

STATEMENT OF
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DEPUTY CHIEF OF NAVAL PERSONNEL
AND
COMMANDER, NAVY PERSONNEL COMMAND
BEFORE THE
SPECIAL OVERSIGHT PANEL ON
MORALE, WELFARE, AND RECREATION
OF THE
HOUSE ARMED SERVICES COMMITTEE
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Mr. Chairman and panel members, thank you for this opportunity to update you on the Navy Morale, Welfare, and Recreation (MWR) programs. My comments will focus on our customers, the American Sailors and their families; our strategic approach to improve programs to support readiness and retention; MWR program initiatives and recent accomplishments; employee issues; capitalization and the financial status of our program.

As all members of the panel know, we ask a lot of our Sailors and their families. Arduous duty, long deployments and separations place great demands on our people. Life at sea is not a five-day pleasure cruise to a popular tourist destination. We require Sailors to undergo rigorous training in highly technical skill areas and assign them to perform at high levels of competence for extended periods of time resulting in significant mental, physical and emotional stress as a way of life. The tempo of Navy operations remains high. Sailors routinely deploy for six-month periods

every two years and are at sea training and standing watch for much of the time between deployments.

History has shown us that Sailors accept arduous duty and personal sacrifice when they understand their mission and feel that the Navy and country are behind them. This means we must be committed to supporting programs that make life a little better for them and their families. Navy MWR programs, afloat and ashore, are a significant symbol of the government's willingness to honor its moral contract with our Sailors to provide quality of life support in return for their sacrifice and service. The success with which we deliver MWR services is shown by our annual surveys to be a significant consideration when Sailors are weighing pros and cons in making their decision to make the Navy a career. Shortly, we'll address the data that supports this statement, but let's begin with a look at some information on the people MWR serves.

CUSTOMER DEMOGRAPHICS

The typical Sailor is a second class petty officer (pay grade E-5), about 26 years old and has been in the Navy nearly 8 years. He or she is likely to be married (over 60 percent), has two children, a before tax income of about \$35,000, and is assigned afloat or ashore to a ship or aircraft squadron in Norfolk or San Diego. The average Sailor is away from his or her family over 50 percent of the time while on sea duty.

The largest number of Sailors as a group are E-4s and below. They represent about 44 percent of the Navy (about 161,000 Sailors), have a much lower income, and are more likely than average to be single. Most are assigned to duty aboard a ship or aircraft squadron. They are looking for a set of programs tailored to their age, interests, and predominately single status. They are much like any young adult that you might find on any college campus.

Navy has invested many thousands of dollars in their professional training. These first term Sailors are approaching the decision point when they must choose to enlist for a second term in the Navy.

Clearly they are a group with age specific needs, primarily single Sailors. Their retention decisions and, in turn, the return on investment to Navy for their training will be heavily influenced by our success in providing them quality leisure time activities.

FOCUS ON THE CUSTOMER

Last year, I spoke to you about our major effort to create an MWR program culture and organization that was customer-driven. Clearly, a fundamental principle in that endeavor was the challenge of staying in tune with the desires of our customers. This is essential if we are to focus our attention and resources on those programs that Sailors and their families identify as most important.

To meet this challenge, we frequently step back to reaffirm that our program direction, content, and delivery approach are providing our Sailors and their families the most responsive, efficient, and innovative MWR support possible. We employ a number of approaches in doing the assessment including participation of our field program personnel, Sailors, and the military chain of command, and through on-site visits to bases. In many program areas our customers tell us we do well but, not surprisingly, we learned we could do better in a number of areas, which I will share with you.

We measure the pulse of our customers through biennial global assessments of our Sailors' needs, preferences, and satisfaction levels. At the installation level we supplement this broader survey through local, program specific, customer service assessments using a computerized survey tool called "Pulse Point" that provides quick turnaround and can be done as often as needed.

The "1999 Navy-wide MWR Customer Survey" conducted by Navy Personnel Research and Development Center, included a comparison with a similar survey in 1997. While the results said we were doing a lot of things right, we also learned where we can improve and which programs our Sailors and families value most.

Highlights of the survey include:

- Overall results indicated that respondents had very positive perceptions of Navy MWR.
- 30 percent of enlisted and 37 percent of officers are influenced by the MWR benefit when they decide to continue on active duty.
- 65 percent of both enlisted and officers cite MWR as a contributor to their military readiness.
- 85 percent of enlisted and 88 percent of officers identify MWR as offering an opportunity to have fun while serving on active duty.
- MWR programs and facilities are generally viewed positively but improvements are needed in customer service and employee attitudes. In addition, programs need to be better marketed and publicized.
- As in 1997, Information, Tickets, and Tours (ITT) and fitness centers were the two most important and most used MWR facilities and services.
- Quality ratings of MWR facilities, services, and customer service showed increases over 1997.
- More respondents in 1999, compared to 1995 or 1997, were satisfied with MWR facilities/ services. They said they intended to keep using MWR and said MWR improves their Quality of Life.
- About two-thirds or more of both enlisted and officers agreed that MWR contributed to unit outcomes such as physical fitness, readiness, unit cohesion, and stress reduction.
- Satisfaction ratings for the specific program evaluation sections were all very high. Highest use was found for gyms, sports and fitness facilities, and ITT. Highest satisfaction ratings were obtained for on-base

movie theaters, particularly cost, seating availability, and customer service items.

In 1999, we made a great deal of progress in expanding training to provide effective customer service skills to our employees. Since we last met, Navy MWR has trained over 160 facilitators to deliver our professionally developed "Achieving Extraordinary Customer Relations" training program. So far these trainers have provided training to over 3,800 employees this year and within the next year we hope to complete training for all of our employees Navy-wide who interface with customers.

Keeping our finger on the pulse of Sailors' needs through surveys and then training our employees to meet these needs is vital, but we are always looking for new perspectives. To assist in this effort and get closer to the needs in the field, we formed a Navy MWR Director Advisory Group, consisting of experienced MWR directors from around the world. They have been invaluable in bringing to our attention innovative program ideas that can be exported to other field activities. They have also recommended program delivery improvements such as encouraging a nonappropriated fund (NAF) grant program to supplement Single Sailor program events. They have helped identify opportunities to take advantage of the Navy's move toward regionalization. This, in turn, has helped achieve better use of available resources and encourage regional approaches to service delivery to reduce overhead expenses. This group has proven to be a valuable sounding board in considering changes in the content and delivery of MWR programs.

The use of survey results and customer support tools is reflected in Navy's revised MWR Master Plan. It lays out our road map for Navy MWR to reorient program resources to those programs that our customers define as most important and most used. Our new Master Plan establishes a requirement to define or refine metrics and standards for each of our program areas. Our goal is to ensure a Navy-wide capability to measure program availability and quality against a uniform set of program standards regardless of where our Sailors serve.

MWR VISIONS, MISSION, AND STRATEGIC GOALS

The Navy MWR program vision is that "our Sailors and their families will have access to the very best customer-focused MWR core program package wherever they are stationed." Our approach to moving this vision to reality is to employ a master planning process endorsed by the Secretary of the Navy and consistent with expectations of the Department of Defense.

This year we completed a reassessment of our Master Plan to determine whether programmatic and resource requirements are optimally structured. This assessment was also aimed at making certain we provide MWR service equity worldwide, particularly for those programs that our survey confirms are valued most by Sailors and their families and, not coincidentally, are also the greatest contributors to readiness and retention. These programs are Fitness and Sports Programs; Single Sailor Recreation Programs; Information, Tickets, and Tours; Outdoor Recreation; Child Development; and Youth programs. (Our Category C business activities, which are exclusively funded by NAF except at overseas and remote bases, succeed or fail based on their self-sufficiency. Thus, they were not the primary focus of the Master Plan. I will discuss Category C programs later in this statement.)

The MWR planning environment is characterized by a goal to provide programs and services that support the unique culture of the "military hometown." Because military life, which includes forward deployments and overseas and isolated assignments, is unique and imposes special demands and separations on both service members and their families, our Sailors deserve the best QoL programs we can provide.

The constant challenge to retain our Sailors is exacerbated by our surging high-tech economy, which often offers much higher salaries and a more normal family life. To compete in this highly competitive labor market, we focus on encouraging retention through a strong commitment to improve the QoL of Sailors and their families. The underlying premise is the experience-based assumption that both personal and family satisfaction with military life are major determiners of retention.

With this in mind, our updated Master Plan focuses on two main goals. First, we are committed to the development of more comprehensive standards for spotlight programs. Spotlight programs are those programs that, as determined by Sailors, are the greatest contributors to improving the quality of life of Sailors and their families. These programs support their determination to stay in the Navy and keep them physically and mentally prepared to carry out their mission.

The second focus of this plan addresses the allocation of resources using program standards. In pursuing standards, we believe MWR's program objectives need to ensure Sailors are provided with QoL programs in keeping with the sacrifices they are asked to make and with the alternatives available in the private sector. Due to the keen competition for resources in the base operating support funding arena, this Master Plan is realistic in that it focuses on what Sailors tell us they want the most. These programs also are the ones they identify as having the greatest impact on their personal readiness and retention decisions.

Navy's MWR program and its Master Plan balance the needs of Sailors and their families with the needs of Navy. They encourage delivery of quality, affordable programs through a funding partnership with a fiscally constrained government and our in-house capability of generating modest NAF resources.

MWR PROGRAM HIGHLIGHTS

Let's take a few minutes to review what we are doing and where we are heading programmatically.

Fitness and Sports

Navy's Fitness and Sports program employs the slogan "On Track to Excellence" to describe our ongoing journey for excellence on a consistent basis. Navy's MWR fitness program is continuing to improve as we follow the direction of the Chief of Naval Operations in working to establish a "fitness culture" in Navy. Exercise, fitness, wellness, and nutrition all promote an enriched quality of life and personal well-being. Fitness is the human side of readiness

and it is Navy MWR's responsibility to furnish the means by which Sailors can be fit wherever they may be stationed.

We continue to improve the training of our fitness activity staffs. This past year, Navy MWR delivered Navy Fitness Instructor Course training to 165 personnel who joined the ranks of over 300 previously trained active duty and MWR staff. This training provides the staff the proper knowledge to assist Sailors in developing tailored personal fitness programs in order to achieve fitness safely and to ensure the most up-to-date training methods.

Afloat Recreation

Providing recreation and fitness programs for ships remains one of our highest priority programs. A workday at sea is long and hard. Providing Sailors a brief respite to exercise or relax is a necessity. This past year, we spent \$2.6 million to replace the fitness equipment worn out from heavy use by Sailors and Marines. Our Library Multimedia Resource Centers (LMRCs) continue to be heavily used by our Sailors for leisure activities. Through the LMRCs, our Sailors are able to gain access to E-Mail and thereby maintain contact with their family and friends while at sea or when deployed.

We plan to expand afloat support by placing Fleet recreation specialists on all aircraft carriers. These trained MWR personnel will be responsible for coordinating MWR activities for the crew of the aircraft carrier and the battle group. We feel that this will greatly enhance MWR aboard our ships and battle groups.

We are particularly pleased with the success we had this year in improving support to sea duty Sailors. With your help and funding support for deployed forces, we addressed the needs and desires of deployed forces in several important areas. We provided organized tours in liberty ports and expanded the capability to access the Internet for E-Mail. We assisted Sailors in making phone calls home during deployments. We replaced worn fitness equipment and expanded the wide screen movie program to provide this

service to over 100 ships. We improved access to E-Mail at overseas ports and homeports of deployed ships. To increase NAF available to ships' MWR programs, we eliminated all assessments on ship store profits for ships with crew sizes of 500 Sailors or less. We increased the NAF subsidy to small ships by 100 percent (\$25 per Sailor per year to \$50 per Sailor per year). This increase in unit allocations was also passed on to Sailors ashore, such as recruiters who don't have access to major base MWR programs.

Navy Libraries

Library funding in excess of \$5 million in FY-99 allowed significant improvements to shipboard Library Multimedia Resource Centers (LMRCs) and the shore library program. Emphasis has been placed on technology modernization and material upgrade and refreshment.

Over 500 pieces of equipment including computers, scanners, servers, and printers were distributed to 96 ships. Thousands of CD ROM products, books, videos, and other materials were distributed to all ships and electronic periodical subscriptions were provided to 211 ships. As this program continues, an additional 40 to 50 ships will receive LMRC equipment upgrades and all ships will receive a variety of materials to update and improve their programs.

Adequate funding in FY-99 allowed for a significant increase in shore library equipment and material support and maintenance of the same number of libraries as last year. Over \$1 million in hardware, software and print and non-print materials were provided to shore library programs to assist commands with meeting core library standards. FY-00 funding will provide additional support to shore library programs in support of our plan to expedite meeting upgraded standards and thereby bring the program up to the level of service our customers require.

Single Sailor Program

Since 44 percent of Navy's population consists of first term Sailors, we created the Single Sailor

Program to focus our efforts on that segment of our customer base. We believe that the extra step in taking care of these Sailors during their first term is not only important and contributes to retention, but is also a major reason MWR programs exist. The Single Sailor Program provides healthy quality of life alternatives for our young Sailors. Although many of our core MWR programs serve the Single Sailor, our Single Sailor Centers and "Liberty Program" act as the focal point to tailor these programs for all our young men and women. Our centers provide a "living room" atmosphere where Sailors can gather to play video games, watch TV, sign up for organized outings, view movies, surf the Internet, write letters home, or just read. The majority of these Single Sailor programs are free of charge and all programs deglamorize tobacco and alcohol use.

Navy Motion Pictures

Americans love going to the movies and so do our Sailors. The only difference is we bring the movies to our Sailors. Movies are distributed to Sailors on ships and bases on 8mm videotape and to our larger bases on 35mm format. We continue to bring back the large screen atmosphere or "movie call" to our ships with our Cinema at Sea Initiative (CASI), which is now available on 104 ships. For those smaller ships that cannot accommodate these large screens, we are providing the latest in large flat screen display technology to enhance their movie experience. By the end of this year, about 70 percent of the ships in the Navy will have access to either a CASI or flat screen system.

Our First Run Overseas Theater (FROST) program provides selected new movie releases to our Sailors overseas within two weeks of commercial stateside release. With the cooperation of the movie industry, this has proven to be one of the most successful programs in our effort to bring a "piece of America" to those stationed overseas. We are also including "video theaters" in many of our Single Sailor centers. These video theaters incorporate our large screen Cinema at Sea equipment with surround sound equipment and theater-style seating to create the "movie experience" in a convenient compact space.

Quick Hitter/WOW Projects

This year, we made a concerted effort to undertake a series of low cost, high impact actions to improve MWR services for Sailors Navy-wide and to address specific groups of Sailors and geographic areas where special attention was needed. The following highlights the success we have achieved this year.

Navy MWR has implemented a strategy to dedicate funds to low cost (under \$500,000) "quick hitter" or "WOW" projects that can be completed in 6 to 12 months and will benefit a significant number of Sailors by expanding program support or correcting serious program deficiencies. These projects are implemented in circumstances where we can make major improvements quickly to support Sailors with minor construction or equipment projects. In FY-99, we funded 14 projects to address requirements for improved fitness and Single Sailor equipment and facilities at a cost of \$3.1 million. These projects will benefit 40,000 Sailors. Some of the sites included Jebel Ali in Dubai; Gaeta, Italy; Newport, Rhode Island; Earle, New Jersey; and Gulfport, Mississippi. Other program improvement efforts include an upgrade of the theater at Naval Station (NAVSTA) Bremerton that was accomplished in 45 days; an MWR customer service center at the National Naval Medical Center in Bethesda completed in 60 days; and the replacement of a gym floor at Submarine Base, New London. For FY-00, MWR has identified 22 similar additional small projects at 18 installations at a projected total cost of \$4.3 million, which are expected to benefit 50,000 Sailors.

Outdoor Recreation

Navy's Outdoor Recreation Program is designed to introduce Sailors and their families to outdoor recreation skills that will last a lifetime and provide them opportunities to participate. Interest in these outdoor recreation activities, especially those "human powered" and "high adventure" activities, continues to grow. A recent survey by the Outdoor Recreation Coalition of America (ORCA) found that over 94 percent of Americans over the age of 16 engage in

human-powered outdoor recreation activities (e.g., backpacking, camping, canoeing, hiking, rafting, rock climbing, snowshoeing, etc.). Our recent MWR survey showed that our customers also rate these activities of high importance. Additionally, the teens at a Navy Teen Summit held last July expressed great interest in participating in these outdoor and "extreme" sports. Navy MWR has responded by creating a prototype professionally staffed regional Outdoor Adventure Center in the Norfolk region and has plans to export this new Navy MWR vision for outdoor recreation Navy-wide. While in the early implementation stage, it is already extremely popular.

Information, Tickets, and Tours

The goal of our Navy Information, Tickets, and Tours (ITT) program is to provide military personnel, their families and other eligible patrons with economical, convenient, and demand based travel-related services. These include lodging reservations, tickets to attractions, as well as tickets to concerts, live theatre, and movies. The program also includes group tours for individuals, military units, and affinity groups. In the 1999 Navy MWR Customer Survey, Sailors ranked the ITT program as the number one requested program. We continue to make improvements in this program to deliver to the Sailor what he or she wants. Our highly successful Recreation Ticket Vehicle (RTV) program, which uses brightly decorated step-vans to take tickets and tour reservations right down to the piers, began in Norfolk and has now spread to San Diego. Further expansion is well underway at the other Fleet concentration centers. The high level of participation in this innovative program is testimony to its enthusiastic acceptance by our Sailors. For example, the RTV in Norfolk has doubled the ITT business for MWR and increased usage in many other MWR programs.

Youth

Navy's youth programs are an important part of our effort to create a "military hometown" community. These programs are evolving from providing "just recreation" to offering comprehensive youth

development programs for children 6 to 18 years of age. Navy is working to implement the Department of Defense Strategic Youth Action Plan, which was announced in May of 1999. The focus of Navy's Youth Program is to address the many challenges of being a military youth--the deployments of parents, the many relocations, the stereotype of being a military "brat," the need for safety and security, and other youth concerns.

Several improvements are already underway. Navy MWR invited seven Navy teens and Youth Directors to participate in a Navy Teen Summit at our headquarters in Millington, Tennessee this summer. The purpose of the summit was to identify teen issues, give the teens a voice in the program development, and work toward developing a more comprehensive Navy Teen Program. The teens identified and prioritized their five top issues and positive program ideas and presented them in a brief to Navy leadership. This forum was very productive and we plan on holding a follow-on Navy Teen Summit next July just prior to the DoD biennial Teen Summit.

A big challenge is keeping teens in contact with parents who are deployed; therefore, we are using some of the funds provided for deployment support to replace outdated computers and provide Internet access at all youth centers. We are continuing our partnership with the Boys and Girls Club of America and now have 26 installations, about 33 percent, affiliated. We hope to have 100 percent affiliation by 2002. This partnership gives our youth center staff access to excellent training opportunities, assessment tools and program materials with a focus on teens. We continue to improve our youth facilities. The Fiscal Years 1999 and 2000 NAF construction programs (representing a \$16 million investment) contain six youth center projects that are either under construction or in design.

Child Development Program

As many of our Sailors are married with young children, providing quality, affordable, and convenient child care remains a challenge. We continued our progress in increasing child care capacity to achieve the DoD goal of providing spaces

for 65 percent of the potential need. This year we met 56 percent of the space requirements and are on plan to achieve the scheduled goal of 65 percent by FY-03.

The General Accounting Office (GAO) recently compared the costs of child care between military (Air Force) child care centers and comparable civilian child care centers. The GAO concluded that when adjusted for the age of children (military centers care for younger children, which cost more to care for), the cost to operate military child care centers is about seven percent higher than the cost of civilian centers. The major factor affecting the overall cost was the caregiver compensation rate, which was about a dollar more per hour in military centers.

Navy realizes that caring for younger children in centers is costly. It will be less expensive, however, to increase child care availability by focusing on expanding in-home Family Child Care (FCC). FCC is the most economical way to provide quality care that is affordable to parents and cost effective to Navy. It is particularly effective for infants and pre-toddlers and for Sailors requiring after hours child care.

A critical factor is the willingness of military spouses to be Family Child Care providers. In an effort to make Family Child Care more attractive to parents and providers, Navy is continuing to expand the use of subsidies (direct cash payments to Family Child Care providers). The subsidy is designed to make parent fees for Family Child Care comparable to the fees at on-base child development centers. By making on-base center fees and Family Child Care fees comparable, parents may choose Family Child Care because cost is not a factor.

We also contracted with a professional marketing firm to address the parent's preference for center-based care and for recommendations for marketing Family Child Care. A key finding in this quantitative and qualitative research was that once parents use Family Child Care, they are equally satisfied with the care as that provided in centers. The research also addressed actions required to improve both perception

and reality in several areas of customer satisfaction including Family Child Care reliability, safety, developmental programs, and overall professional image. A Program Enhancement Team comprised of Child Development Program Administrators, Family Child Care Directors, and Headquarters personnel is working to find solutions to these challenges. In addition, the Military Home Accreditation (MHA) Program was implemented in FY-99 in cooperation with the U.S. Army. This program will increase the professionalism of Navy's Family Child Care.

Navy continues to focus on efficient child care operations without compromising quality. On 28 December 1999, the Deputy Under Secretary of the Navy notified OSD that the Department of the Navy intends to use strategic sourcing, or functionality assessments, to streamline child development programs and has exempted child care from further A-76 studies. Most Efficient Organizations (MEO) will still be required using best practices identified within Navy, other Services, and industry to achieve efficiencies. This process also recognizes that over 50 percent of child development employees are military spouses who form the backbone of our quality services.

Business Activities

Navy MWR business activities (Category C) are intended to satisfy customers' needs and at the same time maintain sound financial operations. We are accomplishing these aims by providing quality products and services at reasonable prices. MWR business activities remain an important component of our overall MWR effort to provide a wide range of services that support the unique culture of the Navy. MWR programs and services offer Sailors and family members opportunities for relaxation, rest, and revitalization essential to stress management in today's busy and demanding Navy. MWR business operations such as bowling centers; marinas; campgrounds; food, beverage, and entertainment activities; and golf courses contribute to Navy's readiness mission. We help to enhance readiness by helping Sailors unwind, socialize, and form friendships, acquire or improve

lifetime leisure skills, and improve self-esteem, all in an environment conducive to a healthy lifestyle.

MWR Category C programs must, wherever possible, operate on a better than self-sufficient basis. Not only do these programs provide very important quality of life service, but they must also provide a means to generate NAF. These funds then supplement appropriated funds (APF) for our Single Sailor and Community Support programs which have minimal revenue generating potential. Although not always possible, our goal is to operate our business activities so they achieve at least an overall five percent profit. MWR Category C activities produced about \$251.6 million in revenue in 1999 and had a before depreciation profit of over \$39.6 million. Revenues are stable and in fact, we are beginning to see revenues climb again now that downsizing of the force has been achieved. In summary, Category C programs are doing well even though our customer base reflects the gradual downsizing of the Navy from over 380,000 active duty personnel in 1998 to about 372,000 in 1999.

Our solid financial results attest to the high level of participation and to the value these MWR programs represent to Sailors and their families. For example, this year we served over 19 million meals at our MWR food and beverage facilities. There were almost 5 million lines of bowling at our 78 Navy bowling centers. Additionally, 1.7 million rounds of golf were played (mostly by active-duty and retired enlisted personnel) at 39 Navy golf courses. Finally, our 615 cabins, cottages and hotel rooms together provided over 179,500 occupied nights or almost an 80 percent occupancy rate.

Our focus this year continues to be on improving our solid financial performance and reinvesting in our facility base. Notable achievements in upgrading our Category C program facility infrastructure were realized in FY-99 as a number of significant projects in our major construction plan were completed. These include recreation vehicle parks at Gulfport, Mississippi and Jacksonville, Florida. Golf course improvements were made at Naval Air Station (NAS), Patuxent River, Maryland; Naval Support Activity (NSA), Mid-South, Millington, Tennessee; and Naval Air

Warfare Center Weapons Division, China Lake, California. These construction projects include car washes at Naval Shipyard, Norfolk; NAVSTA Pearl Harbor; and NAS Point Mugu, California; and cabins at Sugar Grove, West Virginia. Your support of our FY-00 and FY-01 NAF construction programs will permit us to continue this progress in making our physical plant and the services provided more attractive to the military community.

We view FY-00 optimistically. We continue to refine our program standards and improve customer service and program quality in our business operations. In the past few years, we have established financial standards and operating benchmarks for golf, bowling, and marina programs. Now, as a part of our customer service initiative, we are developing operational and customer service standards for our "quick service" food operations and for golf and bowling programs. We are also developing a certification process for clubs, golf, bowling, and marina activities. This certification will ensure MWR Category C programs are comparable in quality to a private sector competitor. Our aim is to earn the Sailor's trust and be his or her first choice when deciding on their leisure time pursuits.

MWR food and beverage operations continue to be upgraded and modified to respond to our customer's desire for access to brand name food and beverage operations. So far, Navy has opened 40 brand name operations inside MWR facilities including bowling centers, golf courses, and club facilities. From a business perspective, this approach improves sales, profitability, and product consistency and quality. All of this equates to greater customer satisfaction. Where it makes good business sense, we continue to share space with the Navy Exchange to improve our food service to our customers. For instance, we've signed a memorandum of understanding with the Navy Exchange to place contracted national name brand fast food operations like McDonald's, Subway, and Burger King inside club operations at NAVSTA Pearl Harbor; NAS Pensacola; and Naval Submarine Base (SUBASE), Bangor. Additionally, we are working with the Exchange to introduce national brand restaurants into MWR activities using licensing agreements where the

staff are Navy MWR employees. We hope to have Pizza Hut open as a license operation at the new recreation center at Naval Weapons Station Charleston this spring.

MWR activities are in a unique position to help ease the burden of serving in today's Navy. One way we can demonstrate to first-term Sailors that someone cares about their well-being is by providing recreation opportunities that they may otherwise miss while serving in the Navy. An example is bringing live entertainment and concerts featuring today's top performers to wherever Sailors are located. In annual MWR surveys of Navy personnel, "attending concerts" ranked as one of the top preferred leisure activities of Sailors. In response, we created Navy Concert Series. The series, called "Rock the Boat," runs from May through September and is held at Fleet concentration areas. In 1999, concerts were conducted at NAVSTA San Diego; Navy Amphibious Base, Little Creek; NAS Jacksonville; NAS Pensacola; and Naval Training Center, Great Lakes. Eight are scheduled for this year. As an outgrowth of the "Rock the Boat" series, we sponsored a 1999 Goo Goo Dolls Navy Europe Holiday Tour. The tour made stops at NAVSTA Rota, NAS Sigonella, NSA Naples, Bosnia theatre of operations, and USS JOHN F KENNEDY (CV 67). The shows were well received and attended by thousands of Sailors. Commanders noted the improvement in morale as a result of these shows, particularly in USS JOHN F KENNEDY (CV 67). These concerts have the added benefit of demonstrating to Sailors that Navy cares about their interests.

The Navy culture demands that we take care of fellow Sailors. One way is our Designated Driver Program. We continue to benefit from our contract with the American Hotel & Motel Association's Educational Institute to develop an alcohol server intervention program. The training program, which is an annual requirement for all MWR employees who serve alcoholic beverages, educates employees about the laws governing alcohol service, procedures for checking identification, the effects of alcohol in the body, how to discourage overconsumption, and finally how to intervene if overconsumption occurs. Additionally, each holiday season, we reenergize our Designated

Driver Program by providing a designated driver poster that discourages driving and drinking and encourages the use of a designated driver.

Our Category C operations are financially strong, and working to improve quality and customer service. They are highly patronized by Sailors and their families and are being recapitalized on a programmed basis. We believe these programs are important to Sailors and their families and to Navy. Business activities are essential to our efforts to provide our Sailors with the same quality of life they are pledged to defend.

FINANCIAL STATUS

With the support of this panel, Navy has accomplished much in the last several years to achieve a better balance between APF and NAF support for MWR programs. Sufficient funds are now programmed to cover authorized expenses for current program levels for our Mission Essential (Category A) and Community Support (Category B) programs.

Total MWR program scope in FY-99 was \$794.2 million consisting of \$361.2 million in APF (45.5 percent), \$392.5 million in self-generated NAF revenues (49.4 percent), and \$40.5 million in exchange dividends.

Navy supported MWR with \$969 per Sailor in total APF support in FY-99, and is budgeting \$1,061 in FY-00 (including child care). By comparison, NAF revenue per Sailor was \$1,175 per year. NAF revenue represents the fees and charges our patrons pay to use community support and business activity services.

As it is for the Navy in general, the shortage of APF to cover maintenance and repair of mission essential (Category A) and community support (Category B) programs at our bases continues to be a concern. We don't believe Sailor NAF should ever be used to cover APF deficiencies for maintenance of real property (MRP) or other base operating costs. This has become a growing dilemma for base commanding officers as they struggle to meet growing operational commitments with fewer resources. In FY-99, we were successful in executing 94 percent of the funds appropriated for MWR, which

amounted to \$361.2 million. In FY-00, we are programmed to receive \$394 million for direct and indirect support of MWR and Child Care programs. Looking ahead, if we execute what is programmed, we will attain the minimum OSD APF support metrics throughout the Five Years Defense Plan. APF support, as now programmed, is essentially level with increases for inflation.

We anticipate additional funds will be required in future years to fund increases in Fitness and Youth programs to support an enhanced "fitness culture" in the Navy and to achieve compliance with Department of Defense goals aimed at upgrading these vital programs to achieve higher standards and broadened program offerings.

NAF operations continue to be strong. Our system-wide NAF financial results included revenue of \$392.5 million and a net profit (funds for local capitalization) of about \$2 million as reported in our DoD Instruction 7000.12 report format. Our major objective is not to maximize profits, but rather to earn sufficient funds, which, when coupled with depreciation cash flow and Exchange dividends, will provide for periodic replacement and renovation of facilities. Offering our programs and services to Sailors and their families at the least cost is paramount. Conceptually, Sailors are the stockholders in the Navy MWR NAF program. Their dividend is not a monetary payment, as might be expected in the private sector. Their dividend is provided in the form of prices, which are lower than equivalent commercial services, and the use of facilities that are attractive and clean.

Navy MWR NAF cash position is managed to meet financial standards and to avoid building up excessive cash. Cash balances are declining consistent with our financial strategy to put available cash to work to recapitalize the MWR NAF facility base.

On a related note, the financial efficiency of our NAF system is benefiting from Navy's decision to regionalize support services, including MWR, in our Fleet concentration areas. In the past, a region such as Norfolk would have a number of separate bases, each with a separate MWR program and corresponding NAF financial operation. This resulted in some bases

having more robust MWR operations or a greater amount of Exchange profits, thereby offering a broader range of MWR programs and services. Conversely, other bases with less NAF income could only offer bare bones programs for Sailors and their families. Under regionalization, the funds are being consolidated and the needs of all Sailors in a region are being addressed on a more uniform basis. This not only helps support our goal of providing equity of access to programs but also gives regional commanders the ability to apply funds available for capital spending to address the most urgent requirements viewed from a region-wide perspective.

CAPITALIZATION

The Navy MWR NAF capitalization program is driven by four primary objectives. First, we are committed to recapitalize our MWR program infrastructure to improve the quality of our aged facility base through renovation or replacement. The support of Congress in increasing APF to cover the costs of operations in our Category A and B programs has reduced our dependence on NAF. This has made possible a major construction program of over \$20 million a year and permitted us to dedicate over \$35 million for locally executed equipment replacement and facility renovations per year.

Second, capital investment choices reflect our commitment to the objective of providing equity of availability worldwide to those "spotlight" programs and business activities which are most popular for Sailors and their families.

Third, we have enjoyed success in pursuing new approaches to construction, which reduced the average time from project approval to beneficial occupancy to two years or less.

Fourth, we look for business opportunities that will provide new facilities to broaden program scope and increase NAF revenue. This especially helps bases whose current MWR programs are insufficient in scope, in part due to an inadequate capability to generate NAF. A profitable business opportunity also is essential to provide subsidized non-business services

such as Single Sailor programs and community events in our "Military Hometowns."

This year we expect to again present to your panel a NAF major construction program of approximately \$20 million. We anticipate this construction program will consist of projects of the following types--recreational vehicle parks and campgrounds, golf facilities, youth centers, marinas and auto hobby shops. All projects are endorsed by the Fleet commanders and supported by third-party commercial validation of customer demand, design size, efficiency, and economic viability.

In response to inquiries from MWR Panel members, I want to update you on the status of our Public Private Venture program. Navy has recently issued guidance for MWR Public Private Ventures that could offer an additional tool to help our capitalization efforts. We have developed a list of potential projects and are exploring ways to pursue this approach most effectively. Hopefully, by the time we meet again next year, we will be able to report to you on even more success stories.

NAVY MWR EMPLOYEES

MWR program delivery is a service function that is most effective in delivering quality support to Sailors when it is done by employees who are energetic, well-trained, and imbued with a strong customer commitment and people skills.

Through our customer service training program we hope to bring their skills and commitment to a higher level of customer service and program quality standards. Genuine progress in making this culture change permanent means we must recognize that with the added responsibility they should expect to realize greater personal reward and recognition.

The new DoD Health Plan is more costly to MWR and to our employees and we are still working out the kinks in executing such a large program. Our biggest concern remains the long term cost impact on us and the Navy Exchange for the addition of the post-65 retirement health benefit. We will keep the panel

informed as we gain additional experience under this new plan.

This year we improved our employee NAF 401K plan by increasing the maximum employer match of contributions from two percent of salary to three percent in preparation for restructuring of the defined benefit pension plan.

As reported last year, we are looking to restructure the MWR NAF defined benefit pension plan to enhance employee retirement benefits, simplify the plan, and provide employees and retirees additional benefits from a large excess of funds that have accumulated over time. This initiative will guarantee their annuity and also return to plan participants a refund equal to their contributions. Likewise, we hope to give back to Sailors, who have basically provided matching funds to this plan, a portion of their contributions in the form of an accelerated facilities program and resystemized MWR management information and accounting system to reduce operating expenses and increase funds for program delivery over the years. Consistent with MWR Panel direction in the House Armed Services report on the Fiscal Year Defense Authorization Bill, we will certainly brief both House and Senate Committees on the proposal before any action is taken.

NAF employment is a retention contributor and also a significant benefit to many of our active-duty spouses and family members. Approximately 30 percent of the 13,000 Navy MWR NAF employees are military family members. They are our customers, as well as our employees, and have an intrinsic understanding of our customers' needs. Family members provide us with an experienced workforce as they move from base to base with their active-duty member. We can be an attractive employment option, if only part-time, by offering employment close to home. Also, there is a multiplier effect when a NAF paycheck supplements the family income, thereby improving family quality of life opportunities.

CONCLUSION

I am pleased to report that we are making great progress in implementing innovative MWR programs in

response to what our Sailors tell us they want. We have improved support for afloat Sailors and concentrated our focus on those programs which we call "spotlight programs" that are in greatest demand and enhance Sailors' readiness and retention. Our customer service program, revised Master Plan supported with improved metrics and standards, and our emphasis on high impact, low cost projects to improve program support to Sailors are supporting our goal of focusing program emphasis on Sailor driven programs and services.

Navy has programmed sufficient funds for steady state MWR operations. The MWR NAF financial condition is healthy. Likewise, the NAF construction program is being executed at our targeted reinvestment level. Child care programs are resourced to achieve the DoD goal of meeting 65 percent of potential need by FY-03.

We have adapted to the change associated with a DoD NAF uniform health program and look to improve the NAF retirement package for our employees. These are exciting times in MWR because we are steadily improving our programs. Our Sailors tell us MWR is making a positive difference in their lives and those of their families. Most importantly, our Sailors tell us that MWR programs directly affect their decision to remain on active duty.

In addition to Chairman McHugh, we would especially like to thank Congressmen Bateman and Pickett for their strong support of MWR programs during their many years on this Panel. We would not be where we are today in providing MWR support to our Sailors without their longstanding commitment to military members and their families.

Indeed, for all who serve as members of this panel, I would like to thank you for your ongoing support and leadership. You have provided the impetus and direction we need to resource our programs properly and sustain a strong MWR and child care program base. MWR programs enhance quality of life, retention, and readiness for those wonderful Sailors who serve our country with consistent excellence, and who willingly accept the sacrifices demanded of them. I look forward to our continued cooperative partnership as we work to sustain and improve the

quality of life of Sailors, their families, and our
MWR employees.