronicles of Narnia: Prince Caspian" in New York City, in July and August respectively. The Sailors were treated as honored guests, walked the red carpet with other celebrities, and attended post-screening social events. We also arranged for 50 Sailors and their families to attend the premiere of "Wall-E" in Los Angeles, and partnered with the Marine Corps and USO to present the world premiere of Paramount Pictures' feature film, "Tropic Thunder," at Camp Pendleton in August, which included attendance by the cast of the film.

Library Program

Navy libraries are a vibrant part of Navy life and MWR will continue to introduce new innovations in service delivery. To help our Sailors stay mentally sharp, the Navy Library Program delivers hard copy and electronic leisure and educational resources to our Sailors and their families. During this past year, 2.1 million customers used our library shore facilities. Contracted e-content database and search engine usage data disclosed more than two million online visits.

In 2008, Navy libraries attained an overall 89 percent compliance with DoD program standards, which included eight sites scoring 100 percent. Navy's goal is for all 23 sites to be

100 percent compliant. To encourage them to meet this objective, regional commands were provided grants to upgrade computers, resource material, gaming opportunities, furniture, software and capability to offer free Wi-Fi service to patrons.

Library program support to the fleet and forward-deployed forces included more than 500 new laptops for shipboard Library Multimedia Resource Centers (LMRC), as part of a refit to replace the 3,000 LMRC computers currently on board. Navy also provided 175,000 paperback books and distributed 50,000 Playaway digital audio books to forward-deployed forces afloat and ashore.

24/7 Access

E-content services are available on Navy Knowledge Online (NKO). Existing databases provide opportunities for professional development, access to the Navy Professional Reading Program, personal financial management, news and current events, health and wellness, and foreign language tutorials. In 2008, e-content services were expanded with increased access to online educational resources, such as College Level Examination Proficiency (CLEP) tests, DANTES Subject Standardized Tests (DSSTs), and Armed Forces Vocational Aptitude Battery Tests (ASVAB). Additional recreational options were made available with more audio book titles, e-books and downloadable music.

To ensure the ongoing professional development of library staff, Navy continues to participate in the annual Joint Services Library Conference, a cooperative effort with Air Force that combines training and library skills development.

Finally, we are pleased to announce that two new libraries will open in Rota, Spain and Yokosuka, Japan in 2009 to provide leisure, education, and Wi-Fi services to the Navy communities.

General Recreation Programs

Sailors and their families have a wide variety of leisure interests. General recreation programs are geared to a variety of popular leisure pursuits, ranging from family-oriented community recreation to programs for single Sailors in the 18 to 25-year-old age group. This includes programs such as entertainment shows, discount tickets and vacation options, bowling, marinas, golf, auto skills shops and outdoor recreation.

Integrated Efforts

While a foundation of well rounded services continues in these areas, we have been creating partnerships within our total Fleet and Family Services organization. Recreational programs, by the nature of their activity, contribute significantly to morale. But because of heavy traffic and diversity of clientele in some areas, we are finding that we can reach our patrons with other important aspects of military life. For example, we promoted the Navy Voting Assistance Program to our single Sailors by incorporating computer screen savers in our LIBERTY centers that included hot links to home state of record for one-stop access to absentee registration and ballots. LIBERTY Center professionals also worked with Navy financial counselors to promote the "Military Saves" campaign with fun and educational events. This partnership created meaningful presentations that encouraged wise financial decision making from our more junior Sailors. Finally, the Information, Tickets and Travel Program was the beneficiary of the expertise of the Navy Exchange Service Command (NEXCOM) Internal Audit Services team which assisted us with a review of the entertainment ticket program at five locations. The growth of these and other partnerships enhances our ability to deliver economical programs to service members and their families.

Marinas-Sailing

Navy marinas provide affordable berthing and recreational sailing opportunities for our Sailors while setting an example of Navy environmental management in the community. In 2008, six Navy marinas, joining 11 others, were designated "Clean Marinas," as certified by their host states. Achieving certification in this National Oceanic and Atmospheric Administration (NOAA) program has been an important MWR goal since 2006. To date, 17 of our 23 Navy marinas located in states that participate in the Clean Marina program are certified, while six await state inspection. Of 33 total Navy marinas, the remaining 10 are located in states that do not participate in the NOAA program.

Bowling

Navy MWR bowling centers offer a mix of adult and youth-themed recreation activities, including cost-saving family bowling packages, glow-in-the-dark bowling, skills development, and programs for youth day camps. The popularity of this program is evidenced by the increase in lines bowled of 88,130 over last year.

Six Navy bowling centers upgraded their scoring systems, front and back office scoring and accounting systems, and lanes to enhance the appeal and convenience of the facilities for Sailors and their families. Navy bowling center managers also took advantage of professional training courses with their Service counterparts to earn certifications and new skill sets, enabling better bowling programs for Navy families.

Golf

The Navy Golf program provided services to 1.7 million patrons this year, including new players to the game and those that continue to visit our golf courses regularly. Youth clinics and beginner adult golf programs are well attended and regularly scheduled at all Navy courses. Those with driving ranges typically offer no charge weekly instruction for active duty personnel. Junior clinics are also offered and coordinated with base Youth Programs, with clubs and balls provided most often at no charge to dependent children.

To maintain our courses, we renovated or constructed six golf related facilities this year. These projects met selection criteria, including prior Congressional review and approval. Completed improvements included a new golf clubhouse at NTC Great Lakes and a renovation of the Naval Base Coronado, CA course. At the Monterey Naval Post Graduate School, an entire golf course renovation is underway. New clubhouses are also being constructed at Naval Submarine Base Kings Bay, GA and Naval Air Station Atsugi, Japan. A new golf maintenance facility is in the initial stage of construction at Naval Air Station Whidbey Island, WA.

In the area of energy conservation, the Navy Golf Program explored several important initiatives, including charging golf carts in off-peak energy times and use of water-borne sealants to conserve water in retaining ponds. We will work to incorporate successful energy initiatives in future projects throughout the Navy Golf Program.

Information, Ticket and Tours (ITT)

MWR ITT continues to offer the Navy Family a variety of travel and recreation opportunities at great value. Access to these attraction tickets, hotels and travel services provides Sailors and their families with many budget options for enjoying their off-duty hours. This year, Navy has continued to work with the other service branches in developing best practices and leveraging each other's expertise, resulting in the use of print-on-demand vouchers that allow turnstile-ready admission at great convenience to customers, online purchasing, standardized pricing and greater choice in ticket selection and availability. This collaboration resulted in savings of an estimated 636 labor hours per quarter in the use of print-on-demand and on-line ticketing partnerships. The ITT program also advertised special military promotions from several major theme parks, offering free admission and deeper discounts for Sailors and their families, to include Disneyland, Disney World, Universal Orlando and Worlds of Discovery.

Recreational Lodging

Navy recreational lodging programs continue to improve customer service and facilities. While gas prices surged during peak vacation months, MWR facilities provided local value for active duty and retiree vacationers and their families. The alignment of the recreational lodging inventory into our transient lodging program has begun to show cost effective benefits as our lodging subject matter experts collaborate on the use of standardized amenity products, furnishings and other equipment. A global recreational lodging assessment identified inconsistencies in providing quality and consistent service across the MWR enterprise. A Recreational Lodging Working Group has been established to address the future trends and need for recreational lodging.

As economic pressures present challenges to Sailors and their families, we continue to provide a lower-cost alternative for meeting the recreational needs of Navy families. In fact, our recent market basket study found savings of almost 25 percent as compared to similar recreational outlets off base.

Navy MWR Food and Beverage

Navy MWR food and beverage programs include a variety of service concepts ranging from full-service restaurants to quick-service snack bars.

There are more than 400 MWR food and beverage operations worldwide serving our Sailors and Navy community. MWR food and beverage outlets include full-service restaurants, catering and conference centers, snack bars, casual dining pubs, deli's, coffee shops, nightclubs, which can be found in clubs, recreation centers, golf clubhouses, and bowling centers. Many of these facilities offer no-cost internet access typically found in off-base operations. Revenue from MWR food and beverage operations accounts for more than 45 percent of our total Category C business activity revenue.

More than 100 food and beverage "branded concepts" are located throughout all Navy regions in response to consumer interest. Some of our more popular brands include: Chili's Grill & Bar, A&W Root Beer, Kentucky Fried Chicken, Pizza Hut, Mean Gene's Burgers, Starbucks "We Proudly Brew", Smash Hit Deli's and Guinness Irish Pubs. MWR has also partnered with NEXCOM by using its contracting capabilities to source national brands from their portfolio. Examples of these efforts include a full-service Starbucks in Pensacola, FL, a Taco Bell in Bangor, WA, and a Subway sandwich facility in Singapore.

We recently completed a joint Navy-wide assessment of MWR, Navy Exchange, and Navy Supply Systems Command food and beverage service offerings. This assessment quantified the number and types of food service available at every installation, including galleys and auxiliary resale outlets. We are using this data to optimize the number and type of outlets on installations that can be supported by our customer, leverage each provider's expertise, and avoid duplication and market saturation.

To round out our emphasis on healthy habits, a nutritionist has been added to our team of professionals and our Regions have formed advisory groups on nutrition-related issues. We are very close to declaring victory by offering trans fat-free foods at 98 percent of all installation food service operations. At our annual food and beverage conference hosted at Naval Station, San Diego, CA, we offered Navy food professionals an opportunity to demonstrate their cooking prowess by sponsoring an "Iron Chef" competition. A total of 36 participants competed, representing 9 afloat and shore commands.

Overall Financial Condition of MWR

Worldwide Navy MWR financial operations totaled about $917 million in Fiscal Year 2008, which includes appropriated funding (APF) (direct and indirect), internally-generated nonappropriated fund (NAF) revenue and Navy Exchange dividend distributions. This amount represents a slight decrease of about $5 million from the previous year. This decrease is due primarily to reduced levels of Cost-of-War funding being executed in Fiscal Year 2008 relative to Fiscal Year 2007. In Fiscal Year 2008, we exceeded the OSD minimum funding metric of 85 percent for APF support in Category A Mission Essential Programs by achieving 90.8 percent. Robust resourcing of Child and Youth Programs helped Category B Community Support Programs to also exceed the OSD funding metric of 65 percent minimum APF funding with 65.3 percent.

As requested by the Committee, the table below provides historical and currently programmed direct APF support from Fiscal Year 2004 through Fiscal Year 2009.

DIRECT APF SUPPORT FOR MWR
FY 2004 - FY 2009 (IN MILLIONS)

	FY04	FY05	FY06	FY07	FY08	FY09
MW	$238.3	$210.4	$215.2	$254.6	$230.7	$230.9
CYP	$ 89.2	$ 86.5	$ 97.2	$113.4	$124.1	$131.4
TOTAL	$327.5	$296.9	$312.3	$368.0	$354.8	$362.3
PERCENT CHANGE		-7.5%	-3.6%	+26.1%	-3.5%	-0.4%

By far, the biggest NAF funding challenge for Fiscal Year 2008 was funding a decision to extend the post allowance benefit to locally-hired, full-time, U.S. citizen, NAF employees working OCONUS. Previously, Navy paid this benefit only to those employees with transportation agreements. Included in the decision was a provision to make retroactive payments to all eligible NAF employees back to Fiscal Year 2001. This unbudgeted NAF retroactive claim expense was $6.9 million. Funding this liability reduced net income for the overall NAF fund.

For Fiscal Year 2008, Navy MWR continued its implementation of a capital funding strategy designed to leverage system assets and significantly increase the amount of NAF capital funding available for Fiscal Year 2007 through Fiscal Year 2010. This strategy allowed the central capital fund to use existing cash balances for capital investment. The Navy MWR/NEX Board of Directors approved an annual NAF central and local capital funding target of $77 million. This target is the minimum

investment needed each year to maintain existing facilities, provide needed computer upgrades and expand program delivery. For Fiscal Year 2008, the MWR Central Capital Program contained about $60 million in projects and Information Technology (IT) spending. In addition, local capital investment amounted to about $20 million. The combined projected investment total of $80 million exceeded our recapitalization goal of $77 million.

Facilities

MWR facilities capital support evolves from both APF and NAF sources.

APF supports those facilities which directly influence mission readiness, including fitness centers, athletic complexes, fields and courts, and Single Sailor activity centers. Our annual surveys confirm the exceptional value Navy personnel place on the availability of quality fitness facilities by assigning them their highest priority. Utilization remains above the 90th percentile. Thanks to your support, Naval Station, Guam, Marianas and Naval Air Station, Whiting Field, FL Fitness Centers are under construction. An assessment of single Sailor facilities was completed during 2008 to assist us with identifying and prioritizing future requirements. These facilities provide alcohol-free respites with individual and team-building activities, no-cost internet and integrated educational opportunities.

We recently received congressional approval for the Fiscal Year 2009 NAF construction program, which includes 14 new construction, renovation and minor repair projects inclusive of capital equipment approaching $42 million. This program reflects the continuing need for investment in business-based operations and community support facilities. These initiatives span a broad spectrum of customer services, including a golf clubhouse and cart paths, recreational vehicle parks and cottages, clubs, youth centers, a car wash and bowling center equipment replacement. Our capital enterprise strategies focus on customer-driven services, while striking a balance between revenue generation and community service opportunities. The support we received from your review and approval of this program is greatly appreciated.

Through our Nonappropriated Fund Capitalization Program, we continue to sponsor an ambitious and aggressive commitment to meeting the needs of our total force structure. The program is

designed to meet the ongoing recapitalization needs of the MWR system. As requested by the Committee, the table below contains our programmed expenditures for recapitalization from Fiscal Year 2004 through Fiscal Year 2013:

FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13
$66.6M	$52.9M	$50.2M	$84.9M	$79.8M	$77M	$77M	$77M	$80M	$83M

To help ensure that our facilities effectively support the mission of our Sailors and their family members, we actively participate in the development of DoD Unified Facility Criteria (UFC). The UFC system provides consistency in planning, design, construction, sustainment, restoration and modernization criteria across all military departments. UFCs are living documents and are periodically reviewed, updated and followed in providing the construction criteria for our facilities. UFCs have been completed for Libraries, Fitness Centers, Child Development Centers, Fleet and Family Support Centers, Military Recreation Centers, Youth Centers, Bowling Centers, Children's Outdoor Play Areas, Outdoor Adventure and Rental Centers, and Golf Clubhouses. For other facilities, design guides have been completed that function in a similar fashion as UFCs. Current design guides include: Auto Skills, Arts and Crafts and Community Recreation Centers, and Outdoor Recreation Facility Planning, inclusive of other supporting UFCs addressing antiterrorism, pricing and sustainment guides. Department of Defense QOL UFCs and design guides are focused toward excellence in operational effectiveness and the provision of superior customer service.

We are also following sustainable policy standards through application of Leadership in Energy and Environmental Design (LEED) criteria to all new construction initiatives to the fullest extent possible. The rating system provides a metric to measure the level of sustainability achieved through the planning, design and construction processes. Our Fiscal Year 2009 projects will meet the LEED's "Silver" requirements for certification. Our construction practices supporting LEED certification also include the application of increased insulation values, installation of ground source pumps, fluorescent lighting and motion detectors, higher Seasonal Energy Efficiency Ratio levels in heat pumps, use of "Energy Star" appliances such as on-demand water heaters, higher quality windows and doors, and recycled materials. We have made great

strides in reducing our carbon footprint and anticipate significant improvement in the future.

Other energy focused initiatives include the acquisition and testing of electric vehicles as an offset to traditional carbon fuel units, small wind application on cottages and cabins, and solar energy cells for golf carts and small moving vehicles. We believe the innovations occurring in the auto industry will provide great potential for sustainable cost savings in the future.

Marketing

The MWR Marketing Program provides consistent, accurate and aligned information on MWR and Child and Youth Programs and services to all customers. The marketing team uses a comprehensive approach to promote MWR and CYP through news articles, internal publications, brochures, posters, public service announcements, videos, interactive CD-ROMs and DVDs. Recently, movie "trailers" have been incorporated with our movie viewing material and are being further incorporated for Navy-wide MWR promotional efforts.

We obtain customer feedback using several techniques. We find quantifiable survey data most useful in understanding our total customer base levels of satisfaction and how or whether value is offered for services rendered. Patron satisfaction levels, determined through survey instruments conducted by the prominent commercial survey firm, Claes Fornell International (CFI), are an indication of our responsiveness to customer input. In Fiscal Year 2008, our survey index showed a satisfaction index of 76.5, which is somewhat higher than the national industry average of 74. CFI also tests our pricing, compared to the civilian community, in a variety of MWR functional areas. A recent survey showed that MWR saved patrons an average of 24 percent, compared to equivalent recreation services in the private sector.

Key marketing projects in 2008 included the Military Saves campaign, the "Exercise your Options" fitness campaign, Navy Voting Assistance Program, Child and Youth Programs, Liberty Program and Food Service Customer Satisfaction Assessment.

Building Customer Relationships

MWR is committed to building and sustaining a Customer Oriented Enterprise (COE). A COE business strategy was designed to engage and empower MWR employees from the deck plate and above to: always keep the customer in mind; improve employee service behavior and performance that promotes a customer orientation; and apply customer input to continuously improve all aspects of MWR to consistently deliver results that create positive, memorable experiences.

To achieve the vision of developing a world-class, customer-oriented workforce to serve Sailors and their families, MWR continually develops ways to improve MWR workforce performance through individual and organizational development.

In 2008, MWR deployed an updated version of our customer service training - "Creating Stellar Customer Relations". This training is available in English, Tagalog, Spanish, Japanese and Italian, to ensure employees who speak English as a second language conceptually understand MWR's standard to create positive, memorable customer experiences for Sailors and their families. MWR also certified regional Master Star Service Facilitators to ensure field MWR professionals could provide "just in time" customer service training for those who serve Sailors and their families. MWR chartered dozens of multiple cross-functional Customer Oriented Service Improvement Teams to use "transactional" customer feedback to improve programs, products and services for Sailors and their families.

Collectively, the entire MWR enterprise is focused on connecting with our patrons to ensure delivery of the highest quality programs that they want and deserve.

Strategy for Our People

The goal of our MWR human resource strategy is to develop an efficient and effective world-class workforce, prepared to deliver the best possible customer experience, every time, everywhere.

We have developed and distributed a standardized new-hire orientation process; an improved and expanded student intern program; application of additional performance-based and participant-centered training methodologies; endorsement and support of life-long learning; availability of cross-program training and cross-career competition; and execution of blended

learning solutions that assure just-in-time, just-right, just-enough training.

Our Fleet and Family Readiness Training Branch is consolidating and centralizing training management and support for all of the quality-of-life communities, including: MWR, CYP, Family and Bachelor Housing, Galleys and Food, Beverage and Entertainment, Navy Gateway Inns and Suites (NGIS), and Fleet and Family Support Programs.

Summary and Outlook

The challenges presented during Fiscal Year 2008 did not inhibit the enthusiasm of our global delivery team from providing exciting and quality MWR and CYP programs. Innovations in providing fitness training and programs for all ages, health awareness, entertainment services, standardization of processes, facility improvements and increased child care availability are a tribute to our team and the support of leadership throughout the chain of command.

As we move forward, we will continue to provide our team with the tools to achieve Navy requirements within the resources received through appropriations and ability to generate NAF revenues as a result of customer satisfaction and demand for those services. Additionally, wounded warriors and IA personnel will remain high priority to our programs.

We anticipate greater demand for internet connectivity, especially in combat areas, so that our Sailors can better connect with family members. Additionally, during down time, service members can take the opportunity to educate, recreate or communicate on Navy and commercially popular global sites. As the nation shifts gears to healthier lifestyles, we intend to continue being in the forefront of providing fitness services and recreational opportunities for Sailors and Family members. The growth in fitness interest is deserving of our continued efforts to secure replacement of aging fitness center infrastructure. As demand for center-based Child Care continues, we believe we are positioned to conduct operations successfully and in full compliance with legislation and defense policy. We will also continue programming efforts for those who are unable to access center-based care in the community. General recreation programs play a vital role in reducing stress, especially for family members returning after deployment separations. We are encouraged that these programs will remain

an important component of the Navy MWR portfolio.

In closing, MWR continues to be a vital component of operational readiness and a valuable retention tool for the Navy. We appreciate the focus and attention that Congress places on MWR and Child and Youth Programs. We will continue to maintain and strengthen our commitment to meet your expectations, and the expectations of our Nation in taking care of the Navy Total Force. Thank you for your continued support.

DEPARTMENT OF THE AIR FORCE

PRESENTATION TO THE MILITARY PERSONNEL SUBCOMMITTEE

COMMITTEE ON ARMED SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

SUBJECT: MORALE, WELFARE AND RECREATION (MWR) OVERVIEW

STATEMENT OF: MR. CHARLES E. MILAM
DIRECTOR OF SERVICES
UNITED STATES AIR FORCE

MARCH 12, 2009

NOT FOR PUBLICATION UNTIL RELEASED
BY THE COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

BIOGRAPHY

UNITED STATES AIR FORCE

CHARLES E. 'CHUCK' MILAM

Mr. Charles E. Milam, a member of the Senior Executive Service, is Director of Air Force Services, Headquarters United States Air Force, Washington, D.C. His organization's mission is to increase combat capability and improve productivity through programs promoting readiness, esprit de corps and quality of life for Air Force people. Mr. Milam provides policy, technical direction and oversight for the $2-billion worldwide Services program, which includes physical fitness, peacetime and wartime troop feeding, mortuary affairs, Armed Forces entertainment, Air Force protocol, lodging, libraries, child development centers, youth centers and a wide spectrum of recreation activities. He provides oversight for uniforms, awards and recognition, Airman and family readiness, the Sexual Assault Prevention and Response (SAPR) program and other commander-interest programs that contribute to military force sustainment.

Mr. Milam began his career with Civil Service in 1980; since that time he has held several Air Staff-level, major command and base-level positions in Morale, Welfare and Recreation, Services and Installation and Logistics organizations. His assignments have included Pirmasens and Zweibrucken Army Posts, Lindsey Air Station and Ramstein Air Base, all located in Germany; Langley AFB, Va.; Vance AFB, Okla.; Edwards AFB, Calif.; Bolling AFB, Washington, D.C.; the Pentagon; the U.S. Air Force Academy and Headquarters Air Force Space Command. Mr. Milam served as the Air Force's representative on the U.S. Olympic Committee Board of Directors from July 1998 through November 2003 and is currently the Air Force's adviser to the USOC. He is a two-time recipient of the Air Force Services Senior Civilian Manager of the Year award. Prior to his current assignment, Mr. Milam was Deputy Director, Air Force Services, Headquarters Air Force.

EDUCATION

1985	Bachelor of Science degree, business and management, University of Maryland, Md.
1993	Master of Science degree, international relations, Troy State University, Ala.
2000	Federal Executive Institute, Leadership for a Democratic Society, Charlottesville, Va.
2000	Air War College, via seminar and correspondence, Pentagon, Washington, D.C.
2004	Graduate, Defense Leadership and Management Program, Washington, D.C.
2005	Juris Doctorate degree, British-American University, Colo.

2007 USAF Strategic Leadership and Development Program, University of Tennessee

CAREER CHRONOLOGY

1. October 1980 - March 1983, recreation assistant, Pirmasens Army Depot, Husterhoeh Kaserne, Pirmasens, Germany
2. March 1983 - December 1985, outdoor recreation specialist, Pirmasens Army Depot, Husterhoeh Kaserne, Pirmasens, Germany
3. December 1985 - May 1987, Director, Outdoor Recreation, Zweibrucken Army Kaserne, Zweibrucken, Germany
4. May 1987 - February 1988, Chief, Recreation Services, Miesau Army Depot, Miesau, Germany
5. February 1988 - July 1989, Chief, Outdoor Recreation, 1st Services Squadron, Langley AFB, Va.
6. July 1989 - April 1991, Director of Services, 71st Flying Training Wing, Vance AFB, Okla.
7. April 1991 - October 1992, Director of Services, Lindsey Air Station, Wiesbaden, Germany
8. October 1992 - October 1994, Chief, MWR and Services Inspections, Headquarters U.S. Air Forces in Europe, Ramstein AB, Germany
9. October 1994 - February 1996, Chief, Business Flight, 86th Services Squadron, Ramstein AB, Germany
10. February 1996 - March 1997, Director of Services, 95th Mission Support Group, Edwards AFB, Calif.
11. March 1997 - July 1998, Director of Services, 11th Mission Support Group, Bolling AFB, Washington, D.C.
12. July 1998 - June 2000, Chief, Programs Division, Directorate of Services, Headquarters U.S. Air Force, Washington, D.C.
13. June 2000 - May 2001, Chief, Strategic Plans Division, DCS, Installations and Logistics, Headquarters U.S. Air Force, Washington, D.C.
14. May 2001 - August 2006, Director of Services, 10th Mission Support Group, U.S. Air Force Academy, Colo.
15. August 2006 - May 2007, Deputy Chief of Services, Directorate of Manpower, Personnel and Services, Headquarters Air Force Space Command, Peterson AFB, Colo.
16. May 2007 - July 2008, Chief of Services, Directorate of Manpower, Personnel and Services, Headquarters Air Force Space Command, Peterson AFB, Colo.
17. July 2008 – March 2009, Deputy Director, Air Force Services, DCS, Manpower, Personnel and Services, Headquarters U.S. Air Force, Washington, D.C.
18. March 2009 – Present, Director, Air Force Services

AWARDS AND HONORS

1990 Supervisor of the Year
1991 Outstanding Boss of the Year
1992 Civilian of the Quarter
1992 Special Citation for Recreation Professionals, European Recreation Society
1996, 1997, 1998, 2000, 2001, 2006 and 2008 Meritorious Civilian Service Award
1997 Executive Fellow Award, Armed Forces Recreation Society
1998 and 2004 Senior Civilian of the Year Award, Air Force Services
2005 and 2008 Special Act or Service Award
2006 Exemplary Civilian Service Award

Current as of March 2009

Thank you, Madam Chair and members of the Military Personnel Subcommittee, for the opportunity to appear before you today to talk about the status of Air Force MWR programs. Our Airmen truly appreciate the leadership and support this Subcommittee has historically provided for matters affecting their readiness and quality of life.

Through all the changes in leadership over the past year, one thing has remained the same: the outstanding men and women providing world-class Morale, Welfare, and Recreation programs for Airmen and their families. Without their efforts, our programs would not continue to grow and improve to meet the ever-changing needs of our customers: in garrison, in support of natural disasters, and at forward-deployed locations.

Our Airmen are deployed and in-garrison supporting Combatant Commander operations across the globe. These operations not only include contingency operations, but numerous humanitarian missions as well to help military installations in the Southeastern United States prepare for and recover from Hurricanes Fay, Gustav, Hanna, and Ike. While our Airmen have experienced an increase in personnel/operations tempo, our organizations have continued to encounter ever-increasing operating costs as well, from supplies and equipment, to travel costs, and utility prices. The current state of the economy has compounded the stress that our Airmen and their families are experiencing.

Air Force Services continues to deliver combat support and community service programs that are the cornerstone of regenerating, sustaining, and retaining the human weapon system. Our Airmen are only as strong as the network of family and friends around them. We recognize the importance of taking care of families so our Airmen can focus on the mission. A strong and viable Morale, Welfare, and Recreation program must maintain this delicate balance of warfighting and family member support. I appreciate the opportunity to show you where we are,

and what we've done in the past year. I will close with a short peek at our strategic vision for the future.

COMBAT SUPPORT

The Air Force Services organization is a critical part of the Air Force expeditionary mission. At any given time during 2008, approximately 500 Services Airmen were deployed around the globe providing hot meals, lodging, fitness, protocol, and recreation programs in traditional roles as well as filling Joint Expeditionary Taskings in support of United States and coalition forces. The training and preparation of each team directly impacts the quality of service of deployed Airmen. Each Services Airman is a leader in the unit and has a significant impact on mission capability. However, readiness does not just mean getting ready to deploy. It means taking care of those back home, a piece of the puzzle that we cannot afford to overlook.

Fitness

Our emphasis on lifestyle changes that keep our force "Fit to Fight" has significantly increased Fitness Center usage and has resulted in increased focus on infrastructure, equipment, manpower and programming. Our fitness center operating standards support the Air Force Chief of Staff's Fit-to-Fight initiative by providing a variety of exercise programs; from self-directed individual workouts to large unit formations, we have something for everyone. For Airmen needing special attention to improve their fitness scores, we partner with the Health and Wellness Center to provide numerous fitness improvement classes. Popular group exercise classes such as cardio-kickboxing, cross fit, and Pilates can be found at nearly every fitness center. Outside the fitness center itself, fitness trails and running tracks are in high demand as calibrated space for official 1.5 mile testing is generally limited. The base fitness center is often the start and finish line for wing-wide commander-led runs and base 10K races. Fitness testing

is always a higher priority than individual or group workouts, so those members are often forced to find alternative locations to exercise.

The 5-Star Recognition Program is an annual assessment recognizing superior achievement and excellence in the areas of operations, programs, training, facilities, and customer service. Unlike a checklist or inspection, we use this as an incentive to exceed minimum standards and achieve excellence. Programs must achieve 90 percent of the total point value for each category to earn 5-Star recognition. Results for FY08 indicate that eighty percent of the Air Force bases met the Chief of Staff's standard of at least 4 stars, up from 67% last year. Significant improvements were noted in all five areas, consistent with the results for each year of the program's existence. Training and facilities remain the categories of greatest need due to the cost of needed improvements.

While demand is up, the fitness center construction and renovation program has drawn down over the past few fiscal years as funds have become limited. However, we have a very active agenda to renovate or rebuild fitness centers at thirteen locations through FY13, to make some improvement in the quality of life for Airmen, their families, wounded warriors, retirees, and other authorized customers.

Food Service

Last year, our Services team served over 67 million meals from 276 dining facilities worldwide. Military members provide the deployable core of our food service capability, maintaining the skills to deploy at a moment's notice to feed the force at an austere bare-base location or a fully-functional forward operating base. In addition to home-station feeding, Air Force spent $76.5 million for contingency support for Operations IRAQI FREEDOM, ENDURING FREEDOM, and NOBLE EAGLE.

For holidays, our teams go above and beyond to ensure Airmen and their families throughout the world receive a great meal and outstanding service. Even though many of our Airmen were away from family and friends for Thanksgiving Day 2008, our food service team brought a "taste of home" to the deployed forces. Worldwide, we served over 75,000 pounds of turkey, 15,000 pounds of ham, and 35,000 pounds of beef, plus all the trimmings.

Our Airmen tackle every challenge head-on to support the deployed mission. At Sather Air Base in Iraq, Air Force Services Airmen overcame the long-standing problem of providing food other than MREs to members waiting at the base passenger terminal. They started a grab-n-go operation, initially out of the back of a utility vehicle, to fill the void for those passengers waiting between the hours of 0100-0500. While the grab-n-go program is taken for granted back home, nobody had ever thought of applying the concept to a situation like this. Our Airmen applied their creativity and determination to hone in on the proper solution to this lingering problem and meet the needs of their combat customers.

Our new expeditionary kitchen initiative will allow our deployed personnel to provide initial hot food capability at austere locations from an entirely electric-based platform, completely eliminating the need for hazardous fuel-fired equipment. This kitchen is designed to support populations up to 550 personnel, initially with heat-and-serve Unitized Group Rations and enhancing the rations with some fresh foods as additional refrigeration equipment can be deployed. This Electric Single-Pallet Expeditionary Kitchen (ESPEK) will be air transportable in C-130 aircraft or larger aircraft and capable of being transported by military or commercial flatbed trucks. We expect to deploy this new feeding platform as soon as fiscal year 2012.

Lodging

Air Force Inns provide high quality, cost-effective lodging to official Department of Defense travelers at 95 locations. We completed the centralization of our lodging funds this

year, eliminating the separate major command lodging funds and reengineering our worldwide operations into a centralized corporate model similar to the hospitality industry's best practices. We awarded a $20 million centralized distribution contract for standardized lodging supply items this last year, driving down costs dramatically for projected savings of $1 million for the next two years. Centralization also allowed us to set low Air Force-wide standard rates for each room type, rather than separate rate packages for each major command. These rates will allow us to continue an aggressive program of guest-room renovations, which totaled $54 million during this past year. All base lodging renovation projects are now designed, procured, and paid at the headquarters level, driving standardization and efficiencies.

Central management oversight for the Air Force Lodging Standards Accreditation Program has proven essential to ensure our military and civilian guests receive the highest level of service. A team of three evaluators visited 49 of the 95 lodging operations last year, reviewing each operation using an in-depth checklist of standards. Evaluators assessed guest contact, housekeeping services, guest room furnishings and equipment adequacies, management functions, as well as the financial, personnel, and logistics functions of our operations.

Technology remains at the forefront of our program. In a joint effort with the United States Navy, Air Force Inns has established a state-of-the-art central online lodging reservation system at Randolph Air Force Base, Texas for our official duty and space-available travelers. We are currently developing an interface with the Defense Travel System to provide a seamless booking capability for all on-base government lodging during calendar year 2010. We installed high-speed internet service in 16,905 rooms in 2008 and expect to complete this initiative at all Inns by end of 2009. We also continued to improve our communication infrastructure by replacing seven phone switches in 2008, and plan to replace an additional twenty phone switches in 2009.

Air Force Lodging continues to pave new ground in the Department of Defense, creating a corporate-like operation while still maintaining mission readiness capability on a global basis. We can provide a great night's stay comparable to commercial properties at a fraction of the cost and ultimately produce a savings to the Department of Defense travel-line.

Library

The Department of Defense library standards, first developed in 1999, consist of core standards in the areas of customer services and programs, technologies, facilities, staff, and operational plans. Air Force libraries scored 97.78% in compliance with all of the 82 elements. The standards, revised every three years, serve as a tool for continued improvements in general library service, operations, and resources.

The Air Force library program centrally procures and ships over 250 paperback and periodical kits each month to over 200 contingency operations and remote sites around the world. The Library Service Center at Ramstein Air Base, Germany, supplements the kits with additional recreational items such as DVDs and Stars and Stripes newspapers. Nine Learning Resource Centers in Southwest Asia provide educational resources and college-level practice tests, online databases, and research materials for troops enrolled in voluntary education programs. Additionally, the Air Force library office centrally procured two 23-volume book kits for each Air Force general library to support families at home station. In addition, we have made wireless Internet available in 78 out of 79 Air Force general libraries, so customers can bring in their own laptops and obtain Internet services free of charge.

Last March, the Defense Military Community and Family Policy Office launched a Lean Six Sigma study to ensure that the Department of Defense takes advantage of economies of scale in library material purchases and to add information databases to Military OneSource. The Department of Defense allocated funding to make joint purchases of library materials based on

service librarian's recommendations, and to make more library materials immediately available to deployed troops and active duty, guard and reserve members and their families. The Air Force library program procured three databases (MyILibrary, NetLibrary, and Safari) which host over 14,000 online e-books and downloadable audio books, saving over $4 million. The databases are hosted on all the services' portals as well as on Military OneSource, making the materials available virtually anywhere, anytime. The other services' library programs procured educational and learning resources including college-level prep tests, how-to repair centers, Tumblebooks for K-12, and Playaways, self-contained audio books for contingency operations in deployed locations.

Warrior and Survivor Care

Air Force Services is the primary advisor to the Chief of Staff on Mortuary, Casualty, and Wounded Warrior policy. In December 2008, we stood-up the Air Force Mortuary Affairs Operations Center at Dover Air Force Base as a part of our expanded Warrior and Survivor Care program. The Center combines all Air Force Services Agency mortuary capabilities under the same umbrella as the Dover Port Mortuary, enhancing the shared expertise and information while providing a more effective and efficient service to the families of our fallen service members.

The Air Force Warrior and Survivor Care program also includes the Survivor Assistance and Air Force Wounded Warrior programs. Our Family Liaison Officers have expanded their coverage to include not only the families of the fallen and combat-wounded Airmen, but also adding support to the families of *all* seriously injured Airmen who are receiving medical treatment away from their home unit. Family Liaison Officers provide a wide variety of assistance including local transportation, lodging arrangements, assistance with benefits, and

referral to various agencies available to assist wounded, ill, and injured members, their families, and families of the fallen.

As the result of the FY08 National Defense Authorization Act, we began the Air Force Recovery Care Coordinator program in November 2008. Recovery Care Coordinators are assigned to be the single point of contact assisting seriously injured, ill, and wounded Airmen through the non-clinical aspects of their recovery. Our first two Recovery Care Coordinators are retired Air Force Command Chiefs with years of experience assisting Airmen in a variety of settings. They have already proven to be exceptional additions to our team, providing invaluable one-on-one guidance and assistance to our wounded, ill, and injured Airmen. Our Recovery Care Coordinators work directly with hospitalized Airmen to develop individualized recovery plans that contain goals and a record of non-clinical assistance provided to our Airmen.

We worked closely with the Air Force Personnel Center staff to update policies on promotions, evaluations, classification, retention, retraining and assignment of our wounded Airmen. Past policies did not allow for our wounded Airmen to compete for promotions while they were in a patient status and there were also barriers regarding classification, evaluations, retention and retraining. The new Air Force policies offer opportunities to our war-wounded Airmen and reflect our commitment to these heroic men and women. Wounded Airmen now have the option to get back on a career path with the Air Force, can compete for promotions, have priority retraining opportunities if they are no longer qualified in their Air Force Specialty Code, and have classification mechanisms that open other opportunities in the Air Force. The Air Force offers civil service positions for wounded Airmen with disability ratings of 30 percent or greater, who can no longer stay because of severe wounds or who elect medical retirement.

Many of these changes were suggested by wounded Airmen, their families, and families of the fallen at the Air Force Warrior and Survivor Care symposium in October 2008. We

conducted our symposium in conjunction with the Secretary of Defense's Summit on Consistent Best Practices for Support of Families of the Fallen and Wounded, Ill and Injured Service Members. We also gained valuable insight from various town hall meetings with our wounded Airmen at the medical treatment facilities.

One of our Airmen with a most compelling story of sacrifice and one who has thrived in the face of adversity is Staff Sergeant Scott Lilley. Sergeant Lilley was seriously wounded in April 2007 when an attack on his convoy in Iraq left him with a piece of shrapnel lodged in his brain. He was medically evacuated to Landstuhl Regional Medical Center and his family rushed from Roswell, New Mexico to be at his side. He was not expected to live, and his parents were prepared for the worst. Ever since that day in April 2007, his recovery has been remarkable. He was treated at National Naval Medical Center, Bethesda, the Veterans Affairs Polytrauma Center at Tampa, Florida, and Casa Colina Assisted Living Facility in California; all the while with his parents at his side. After ten months of treatment, Sergeant Lilley returned to his home unit at Minot Air Force Base, North Dakota, and was then sent to Wilford Hall Medical Center in Texas for further rehabilitation. He worked hard to recover, and in November 2008 he passed the Air Force Basic Instructor course at Lackland Air Force Base. His medical evaluation board has since returned him to duty as an instructor at the Air Force Security Forces Academy at Lackland. Sergeant Lilley's life had been hanging by a thread. Thanks to his tenacity, the support of his family, expert medical care, and a supportive Air Force team, he is now a productive member of our Air Force and is using his battle-tested skills to train future Security Forces Airmen. We want people like Sergeant Scott Lilley to remain a part of our force and will continue to strive to ensure our wounded Airmen have appropriate career opportunities.

Our program is strong, but we continue to look for ways to improve support to our wounded, ill, and injured Airmen, their families, and the families of the fallen. Our Air Force

Wounded Warrior Program staff keeps in contact with our medically-retired wounded Airmen for a minimum of five years and provides a wide-range of assistance, including employment and benefits counseling and referral to a variety of agencies designed to assist wounded veterans. Other resources for wounded Airmen and their family members are available in our Airmen and Family Readiness Centers at each Air Force base. The staff in each center is equipped to provide employment and financial counseling, job search assistance, and financial aid through the Air Force Aid Society, in addition to referral to other agencies. The Centers provide financial management services, including methods to maximize any lump sum payment to the Airman, developing comparative spending plans based on projected future income, and ensuring referral to agencies such as the Air Force Aid Society to help ease any financial burden. Ongoing consultation on employment and education options for the member and family is also available, including a program that channels Wounded Warriors into civilian employment opportunities in the Air Force. A special base-level case management team made up of representatives from the command, the Airman & Family Readiness Center, and civilian personnel office, will facilitate the employment process. Other services include investigating health and life insurance alternatives including long-term health care coverage, Veterans Affairs eligibility and enrollment, and information on services and resources in the local community if the family plans to relocate to an area where there are no military installations.

We appreciate the legislative efforts by the Congress to provide the right assistance to our wounded, ill, and injured service members, their families, and the families of the fallen. We look forward to working with you as we continue to improve support to those who sacrificed so much for our nation.

Armed Forces Entertainment

Quality entertainment enhances readiness and communicates public support to the troops, and is recognized by commanders as providing essential respite during long, difficult operations. To meet this need, celebrity and up-and-coming entertainers generously donate their time and talent and deliver messages of support from America.

Armed Forces Entertainment and the United Service Organizations partner to produce tours by nationally known celebrities; headline tours in 2008 included Trace Adkins, Gary Sinise, and Baby Bash. In 2008, Armed Forces Entertainment sponsored 115 professional entertainment tours with over 900 shows at 370 sites, reaching more than 500,000 military personnel.

Air Force Services personnel and the superstars of World Wrestling Entertainment wrapped up their sixth annual Tribute to the Troops show in December 2008. This year's trip was their most ambitious itinerary ever, splitting into separate teams and remaining overnight in the field so they could visit 28 remote sites in Iraq before regrouping for their big finale show in Baghdad, Iraq. During their refueling stop at Ramstein Air Base, Germany, the stars spent their ground time visiting wounded service members at the Landstuhl Regional Medical Center before proceeding to Iraq. To showcase the tour, the Tribute to the Troops special aired on 20 December 2008 on NBC.

Tops in Blue

The Tops in Blue 2008 team began their 55th Anniversary "Déjà Blue" tour in May and performed a total of 132 shows in the Continental United States, Europe, Pacific Rim, Azores, Greenland, Alaska, and Honduras. The team deployed in July to Southwest Asia for 20 days to perform 11 shows in Kyrgyzstan, Afghanistan, Qatar, Iraq, Kuwait, and the United Arab Emirates. They also performed special shows that included Air Force Weeks in Omaha and

Philadelphia; the Air Force Sergeants Association convention; the Thanksgiving Hometown Celebration and Parade in Plymouth, Massachusetts; the Marshall Center in Garmisch, Germany; the Air Force Birthday celebration in Stuttgart, Germany; the Air Force Space Command Ball in Colorado Springs; and the state of Oklahoma's 150th Anniversary Celebration.

COMMUNITY SERVICE

Airman & Family Readiness

Air Force families lead challenging lives that include multiple deployments, relocations, and normal stressors. Our Airman & Family Readiness Centers recognize that Air Force family needs require a myriad of delivery methods. Through outreach and center-based programming, Airman & Family Readiness Centers bring the programs and services directly to the family. Over the past year, we have refined our operations to increase support for the families of our Wounded Warriors, deployed Airmen, Air National Guard and Air Force Reservists and families experiencing difficulties due to the current economic crisis. We have tackled issues identified as important to Air Force families, including expanding our child care capacity, increasing child care support for families of our Guard and Reservists, improving financial readiness, and providing opportunities for children of Airmen whether located on installations or in civilian communities throughout the United States.

Our Discovery Resource Centers provide a convenient hub for families to access information and resources. These interactive areas within our Airman & Family Readiness Centers serve as gateways to programs and services by providing current publications, community-specific information and internet access. Families may come with one particular need in mind, only to discover additional services; for example, a newly-relocated military spouse may come in only to use a computer, but then leave with a voucher for free child care,

loaner household items, and personalized employment assistance. The Air Force Chief of Staff has provided funding for Discovery Resource Centers at installations worldwide.

The nation's current financial troubles have brought financial readiness to the forefront at each installation. Our Personal Financial Managers remain proactive in educating Airmen and their families on all stages of home ownership, family budgeting, credit repair, and identity theft prevention, all of which add to our families' overall financial health.

As part of our focus on financial readiness, the Air Force was a large contributor to the success of the 2008 Military Saves Week. This annual campaign is an extension of the Consumer Federation of America's *America Saves* program. During this week-long push, the Air Force registered 6,564 new savers to the program through the "Savers Pledge," conducting 340 financial programs worldwide and reaching over 19,000 Airmen, family members, and civilians with the campaign's "Build Wealth, Not Debt" message.

Foreclosure and bankruptcy have been much discussed by Air Force leaders this past year. To date, our indicators do not show them to be major issues for Airmen; however, we are tracking this closely for any developments that would escalate our concern. Airmen with any financial concerns, to include foreclosure and bankruptcy, are encouraged to discuss their situation with our trained financial counselors, review their options and create an action plan.

Significant progress has been made in institutionalizing support at installation level for the more than 145,000 Air Force students attending public, private, DoDDS, home and cyber schools. Full-time school liaisons are in place at the majority of our overseas installations and at 12 locations in the Unites States. Community Readiness Consultants in the Airman & Family Readiness Centers provide school liaison support for the remaining programs. Each Air Force base designates a senior military officer or civilian to advocate for the interests of military families at local school board meetings, and we partner with Military Child Education Coalition

to provide key training for installation staff working education issues. Air Force is continuing and strengthening its partnerships with organizations such as National Military Family Member Association, Military Impacted Schools Association and Military Child Education Association, and well as with other Department of Defense agencies and the Department of Education in a concentrated effort to ease the tough challenges that face military students and their families. Complementing these efforts, the Air Force is working with the Office of the Secretary of Defense (OSD) to develop an "Interstate Compact on Educational Opportunity for Military Children" with states to enable reciprocal acceptance of entrance, subject, testing and graduation requirements.

With such an obvious need for Airman and Family Readiness programs at home station, we have become sensitive to the need for such programs in the deployed environment. We opened our first deployed Airman & Family Readiness Center at the Al Udeid Air Base, Qatar, in April 2007. Since then, well over 8,000 deployed Total Force military personnel from all branches of Service as well as Coalition Forces have received personal assistance; thousands more were provided with reintegration briefings. Keeping deployed Airmen in touch with their families provides an enormous impact to Quality of Life by providing an emotional link to family and friends back home, and helps prepare Airmen to return to those loved ones at the end of a tour. The most popular services include financial management, family reintegration, and personal and work life issues. Sending videotaped messages home for Valentine's Day, Mother's Day, birthdays and other special events is also a huge morale booster. Internet, web-cams, e-mail, and telephones keep the lines of communication open to preserve relationships and minimize stressors, both for the Airman at the frontline and for the family on the home front.

Child Care and Youth Programs

Readily available, quality and affordable child care and youth programs continue to be a workforce issue with direct impact on mission readiness. The challenging military environment includes higher operations tempo, increased mobilization, and longer periods of time away from home. Significant progress has been made this year helping Airmen and their families balance the competing demands of parenting and military service.

With your support, and the assistance of the Department of Defense, we continued to increase available, affordable, quality child care spaces for Airmen. Thanks to the temporary legislative authority for child care projects, the "Growing Child Care Spaces" initiative funded eighteen minor construction projects to increase available child care by 1,242 spaces. Seven additional Military Construction projects were approved; these will further increase child care spaces by 1,718. We expect to fund 7 additional facilities with the funding set aside in the economic stimulus package and will grow an additional 836 additional spaces as a result. When all funded construction is complete, the Air Force child care space deficit will be reduced to 250 spaces. We continue to work with our major commands to identify installations with large child care waiting lists and develop projects to mitigate the shortfalls. Our next challenge will be to renovate or replace the aging infrastructure at child development and youth centers.

We also continued to support Airmen requiring additional child care support during shifts, or when they work in excess of a normal duty day. The Air Force Expanded Child Care program provides 16,000 hours of child care each month during non-traditional hours at no cost to the military member. These programs enable Airmen to obtain quality child care even when the mission requires duty at night or on weekends. The Air Force Family Child Care Subsidy program saves families an average of $134 per child per month by subsidizing the care received in an Air Force Family Child Care home when a slot is unavailable at the child development

center or school age program. This program is of particular help to those Airmen with children under the age of three or children with special needs, and to those Airmen who work shifts outside of a normal duty day who would otherwise be unable to locate or afford this type of care in many civilian communities.

Our partnership with the Air Force Aid Society in the Give Parents a Break program offers a few hours break each month from the stresses of parenting. Child care is provided at no cost to parents who are dealing with challenges inherent to military life, including deployments, remote tours of duty, and extended hours. We also plan to enhance respite care programs for families with special needs children.

During 2008, we successfully expanded the Air Force Home Community Care program, reducing out-of-pocket expenses for Air Reserve and Air National Guard members by providing free in-home quality child care during their scheduled drill weekends. This program provides the same level of quality child care as is available on a military installation. The continued need resulted in significant expansion to new locations, with a total of 43 participating family child care homes in 36 locations typically not near active duty bases. The program offered over 57,000 hours of child care last year, with 24,000 of these hours provided in off-base homes of contracted civilian child care during primary Unit Training Assembly weekends.

Additionally, through a continued partnership with the National Association of Child Care Resource and Referral Agencies, the Military Child Care in Your Neighborhood program meets child care needs in off-base areas where on-base military child care is not available.

We continue to provide outstanding youth development opportunities for Air Force children, from elementary school through high school. Providing support for geographically-separated families has been an area of focus this year, and we have capitalized on ongoing

national partnerships to reach additional families living both in civilian communities and on active installations.

The Mission: Youth Outreach program provides a one-year free membership in a local Boys & Girls Club. Through this collaborative program, active duty, Guard and Reserve families who do not live near a military installation still have a safe and positive place for their youth to spend their out-of-school time. Our partnership with USDA/4-H and our sister Services fosters the development of 4-H clubs on Air Force bases and provides opportunities for military youth to participate in local community 4-H programs throughout the country.

We offer a variety of residential, specialty, and other base-specific summer camp opportunities. This year we created several new experiences targeted to teens. The Air National Guard and Air Force Reserve Teen Leadership Summit is geared toward teenagers who have experienced their parents' deployments and may not have a local support system that understands their unique issues. The European Keystone Summit provided a forum for Air Force and Army teenagers throughout Europe to meet and focus on developing their leadership skills. Installation youth programs have partnered with the National Military Family Association to provide residential youth camps during the summer. Over 25,000 Air Force youth participated in camps designed to help them achieve their potential, develop their self-esteem and build their resistance to negative pressures.

Families and children in our programs also benefit from the support provided by the Department of Defense-sponsored Military Family Life Consultants Program. Adult and child consultants address a variety of issues that help Airmen and their families cope with normal reactions to stressful events created by deployments, war, and reintegration. Airmen and their families are encouraged to seek the assistance of these professionals in developing healthy strategies that build the resiliency to endure the unique challenges of military life.

Air Force Sports

2008 was an outstanding year for Air Force Sports and our World Class Athlete Program. The year saw 22 Airmen qualify for the United States Olympic Trials in their sport and culminated with four Air Force athletes representing the United States at the 2008 Olympics in China. Over 350 men and 180 women competed for opportunities to represent the United States Air Force in a wide range of sports. The Air Force won seven of 20 Armed Forces championships in 2008, including the Armed Forces Rugby Championship for the fifth consecutive year. Seventeen Airmen earned Armed Forces All-Tournament honors, and 70 Airmen advanced to United States nationals and Conseil International du Sport Militaire (CISM) International Military Championships. Three women were named First Team All-Americans at the Women's Open National Softball Championship. Six Airmen led the United States to the 2008 CISM Golf Championship, hosted by Canada. One Air Force golfer defended her individual gold medal, while the men won individual silver medal and bronze medals. The United States Armed Forces also won their first CISM Men's Basketball Championship since 1988; two Airmen were named to the All-Tournament Team, one of whom was also the event's Most Valuable Player.

Four participants in the Air Force Services' World Class Athlete Program proudly represented the United States and our Air Force in the 2008 Beijing Olympics: Lieutenant Colonel (now retired) Dominic Grazioli, an Air Force Reserve Communications Officer assigned to Randolph Air Force Base, Texas; Captain Seth Kelsey, an Air Force Reserve Force Support Officer assigned to Buckley Air Force Base, Colorado; Captain Eli Bremer, an Air Force Reserve Contracting Officer assigned to Robins Air Force Base, Georgia; and Captain Kevin Eastler, an active duty Systems Analyst assigned to Buckley Air Force Base, Colorado.

Air Force Clubs

Air Force clubs recruited more than 10,000 new members during our recent annual membership campaign. This year's campaign featured a first-ever initiative: "card choice" allowed members to choose the type of club membership card they wanted, either the full-use commercial credit card or the limited-use proprietary club membership card. As an additional benefit, ten $1,000 prizes were offered to members for completing an online survey. The information and feedback we received is extremely important in our continuing efforts to enhance the quality and variety of member programs and benefits.

Each year for the last 12 years, commercial sponsors have provided scholarships to club members and their families. This past year, 171 applicants submitted essays on the topic "The Most Important Person in My Life," and 25 winners received $1,000 scholarships. Our 2008 Football Frenzy program set new records in revenue and participation with 55 clubs and 7 geographically-separated units participating, combined sales of nearly $700,000, and over 55,000 participants.

Our UBU and Take It to the MAX programs, joint ventures between the Air Force Services Agency and Air Education and Training Command, continue to provide a positive welcome for new Air Force members during their basic military training courses. These initiatives provide information about Services operations and introduce the value and benefits of Services and club membership. Some 33,000 Airmen have been educated about Services and clubs, and we have recruited almost 4,400 new club members this past year.

Bowling

Air Force Bowling provides a popular and viable social, recreational and sporting program for Airmen, and family members of all ages, with over 7 million lines bowled at our 86 bowling centers last year. Our bowling program faces many challenges including a smaller

market, older facilities, and limited construction dollars. We must maximize visits and provide more than "just" bowling, delivering programs that also provide a social setting to all market segments: casual bowlers, leagues, seniors, youth, and active duty and their families. We will release "Let the Good Times Bowl" this year, providing a great venue to celebrate birthdays, promotions, hail-and-farewell events, and after-hours get-togethers. In our Youth Worldwide Bowling Program conducted for the past eight years, over 4,000 youth between 5 and 18 years of age received instruction and participated in social-fitness based programs.

Golf

Our golf courses hosted 1.5 million rounds and remain focused on our customers. We recently completed a Golfer Loyalty Survey in conjunction with the National Golf Foundation for each of the 65 golf courses worldwide. The survey targeted two different golf seasons: the first in the fall 2007, and again in summer 2008. The research provides both local data and Air Force-level scores for loyalty (Net Promoter Score), and rankings for satisfaction, areas of improvement and importance in 21 core factors. More than 16,000 golfers Air Force-wide responded to the survey. The recent Quality of Life Survey conducted by Claes Fornell International also cited golf as one of the highest contributors to Quality of Life satisfaction.

The Air Force Golf Program continues to promote and support learn-to-golf programs for adults and juniors through contracted services from PGA-qualified instructors. The goal of the program is to develop and retain new golfers; it mirrors an industry-wide initiative to increase rounds of golf and ultimately income.

Greens renovations are part of a phased initiative to bring Air Force golf courses in closer alignment with industry standards, with higher quality turf, lower maintenance costs, and increased customer satisfaction. To date, green complexes at seven Air Force golf courses have been reconstructed; as funding becomes available, more courses will be included. Results from

the Golfer Loyalty Survey have shown that customers are extremely pleased with the improved playing conditions and architecture.

Other Base-Level Program Areas

Our Aero Clubs provide both recreational and morale-building venues for individuals to pursue, polish, and maintain aeronautical skills, but have a secondary purpose in supporting operational missions as well. Our 22 Aero Clubs provided direct mission support in 2008 as training vehicles for Operation ENDURING FREEDOM aircrew and radar controllers on procedures to intercept slow-speed aircraft. Additionally they supported the Air Force Academy in standing up their new powered flight program for our future Air Force officers. While Aero Club membership remained stable, the 4,000 members flew 10 percent fewer hours in 2008. This was driven by the increase in aviation fuel cost and the downturn of the entire economy; however, the impact on our Aero Clubs was not as severe as the industry as a whole, which experienced a 17 percent decline. We operated a fleet of 250 aircraft with no injuries, and experienced less than one-third the accident rate in general aviation.

The Outdoor Recreation program continues to increase awareness and training for adaptive and inclusive outdoor recreation programming to meet the needs of our wounded warriors and their families. In conjunction with Pennsylvania State University, the Department of Defense is providing 12 "Inclusive Recreation for Wounded Warrior" training sessions over the next three years for 360 Department of Defense Outdoor Recreation managers. The Air Force will receive at least 60 quotas for this training. The Outdoor Recreation program remains extremely popular and financially strong; programming and performance are expected to improve in the future.

Revitalization of our Leisure Travel program continued with our renegotiated contract in 2008. Sales remained steady throughout the year due to the aggressive sales of discounted

package tours and cruises by our activities, with a noted increase in family and group sales and higher-valued multi-day packages. Some of our larger vendors, such as Disney and Universal Studios, have begun developing programs for future electronic ticket sales. This will help streamline operations and provide faster service for this popular discounted product.

Our Arts and Crafts' Air Force Gallery program continued its phenomenal growth and participation throughout 2008 with over 800 submissions selected for display, more than tripling the initial entries from its inaugural year of 2006. In this program, base-level personnel may submit digital photographs and imagery for display at an online Air Force "dot.com" site.

Commercial Sponsorship program managers secured nearly $7 million to offset nonappropriated fund expenses or otherwise enhance Morale, Welfare, and Recreation events across the Air Force. Marketing offices also processed $2.2 million in gifts and donations for the benefit of Airmen and all eligible users.

FUNDING AND SUPPORT SYSTEMS

While appropriated fund support did show an increase, most of that was in facility projects. Support to mission essential (Category A) activities declined, particularly in fitness, library, and social recreation. Support to community support (Category B) activities increased, driven largely by increased support for child development projects; however, support for other programs declined.

Within the Morale, Welfare, and Recreation Funds, sales were roughly even with the previous year. Earnings, both adjusted for depreciation and net, increased over 2007 and were positive for the second year in a row.

We continue to be encouraged by a recent upturn in Army and Air Force Exchange Service earnings and dividends, fueled largely by Congressional appropriations to cover their costs of supporting Operations IRAQI FREEDOM and ENDURING FREEDOM. We will

continue to work with them to improve the forecasted earnings for the out-years, as that serves as a barometer for our construction program.

The nonappropriated fund defined-benefit retirement plan and the defined-contribution 401(k) investment portfolios have been adversely impacted by the global market downturn. This directly affects every 401(k) plan participant's account as well as the funds available in the Employee Retirement Plan Trust to pay current and future retirement benefits. The retirement plan portfolio decreased in market value from $306 million on 30 September 2007 to $229 million on 31 December 2008. Although the plan's status changed from fully funded with a healthy surplus in 2007 to only 85 percent funded now, it remains financially strong and well ahead of most commercial plans. We will obviously monitor the situation closely, but do not expect to raise contribution rates again before the end of the year. Similarly, participants in the nonappropriated fund 401(k) savings plan saw the market value of their assets decrease 17% during this period, from $123 million on 31 December 2007 to $101 million on 31 December 2008. Interestingly enough, though, fifty percent of the 8,000 401(k) plan participants are in the fixed income fund, and have not lost money.

Nonappropriated Fund Construction

During the past year, we completed 15 major projects valued at over $65 million. These included youth centers at Dover Air Force Base and Dyess Air Force Base, a bowling center at Maxwell Air Force Base, an arts and crafts facility at Goodfellow Air Force Base, and an indoor swimming pool at Ramstein Air Base. We currently have 13 projects valued at $58.6 million in construction, and 15 projects valued at $92.2 million in design.

The falling value of the United States dollar against foreign currencies has resulted in significant cost increases to our nonappropriated fund projects overseas. Unlike the military construction program, nonappropriated fund projects have no separate foreign currency

fluctuation pot from which to pay these expenses. We have expended $17.2 million in nonappropriated fund resources solely to cover foreign currency cost increases for our nine active overseas projects. Before these projects are closed, we anticipate an additional $2.1 million will be required for currency cost increases. As a result, this represents $19.3 million that will not be available to fund future Morale, Welfare, and Recreation projects at Air Force installations—not just abroad but also at home. While the Defense Department has encouraged us to engage in foreign currency hedging as a means of mitigating our exposure, the market condition and outlook currently do not make that option attractive, at least for projects in Europe.

With numerous initiatives competing for our limited dollars, we were forced to limit our nonappropriated fund construction program funding for Fiscal Year 2009 to two small Morale, Welfare, and Recreation projects valued at $4.4 million. However, we are working to increase funding to an average of $25-$30 million over the next five years.

The upcoming implementation of Joint Basing brings both opportunities and concerns from the nonappropriated fund construction perspective. Joint Basing may provide some opportunities to create operational efficiencies. In many instances, the separate bases may have duplicate activities that serve a clearly identified patron demand, but are not utilized to their full capacity. Consolidating these functions where appropriate could reduce operational cost, maintenance cost, and utility costs. However, as we work long-term plans to eliminate unnecessary duplication and reduce excess inventory, we expect some nonappropriated fund project requirements to emerge that were not previously in the Air Force plan prior to Joint Basing. In addition, the gaining component will assume responsibility for a number of facilities that may be needed, but require renovation and updating to provide effective service to our patrons, with additional costs to operate and maintain. The transition will be complex, and will

need to be managed very carefully in order to achieve a positive outcome for MWR beneficiaries.

We are working closely with our compatriots in Air Force Engineering to incorporate sustainable, green building and energy-efficient technology in our Air Force nonappropriated fund construction projects. Our early successes in this area are highlighted by nonappropriated fund visiting quarters and temporary lodging facilities projects that incorporate energy management control systems, expand the use of natural lighting, use more recyclable materials, expand the use of energy-efficient compact fluorescent lights, use motion-activated lighting and water faucets in restrooms and other infrequently used areas, increase the use of more energy-efficient windows and doors, specify Energy Star rated appliances wherever possible, and use landscaping that minimizes water usage. In addition, we are working with the Air Force engineering energy offices in researching the potential application of solar water heating, solar voltaic panels, and small wind power technology to our projects and activities.

While cost restrictions make some of these technologies difficult to apply to our Category-C projects, we are attempting to incorporate them wherever possible. Our long-term goal is for our Air Force nonappropriated fund projects to be in concert with the provisions of the Leadership in Energy and Environmental Design (LEED) Green Building Rating System.

Post Allowance

Post allowance is a tool to help offset the cost of living in an overseas foreign area, as compared with the cost of living in the United States (or, more specifically, Washington DC). As revised in 1996, the guidance in the Department of Defense pay manual left some room for interpretation. Both we and the Army and Air Force Exchange Service interpreted that guidance as applying only to employees who were transferred into an overseas area under a transportation agreement, and that locally-hired personnel would not be eligible. In December 2007, the

Department of Defense confirmed that some NAF employees hired overseas were not paid post allowance as intended. As a result, all the Services (including the Air Force) received clear direction to pay post allowance to all eligible employees, even those hired in the local area; and to make retroactive payments going back to December 2001, consistent with statute of limitations requirements.

A Defense memo from August 2009 authorized Components to use appropriated funds to support nonappropriated fund employer payment of Post Allowance claims, including those expenses incurred for nonappropriated fund personnel directly and primarily involved in resale activities, and nonappropriated fund personnel in Category-C activities. This is consistent with language in the Joint Explanatory Statement that accompanied the Fiscal Year 2009 National Defense Authorization Act: "We strongly urge the Secretary of Defense to identify and allocate appropriated funding to pay post allowances to locally hired nonappropriated fund employees at overseas locations and ensure that no nonappropriated fund entity incurs additional cost…."

Air Force budget officials are seeking ways to use appropriated funds to pay these nonappropriated fund post allowance claims. Meanwhile, as of 31 January 2009, we have used a total of $11.3 million in nonappropriated funds to pay retroactive post allowance claims made by current and former employees; our total potential liability is estimated at $18.3 million. In Europe, our units have frozen all capital expenditures and the major command siphoned off every available nonappropriated fund dollar to pay the post allowance bill; those funds are nearly depleted, and the command is preparing to tighten the belt even further to come up with additional nonappropriated funds.

Air Force Nonappropriated Fund Purchasing

The Air Force Nonappropriated Fund Purchasing Office completed our system-wide transition from the Government Purchase Card program to the Air Force nonappropriated fund

Purchase Card (P-Card), and managed the program to a resounding success. At the end of the first full year of use, the P-Card program had reduced the total number of cardholders by 10%, but increased total purchases by 200% to more than $146 million. Benefits came from rebates that increased by 310% or $1.3 million, while saving six person-years of effort across the Air Force. Navy MWR, Marine Corps Community Services and Navy Exchange Service Command began their transition to our NAF P-Card last November. The combined spending from all four programs will determine the rebate percentage for all, and each will receive that higher-percentage rebate on their specific program spending. For small programs like Marine Corps Community Services, their rebate percentage doubled the day they joined the new program. The P-Card program is a great example of Department of Defense nonappropriated fund activities working together to create a situation where everyone wins.

In addition to the P-Card, the Air Force Nonappropriated Fund Purchasing Office leverages bulk purchasing power at global recreation and hospitality trade shows to maximize savings to the Air Force and the other services. For example, at last year's International Bowl Expo 2008 in Orlando, the team made 48 purchases totaling over $220,000 for Air Force and Army, with a combined savings of nearly $11,500. Similarly, at the 2008 International Hotel/Motel and Restaurant Show, the team processed 250 orders for nearly $11 million in total purchases, with interim savings of over $356,000. For an even greater benefit, about 90% of those orders used the nonappropriated fund P-Card for payment. The team's attendance at shows like this gives bases a means to satisfy their requirements and take advantage of substantial show discounts without the need for the base to send a representative to the event.

Information Technology Resources

The Services Learning Management System is a web-based platform used to create, conduct, and administer training programs for Force Support personnel worldwide. Users can

access the Services Learning Management System directly or via the Air Force Portal and Advanced Distributed Learning System. The Services Learning Management System allows for automated management in a variety of learning delivery environments, to include self-paced CD-ROM, web-based training, interactive web-based programs, and traditional instructor-led in-residence training. The instructor-led training function provides user registration (with different levels of approval), student tracking, scheduling, and electronic training records management. The system will allow individual users to check their training history, register for and plan training, and launch e-learning courses for any course on the pre-approved training plan for their position. The Air Force Services Agency manages the Services Learning Management System site, which is expected to host an estimated 47,000 users including all personnel, supervisors, base-level training managers, and higher headquarters training managers and administrators.

This year, the Air Force Services Agency began using the Services Learning Management System to register students for all of their in-residence courses. The system can also deliver Force Support Combat Training and Home Station Readiness Training material and curriculum to personnel at any deployed location. This Services Learning Management System greatly improves training capabilities and helps manage scarce resources.

STRATEGIC INITIATIVES

Air Force Services is refocusing our transformation efforts around three strategic themes: a sense of community and family, the Airman as a weapon system (our warfighter focus), and best business practices.

We recently completed the first phase of a groundbreaking research project on Airmen quality of life. This project provided insight into how Airmen define quality of life, and their perceptions regarding key aspects of their overall wellness as it relates to such key factors as their jobs, compensation, family, and leisure time activities. The research also developed a new

key indicator, the Quality of Life Satisfaction Index (QLSI), which we will track annually to determine how well we are taking care of our Airmen and their families.

Additionally, the survey measured performance in all of our Services programs and activities. While the research findings confirmed that Air Force Services is doing a good job of taking care of our Airmen, foodservice programs are the weakest area and therefore represent the greatest potential for improvement. This validated our previous selection of food service transformation as our top-priority strategic initiative. The findings also indicated that the Air Force could do a better job of ensuring that we have a strong sense of community, a key factor that we are addressing in our new Services Transformation Roadmap.

Food and Beverage Transformation

The way we deliver food to our troops has not changed significantly over the last sixty years and, coupled with decreasing funding and sales revenues, has driven home the need to reinvent our base-level feeding platforms. Our existing dining facilities and clubs were sized for Cold War-era Airman populations and are now underutilized based on decreased end strength. Cost per meal in our dining facilities is far above the private sector and other public-sector comparables. Moreover, our Airmen are not taking maximum advantage of their food entitlement; our facilities average about 30% of capacity during peak lunch hours and our Airmen eat fewer than 1.5 meals per day in dining facilities. Our clubs are also suffering from decreased utilization and marginal financial performance.

The main objective of our foodservice transformation initiative is to create an entirely new foodservice capability, taking advantage of cutting-edge models suggested by leading college, university, and corporate campuses. However, this is not just abut being more efficient; our primary concern must be to maintain our organic war-fighting food service capability. We must also focus on improving food quality, variety, and nutritious value. Finally, we must

recognize that we provide jobs for socio-economically disadvantaged groups and military family members. Doing nothing in the face of these negative usage trends could force us to close even more facilities, which would cut critical mission capability across the board. We are currently conducting research to determine the best course of action at individual bases and for the Air Force as a whole. We are committed to working closely with all stakeholders to ensure that all needs and interests are addressed.

Nonappropriated Fund Transformation

We continued deploying our new accounting and payroll systems and are currently servicing 77 locations and 202 nonappropriated fund instrumentalities across the Air Force. Deployment of those centralized systems will be complete in February 2010, and we estimate cost savings at completion to average $12 million per year. This initiative has also produced several spin-off benefits. Since its inception in 2005, our central Treasury Offset Program has successfully returned $3.1 million in previously-uncollectible accounts to our base-level operations and collected $430,000 in administrative fees. Our check re-presentment program continues to deliver a high rate of collection, averaging 80 percent in 2008, nearly doubling the average 46 percent historic clearance rate when bases handled their own check collections.

The follow-on phase of NAF Transformation is underway: development of modern, web-based business capabilities for our activities. The goal is to provide simple, net-centric business solutions that allow managers to handle sales, inventory and customer relations in an integrated, automated system. We began this year to explore golf, child care and youth programs, and will spiral additional capabilities to support our other business areas such as outdoor recreation, bowling, and food and beverage.

CONCLUSION

The dual mission of Air Force Services, combat support and community service, is unchanged. The examples I've shared with you today, of real people meeting the mission requirements, demonstrate that our workforce is focused on the importance of our role in supporting our nation's defense. Yes, we have innovative technologies and equipment, but the hard work of our dedicated personnel is the backbone of success for the Air Force Services Morale, Welfare, and Recreation mission. We provide a network of supporting services to sustain, regenerate, and retain our personnel and families during challenging times, and I'm proud of their numerous successes. I recognize this would not be possible without tremendous support from the Military Personnel Subcommittee. On behalf of our team, I thank you and look forward to working with you as we move forward in helping to sustain America's Air Force.

QUESTIONS SUBMITTED BY MEMBERS POST HEARING

MARCH 12, 2009

QUESTIONS SUBMITTED BY MRS. DAVIS

Mrs. DAVIS. The Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) requires all Federal, State, and local government agencies to withhold 3 percent of payments to vendors in order to ensure tax compliance for companies doing business with the Government. Implementation was delayed until December 31, 2010. Representative Meek has introduced bills to repeal the provision-H.R. 1023 (260 cosponsors) in the 110th Congress and H.R. 275 in the 111th Congress. The bills were referred to the Ways and Means Committee and have not been addressed in either the 110th or the 111th Congress. The effective date, initially set for January 1, 2010, has been delayed by one year twice, mostly recently to January 1, 2012, as a result of the American Recovery and Reinvestment Act of 2009 that was signed into law on February 17, 2009. The provision will impose a significant impact on the cash flow to small businesses doing business with government agencies, to include military resale entities. The financial penalty resulting from implementation of the provision will require changes to payment systems for resale programs and the additional advance handling of tax withholding may reduce incentives by vendors to provide military resale optimal pricing policies. Most companies doing business with the resale program are tax compliant and it seems improper to punish all for the transgressions of a few.

Mr. Myers and Resale Commanders, has tax compliance been a problem for companies doing business with resale? Do you advocate an exemption from TIPRA for companies doing business with the resale programs? Do you believe that vendors may change their pricing policies if the tax withholding provision of TIPRA is allowed to take effect?

Mr. MYERS and General THURGOOD. We are not aware of any tax compliance problems for companies doing business with Defense Commissary Agency (DeCA) or any of our nonappropriated fund instrumentalities (NAFIs), including the Armed Services Exchanges and the Services' morale, welfare, and recreation activities. We are extremely concerned about both the direct and indirect costs to DeCA and the NAFIs which are expected to ultimately be passed on to our Service members. DeCA and the NAFIs will incur substantial costs to modify all existing accounting, procurement, and inventory systems to handle reporting for the Internal Revenue Service. Additionally, this withholding is expected to be an onerous burden on the many small businesses resaling with DeCA and NAFIs. We expect all the vendors providing goods to military resale activities may either cease doing business with our entities or pass these costs on to our Service members through higher prices for goods and services.

Admiral BIANCHI. Navy Exchange Service Command (NEXCOM) vendors represent a cross section of all U.S. companies. NEXCOM currently does business with approximately 5,000 vendors and has no specific information regarding which vendors may have tax compliance issues. NEXCOM receives only two to three tax liens a year where the IRS asks us to forward payments to them rather than to the vendor. NEXCOM recommends the military resale activities be exempt from the withholding requirements of TIPRA. NEXCOM firmly believes that vendors will view the 3% withholding requirement as an added expense and an additional burden in conducting business with the government. In some instances, merchandise may be in short supply, which occurs often in times of high consumer demand for specific products. In these instances, vendors will be less likely to provide such merchandise to the military resale activities, due to the added 3% withholding requirement. Our military patrons should not be placed on the secondary priority system for high demand merchandise. NEXCOM believes vendors will add the TIPRA withholding amount to the cost of our goods and services or even possibly refuse to do business with us to avoid being monetarily penalized by the withholding provisions of TIPRA.

Mrs. DAVIS. The Defense Commissary Agency (DeCA) has been working to restructure its workforce to develop more flexible multi-skilled workers and managers who can operate and advance within a whole-store team concept. This "Workforce of the Future" (WOF) includes the best practices of the private sector which would hopefully posture DeCA to improve its performance in A–76 competitions with private sector industry. Because the program would take a number of months to imple-

ment, the Congress exempted DeCA from A–76 competitions in the National Defense Authorization Act for Fiscal Year 2006 until December 31, 2008. Many of the aspects of WOF implementation were dependent on the successful execution of the National Security Personnel System (NSPS). Unfortunately, implementation of NSPS was problematic and WOF was never able to move forward on its original schedule. Consequently, the Congress must now contemplate restoration of the exemption from A–76 competitions or risk great damage to a capable DeCA workforce and the greatly improved stores they operate.

Mr. Sakowitz, given that the Defense Commissary Agency has not been able to fully implement its new workforce model, Workforce of the Future (WOF), do you agree that the continued exemption from A–76 contracting out competitions is necessary?

Mr. SAKOWITZ. The Defense Commissary Agency (DeCA) implemented the Workforce of the Future structure in all the stores located within the continental United States, Hawaii, Alaska and Puerto Rico, before the moratorium expired. DeCA was not able to convert all personnel in the existing positions before the December 31 moratorium expiration. The new workforce structure provides the necessary flexibility to utilize personnel in all operational functions of the store, producing a better overall operational execution. DeCA is transitioning to the redefined positions through attrition and expects to complete that transformation by 2014.

Mrs. DAVIS. Mr. Myers, what is the DOD perspective on this issue?

Mr. MYERS. The Department is supportive of the Defense Commissary Agency (DeCA) efforts to transform its workforce. This transformation will improve operational performance and individual potential for career advancement, and allow DeCA to compete favorably in OMB Circular A–76 competitions. However, pursuant to Section 737 of the Omnibus Appropriations Act for FY 2009 (P.L. 111–8) (the Act), which precludes the use of funds appropriated or otherwise made available by the Act (or any other Act) to announce or begin A–76 competitions, the Department has placed all such competitions on hold through FY 2009.

Mrs. DAVIS. The retirement systems for the various military resale and NAF activities are, to some degree, invested in the stock market. Given the decline in stock prices that has accompanied the recession, it seems likely that the investments supporting the retirement plans have decreased in value and may present a problem to personnel managers. All panel members, given that retirement systems are, to some degree, invested in a declining stock market, have there been losses in securities supporting your retirement plans that now threaten the security of your respective systems?

Mr. MYERS, General THURGOOD and Mr. SAKOWITZ. The non-appropriated fund (NAF) defined benefit retirement plans in the Department of Defense have suffered asset losses to be expected with a recession that are commensurate to the decline in stock prices (and the value of other asset classes such as bonds and real estate). However, based on the solid pre-recession financial position of the plans, diversification of plan investments, history of United States equity market performance, and current measures being taking by plan sponsors to address asset losses, we believe the security of the plans is not threatened.

NAF plan sponsors have exercised strong plan oversight for decades, which includes regular collaboration with private sector actuarial, accounting, and investment firms. This collaboration ensures accurate actuarial reporting and appropriate benefit and funding levels. Further cooperation is producing actions for dealing with recent asset declines, including increasing or reinstating employer contributions, adjusting retiree cost of living increases, and refining investment diversification strategy. We believe NAF employers are well-positioned to ensure the financial security of their respective plans.

Admiral BIANCHI and Mr. BAKER. The Navy Exchange Service Command (NEXCOM) has a pension trust that funds the retiree benefits. As of the end of our fiscal year at January 31, 2009, the pension plan asset allocation was as follows:

Equity securities	45%
Debt securities	44%
Real estate & other	11%

The declining stock market has reduced the value of the NEXCOM pension trust fund, however the plan remains adequately funded. As of January 31, 2009, the end of our fiscal year, our pension obligation was $808.5 million and our pension trust fund balance had a fair market value of $883.4 million. The retirement plan's investment strategy is to be invested with a long-term outlook, with the risk and return balance of the asset portfolio reflecting a long-term horizon.

Additionally, since our retirement plan is a defined benefit plan, there is no impact to current or future retirees as a result of the declining market conditions.

The Navy MWR NAF Retirement Plan maintains a diversified investment portfolio held in a retirement trust. Included in this portfolio are investments in U.S. equity securities. The returns generated from this portfolio over the last year have reflected the overall decline experienced by the U.S. equity market in general. The precipitous drop in equity values has altered the funding status for most retirement plans, including the Navy MWR NAF Retirement Plan.

While this market decline has taken the Navy MWR NAF Retirement Plan from an overfunded to underfunded condition, the basic investment strategy of holding a diversified portfolio of several asset classes remains the soundest long-term investment strategy. Unfortunately, this strategy has not fared well over the past year. The financial downturn has affected all asset classes, driving asset values down for U.S. equities, international equities, real estate, and corporate bonds. This aberration should correct itself when the U.S. economy begins to recover and other world economies begin recovery in conjunction with the U.S. History tells us that investment in U.S. equity securities remains prudent and will continue to offer attractive long-term returns.

In its first 25 years of existence, the Navy MWR NAF retirement plan was underfunded and MWR made annual contributions to reach an overfunded state. For the past 20 years through September 2008, the Navy MWR NAF retirement plan had maintained an overfunded status without employer contributions from CNIC. Since that situation has now changed, CNIC has re-started employer contributions and will continue to do so as long as the plan remains underfunded. The level at which CNIC must make future employer contributions will depend on the direction of future market returns and actuarial estimates as to requirements.

Mr. LARSEN. Losses to the Marine Corps Nonappropriated Fund (NAF) Civilian Employee Pension Plan have been consistent with losses in the private sector as well as that of the other NAF employers. While the funding level of the Plan has decreased, the security of the Plan is not threatened.

The Marine Corps is currently exploring several practical courses of action to achieve a fully funded status. Various funding options are being explored and will be presented to the Fiscal Director of the Marine Corps as well as the Board of Directors for consideration.

Mr. GORMAN. Although the Army's Nonappropriated Fund (NAF) Employee Retirement Trust investments have experienced some losses during the declining stock market, we do not believe those losses threaten the security of our retirement system. Our portfolio is diversified over several investment types, including stocks, bonds, insurance contracts, and US Government Securities. As of October 1, 2008, the date of our most recent actuarial valuation, the total actuarial accrued liability was $909.5 million, and the actuarial value of plan assets was $887.4 million. As the markets continued their decline, the estimated actuarial value of assets declined to $742.4 million by the end of February 2009, yielding an estimated funded status of 90.2 percent. Given the current condition of the investment markets, this is not a serious concern. However, as a precautionary measure, we invoked the Retirement Plan provision which allows us to cap the annual cost of living adjustment (COLA) for our current retirees at 4 percent, rather than grant the normal Consumer Price Index based COLA of 5.8 percent. We have also made the decision to increase the employer contribution to the Trust from 6.5 percent of covered salary to 7 percent of covered salary for the foreseeable future, effective October 1, 2009.

We believe these precautionary measures, along with prudent attention to our investments and adherence to our investment strategy, will protect the long-term security of the Retirement Trust and insure the financial security of our current and future NAF Retirees.

Mr. MILAM. The Air Force Nonappropriated Fund (NAF) retirement systems are invested in the stock market and, as such, respond to market conditions. While there has been a change in our portfolio due to market fluctuations, there is no threat to the long-term viability of our retirement systems. We monitor the market's performance on a continuing basis and adjust accordingly to minimize negative trends. We are currently evaluating a potential increase in contribution rates to the Air Force NAF Employee Retirement Plan Trust.

○