



The Coalition to Save Our Military Shopping Benefits

Quick Guide to Key Issues President's Budget Proposal regarding Military Resale

October 10, 2011

Background:

The Congressional Budget Office has developed a proposal, known as Option 6, which was included in its 2011 Budget Options, that calls for defunding the Defense Commissary Agency (DeCA) and converting it into a Non-Appropriated Fund Activity (NAF). It further calls for consolidating the new commissary system with the exchange systems, resulting in one NAF military resale system. Additionally, to compensate for the loss of the appropriated subsidy for DeCA, the proposal recommends raising prices by 7% on food and other merchandise while providing a stipend of \$400 per year to each active-duty service member.

The proposal was included as an illustrative savings in the National Commission on Fiscal Responsibility and Reform, as well as in the Sen. Tom Coburn's "Back in Black" deficit reduction plan.

Currently, DeCA receives approximately \$1.3 billion per year to fund its operations (salaries, overhead, maintenance, etc.). Additionally, the exchanges receive approximately \$200 million to pay for shipping merchandise to overseas exchanges. These funds ensure that OCONUS-based military personnel and their families pay the same price on merchandise as that which is sold in CONUS exchanges.

Position:

The Coalition to Save Our Military Shopping Benefits opposes adoption of CBO's Budget Option 6 for many reasons:

- ***The proposal fails to recognize the fundamental reason for military resale - to provide a non-pay compensation benefit to military families.*** Currently, military families save an average of 31% by shopping in the commissary and an average of over 20% by shopping in the exchanges. These savings to military families in 2010 amounted to \$5.6 billion. Implementation of CBO's proposal would be devastating to the military resale system and to the military families who benefit from it.
- The proposal establishes a military resale system that is not sustainable and will result in the loss of the benefit. A fundamental law of retailing is that if you raise your prices arbitrarily, then your customers shop elsewhere. As the higher prices in the commissaries and exchanges drive military patrons to shop elsewhere, the system, in order to continue operations, will have to respond by raising prices and/or cutting service, both of which will result in more and more patrons shopping elsewhere. ***The CBO's proposal will result in a downward spiral in sales, ultimately resulting in the demise of the resale benefit for military families.***
- CBO states that military families will have to pay \$1.4 billion more for the food and merchandise they purchase in the commissary and exchange. That may be true initially. However, ***as the benefit spirals downward, military families will pay more and more, ultimately resulting in them having to pay \$5.6 billion more for their groceries and household items.***
- Consolidation of military resale, particularly the exchanges, is not a new idea. On the surface, consolidation appears to provide savings to the taxpayer while enhancing the benefit for military families. Thus, the Department of Defense has made many attempts at consolidation since 1968. The latest attempt took place between 2003 and 2006 when the United Exchange Task Force was created to implement consolidation. After \$17 million of studies and analysis of consolidation methods, it was determined that the most cost-effective approach was not consolidation, but rather cooperation between the systems. It should be clearly

understood that, to date, **no business case exists for the consolidation of the military resale systems.** Otherwise, consolidation would have already occurred.

- Some have asked why we need commissaries and exchanges when there are so many Big Box stores to choose from. It should be understood that not all military bases have Big Box stores outside their gates. Military families overseas depend on commissaries and exchanges exclusively. Even if there were options outside of the gates of our overseas bases, military families would have to pay exchange rates, higher tax rates, as well as foreign exchange transaction fees if they use credit cards, resulting in their purchases costing significantly more. Even in the U.S., there are some bases that are located many miles from the nearest town. It should also be understood that most of these stores do not generate enough sales to sustain themselves. Thus, the sales from stores in CONUS ensure the delivery of the benefit to military families in the more remote and overseas locations. **Undercutting sales in CONUS stores by having patrons shop elsewhere will hurt military families overseas and in remote locations.**
- The military resale system saves taxpayers money, too. These savings, as described below, would disappear with the implementation of the consolidation proposal. The loss of these savings was not a factor considered by CBO in its calculations to determine the amount of reduction in spending:
 - **The exchanges generate \$300 million in dividends which are used to support quality of life programs for military families.** The loss of those dividends would mean taxpayers would have to make up for the loss of the dividends and/or the quality of life programs would be eliminated due to lack of funding.
 - **Military resale supports retention.** The Commissary benefit is the most important benefit to military families - it is second only to healthcare - and is one of the leading reasons why expensively-trained service members stay in the military. Savings to the taxpayer are generated because less money is spent on training new personnel due to attrition.
 - **Military resale supports readiness.** Ask most service members currently engaged in our war efforts what we can do to support them, they would respond, "Take care of our families." The peace of mind that military resale gives to our warfighters helps them focus on their mission. The benefit helps to ensure that military families at home are able to pay their bills because of the savings provided. At a time where we are seeing the value of food stamp usage in the commissaries triple in four years, the benefit is even more important in helping our military families make ends meet.
 - **Military resale saves money by lowering Cost-of-Living Allowances (COLA).** DoD uses the savings generated by the commissaries and exchanges in their formula to determine the annual COLA. These savings to shoppers result in savings to the taxpayer through lower COLAs. As prices rise in the commissary and exchanges, so will the amount of adjustments to the COLAs.
 - **Military resale provides for the readiness of military lift capabilities.** Overseas transportation of goods to commissaries and exchanges on OCONUS bases helps maintain a robust and ready lift capability, particularly in peace time. Without military resale, ships and aircraft would be mothballed during times of peace and would have to be brought back to a ready state in times crisis. This process is very costly, time consuming and limits our ability to respond. Because of military resale, our lift capability is maintained at all times and is ready at a moment's notice.
- Lastly, **the military resale system is a strong benefit and provides an incredible return on investment for the taxpayer.** Combined, DeCA and the exchange systems receive \$1.5 billion annually and with those dollars they generate \$5.6 billion in benefit savings. That means for every dollar spent to support military resale, the systems generate nearly \$4 in benefits. That is a very good deal for taxpayers that will not be improved upon with the implementation of the CBO proposal.