



AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL-CIO

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June 3, 2015

In re: Inhofe Amendment to strike a provision in the NDAA that would promote the privatization of the commissaries and replace it with a provision that would require that the DoD and GAO to first study the option of privatization, looking at a range of relevant factors, and then report back to the Congress as to whether that option would promote the national interest.

Dear Senator:

On behalf of the American Federation of Government Employees, AFL-CIO, which represents more than 650,000 federal employees who serve the American people across the nation and around the world, including 250,000 civilian employees of the Department of Defense (DoD), I urge you to cosponsor Senator Inhofe's amendment to strike-and-replace Section 625 of the FY16 National Defense Authorization Act, which would promote the privatization of the Defense Commissary Agency (DeCA).

The Department of Defense's (DoD) commissaries and exchanges (Army and Air Force Exchange Service, AAFES) are an earned benefit treasured by military families and an important contributor to their quality of life. The modest cost of providing military families with inexpensive but essential goods and services is almost invisible in the Department's overall budget. Given that privatization of the commissaries has been repeatedly rejected by the executive and legislative branches and that this option was explicitly not recommended by a recent commission which looked comprehensively at the commissaries, it makes no sense to begin to privatize the commissaries before understanding the impact on costs and services as well as morale and recruitment. Senator Inhofe's amendment would wisely direct DoD to study the impact of privatization, and the Government Accountability Office to review the DoD's finding, before the Department is directed to privatize the commissaries.

DeCA requires a modest subsidy not because it employs a reliable and dedicated civilian workforce, which consists disproportionately of military spouses, but rather because of the agency's mission—the provision of goods and services at substantially-discounted prices to military families, i.e., at cost plus a 5% surcharge, often in remote and isolated locations.

Some have tried to kill off the commissaries through the imposition of drastic reductions in the subsidy. Privatization is just another attempt to end the commissary benefit. Thanks to strong, bipartisan Congressional opposition, a privatization scheme very similar to the one included in the FY16 NDAA, was rejected during the Bush Administration.

Contractor commissaries would, obviously, have to generate profits, pay taxes, and account for more lucrative executive compensation, and lawmakers would understandably bristle at the notion that contractors should be subsidized in order to cater to military families. Consequently, it would be

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impossible for contractor commissaries to provide military families with the 30% savings that they currently enjoy. As former DoD Secretary Robert Gates and former DoD Comptroller Robert Hale have observed, privatization costs substantially more than civilian employee performance, particularly in the long-term.

During the earlier, failed attempt to privatize the commissaries, it was determined that commercial grocers billed customers at least 13% over cost, and the average markup was 20%. Even the Congressional Budget Office, a long-time advocate of vouchering the commissary benefit, acknowledged in a 1997 report that privatization would lead to significantly higher prices for military families. Moreover, contractors would only want to operate the high volume commissaries, leaving DeCA with the smaller and more remote stores. Absent the subsidies from high volume commissaries, operation of the smaller and more remote stores would no longer be viable.

The bottom line is that contractor commissaries would be unable to sell at cost, they would be far less likely to sell certain products, and they would be uninterested in operating stores in remote locations or which cater to smaller customer bases. Contractor commissaries would also inevitably open their doors to non-military customers, or move their stores out of military communities in order to be closer to non-military customers, significantly diluting this earned benefit. And after privatization, it will be very easy to convert the commissary benefit to vouchers or even to do away with it entirely.

Further, the civilian workforce of the commissaries disproportionately consists of military spouses, who are far less likely to be hired by contractor commissaries. Given that contractors often generate false savings from undercutting workers on their compensation, those military spouses who might subsequently be employed by contractor commissaries will have their pay and benefits reduced in order to do the same jobs as before.

As the commission charged with reviewing military compensation and benefits itself acknowledged, DeCA and AAFES have achieved significant savings on their own from implementing better business practices—\$700 million just since 1992. Additional savings may be possible from consolidating certain functions that are common to the exchanges and the commissaries, particularly procurement. The exchanges and commissaries are used by almost the entire military community and they are considered to be vital forms of compensation by military families. However, the cost of these earned benefits is less than 00.3% of the entire DoD budget. No programs provide more bang for the buck than the exchanges and commissaries.

Thank you for your consideration. Please cosponsor Senator Inhofe's amendment to the FY16 NDAA to strike a provision that would promote the privatization of the commissaries. Please contact John Threlkeld (threlj@afge.org) if you have any questions about our position.

Sincerely,



Beth Moten
Legislative and Political Director