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Honorable Joe Wilson
U. S. House of Representatives
Chairman, Subcommittee on Military Personnel
House Armed Services Committee
212 Cannon House Office Building
Washington, DC 20515
Attention: Jim Weiss

3 February 2011

Dear Chairman Wilson and Distinguished Members of the Subcommittee,

Thank you for your invitation of 27 January (attached) to appear before the Military Personnel Subcommittee of the House Armed Services Committee. In accordance with your request, I am forwarding a copy of our written testimony which we request be submitted for the official record of the proceedings at the appropriate time. It is our desire to fully comply with the rules of the House of Representatives, in particular those that apply to all non-governmental witnesses. I have included a curriculum vitae and a copy of the Disclosure Form for Witnesses Concerning Federal Contract and Grant Information as required by Rule 11, clause 2(g)(5) of the Rules of the U.S. House of Representatives for the 112th Congress.

It is an honor for me to once again appear before your committee and I look forward to our discussions.

Very Respectfully,

Patrick B. Nixon
President, ALA

Attachments: As Stated

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U.S. House of Representatives

Washington, DC 20515-6035

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January 27, 2011

Mr. Patrick B. Nixon
President
American Logistics Association
1133 15th Street, N.W., Suite 640
Washington, D.C. 20005

Dear Mr. Nixon:

You are invited to testify before the House Armed Service Subcommittee on Military Personnel on military resale on Thursday, February 10, 2011, at 2:00 PM in room ____ Rayburn House Office Building. During the hearing, you may be provided an opportunity to offer a short opening statement that summarizes your written testimony.

Committee Rule 13 provides that witness statements must be delivered to the committee at least 48 hours in advance of the hearing to facilitate distribution to the members. It is requested that 30 copies of your prepared statement be delivered to room 2340 Rayburn House Office Building by Tuesday afternoon, February 8, 2011. In addition, consistent with the House rules requirement to make materials from hearings electronically available to the general public, Committee Rule 13 requires that witness statements be provided to the committee in electronic form. This request may be satisfied by a transmittal via e-mail to Jim Weiss at jimweiss@mail.house.gov.

Finally, Rule XI, Clause 2(g)(4) of the Rules of the House of Representatives requires that all non-governmental witnesses testifying before the House include in their written testimony a curriculum vitae and a disclosure of the amount and source (by agency and program) of each federal grant (including subgrants) and contracts (including subcontracts) that the witness and/or the organization that the witness represents, has had with the federal government for the past three fiscal years. Therefore, your prepared statement must include this information.

Mr. Patrick B. Nixon
January 27, 2011
Page 2

I appreciate your willingness to appear before the subcommittee and look forward to your testimony. Should you have any questions, please contact Michael Higgins on the committee staff at (202) 225-7560.

Sincerely,

A handwritten signature in black ink that reads "Joe Wilson". The signature is written in a cursive, slightly slanted style.

Joe Wilson
Chairman
Military Personnel Subcommittee

AGW:jbw
Enclosure



Patrick B. Nixon
President, American Logistics Association

Patrick B. Nixon is President of the **American Logistics Association (ALA)**, headquartered in Washington DC. The ALA is a voluntary, nonprofit organization of manufacturers, manufacturer's representatives, brokers, distributors, publishers, and other companies that sell or provide products and services to the military resale systems and MWR/Services. At ALA, we use the term "military resale systems" as a broad term that includes all military exchanges and commissaries, Department of State stores, Veterans Canteen Services, as well as all of the armed forces' Morale, Welfare, and Recreation (MWR) activities that involve a product or service. The ALA membership includes over 250 of America's leading manufacturers, nearly 60 brokers and distributors, service companies, media outlets and more than 1400 individual members. Mr. Nixon is responsible for articulating the association's positions on issues and programs to the membership, the Congress, DoD and military resale partners. He develops the legislative focus for the association and serves as the principal spokesperson for the ALA. Prior to assuming this position, Mr. Nixon completed a successful career with the federal government rising through the ranks of civil service to the Senior Executive Service and the Head of a Defense Agency.

Mr. Nixon served as the Chief Executive Officer (CEO) of the Defense Commissary Agency from 2001 until his retirement in 2007 and served in the joint role as the Director and CEO from August 2004 until he departed in November 2007.

EDUCATION

1972, Bachelor of Arts degree in philosophy and political theory (cum laude), University of Maryland, College Park, Md.

1978, juris doctor degree, University of Baltimore School of Law, Md.

Graduate studies, European Institute of Public Administration, Brussels, Belgium, and Harvard's John F. Kennedy School of Government, Cambridge, Mass.

Advanced studies certificates in corporate governance, Tulane University School of Law and Freeman School of Business, New Orleans, La.

Executive study sessions, Brookings Institute, Washington, D.C.

CAREER CHRONOLOGY

1962-1982 Progressive Management positions with A&P Food Stores

1966-1969 Enlisted Marine, 1st MARDIV RVN

1982-1988 U.S. Army Troop Support Agency

1988-1991 Program Manager, HQ USMC

1991-2001 Leadership positions with DeCA

2001-2007 CEO, DeCA

2004-2007 Director and CEO, DeCA

AWARDS AND HONORS:

Presidential Rank Award for Meritorious Senior Executives and Professionals
Secretary of Defense Medal for Meritorious Civilian Service
Senior Executive Service Exceptional Performance Award

National Industries for the Blind "Visionary Award" 2006/2007

National Military Families Association's Anna Chenault Award for Exceptional Support to the
Military Family
Defense Commissary Agency's Distinguished Civilian Service Award
DeCA Meritorious Civilian Service Award (4 Awards)
U.S. Navy Meritorious Civilian Service Award
U.S. Army Commanders Award for Civilian Service
Navy Achievement Medal with "V" device for valor
Vietnamese Cross of Gallantry

FISCAL YEAR 2009

Federal grant(s) / contracts	federal agency	dollar value	subject(s) of contract or grant
none			

Federal Contract Information: If you or the entity you represent before the Committee on Armed Services has contracts (including subcontracts) with the federal government, please provide the following information:

Number of contracts (including subcontracts) with the federal government:

Current fiscal year (2011): none _____ ;
 Fiscal year 2010: none _____ ;
 Fiscal year 2009: none _____ .

Federal agencies with which federal contracts are held:

Current fiscal year (2011): _____ ;
 Fiscal year 2010: _____ ;
 Fiscal year 2009: _____ .

List of subjects of federal contract(s) (for example, ship construction, aircraft parts manufacturing, software design, force structure consultant, architecture & engineering services, etc.):

Current fiscal year (2011): _____ ;
 Fiscal year 2010: _____ ;
 Fiscal year 2009: _____ .

Aggregate dollar value of federal contracts held:

Current fiscal year (2011): _____ ;
 Fiscal year 2010: _____ ;
 Fiscal year 2009: _____ .

Federal Grant Information: If you or the entity you represent before the Committee on Armed Services has grants (including subgrants) with the federal government, please provide the following information:

Number of grants (including subgrants) with the federal government:

Current fiscal year (2011): none _____ ;
Fiscal year 2010: none _____ ;
Fiscal year 2009: none _____ .

Federal agencies with which federal grants are held:

Current fiscal year (2011): _____ ;
Fiscal year 2010: _____ ;
Fiscal year 2009: _____ .

List of subjects of federal grants(s) (for example, materials research, sociological study, software design, etc.):

Current fiscal year (2011): _____ ;
Fiscal year 2010: _____ ;
Fiscal year 2009: _____ .

Aggregate dollar value of federal grants held:

Current fiscal year (2011): _____ ;
Fiscal year 2010: _____ ;
Fiscal year 2009: _____ .

STATEMENT BY:
MR. PATRICK NIXON
PRESIDENT – AMERICAN LOGISTICS ASSOCIATION
BEFORE THE SUBCOMMITTEE ON PERSONNEL
COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES
1st SESSION 112TH CONGRESS

February 10, 2011

**NOT FOR PUBLICATION
UNTIL RELEASED BY
HOUSE ARMED SERVICES COMMITTEE**

To the Honorable Chairman and Distinguished Members of the Subcommittee:

It is an honor to be here today as President of the American Logistics Association (ALA), an association that for 90 years has sought to promote, protect and enhance the military resale and quality of life benefits on behalf of our members and the military community. The ALA is proud to represent 250 of America's leading manufacturers, numerous brokers and distributors, service companies, media outlets and more than 1400 individual members who are actively engaged in providing goods and services to our resale customers, MWR activities for our military, Coast Guard, and Veterans.

We especially appreciate the opportunity to appear before you along with distinguished DoD leaders like Secretary Gordon, our business partners—the leaders of the commissary, exchange, and morale, welfare and recreation programs of the Department of Defense and our colleagues from the Armed Forces Marketing Council.

The House Armed Services Committee's continued strong support has laid the groundwork for the military resale system to continually improve and consistently rise to meet the challenges facing our military and our economy. The Nation and all of the people who rely on this system owe a great debt of gratitude to this committee for your vision and strong support over the years. In particular I want to recognize the dedication and leadership shown by the Chairman and the distinguished ranking member over the course of the last several years that has demonstrated the importance of this body in its oversight role.

The partnership between industry and the resale commands that deliver these important benefits is unique in American business. Because we value this partnership so greatly, we want to stress to you the value of these benefits to military families, the Department of Defense, the branches of the armed services, and the Nation.

In this time of mounting concern about deficits and increased scrutiny of Government spending, it is important to state the value of this system—a system that serves the taxpayer and the Department of Defense well. We know that the Department of Defense is under great pressure to realize savings in its operations. That's why our Association is committed to working with the MWR and resale commanders to find overhead and operating efficiencies that can drive out costs, keep prices low, and reduce the burden on the Department and the taxpayer. It is important to keep in mind that efficiency is built into the DNA of on-base military businesses. It is nothing new to these program managers. Each and every day and at each and every management level, decisions are made with value and economy in mind. Managers and their industry partners know that each dollar saved is a dollar that can be used to modernize the physical plant or provide increased value for the patrons.

Collectively, commissary and exchange programs generate over \$11 billion in benefits. We estimate that the American taxpayer receives a 9 to 1 return on investment (ROI) through the efficient delivery of these valued programs.

The ROI includes:

- Savings of nearly \$8 billion at the cash register for patrons
- Hundreds of millions of dollars in cost avoidance to the DoD in cost of living allowances in high cost and overseas areas.
- Nearly \$6 billion in infrastructure improvements given to the Government's inventory over the past ten years.
- Employment for 30,000 military family members adding \$900 million to their pocketbooks.
- Industry partners employing nearly 20,000 family members adding another \$600 million to military household incomes.
- \$500 million in contributions from earnings provided to community morale, welfare and recreation programs with further employment of family members in MWR programs that are paid by these dividends.
- Underpinning the military's transportation system by contributing volume that reduces overall rates for all Defense commodities shipped overseas.

Furthermore, there is tremendous value in retention and the savings are virtually incalculable. What we do know is that it costs approximately \$150,000 to \$250,000 to train each military member with a figure approaching \$1 million to train some specialties such as doctors and pilots. Resale programs are the fiber of military communities, providing everything from toothpaste to cell phones, to furniture to

groceries. These on-base services are cited in numerous surveys as the reasons that military personnel elect to remain in the service.

The resources provided for these important programs demonstrate a significant return on investment when you calculate the benefits that these programs provide with a relatively small investment compared to other costs in the military compensation package.

Moreover, the cost of these programs has remained constant while the cost of other quality of life programs such as medical care, housing, and family support services has increased 50 percent and in some cases doubled and tripled over the past five years. Surveys consistently show that resale benefits rank high on reasons cited as staying in the military, outpacing—in retention value—programs that spend exponentially more.

But, as you well know, these benefits are more than numbers and math. They are core to the high standards of military life quality. Along with providing great discounts on products and services, these programs provide familiar brand name products at the same price whether shopping in Osan, Korea or at Fort Bragg, NC.

Also, it should be noted that these programs support several key national priorities including job creation, taking care of our military people, and the First Lady's "Let's Move" campaign, such as programs that support nutrition literacy in DoD schools, military financial fitness, the promotion of psychological care for veterans and families,

fiscal accountability and transparency, environmental responsibility, and the promotion of American products overseas.

This is testament to the leadership and management of these programs. It is a demonstration of the best that Government and Industry can offer and is a prime example of how industry and Government can work together for the common good.

Simply put—these programs are well run—consistently scoring high on all performance measurements and audits. In fact, they are among the few Defense entities that consistently receive a clean bill of health from auditors and achieve the highest rankings measured by government performance metrics. Commissaries and Exchanges consistently score high marks on all accountability reviews.

In every case, these programs have demonstrated sound stewardship, exemplary leadership and a desire to transform to meet the needs of a modern force and a modern military family. The Military Resale and MWR programs have adopted the best aspects of the public and private sector and have developed deliverables that are keys to the needs of their constituency. The practice of leveraging the best aspects of the private sector with solid government performance has established these programs as benchmarks for others to emulate. A prime example are the supply chain efficiencies introduced to the military commissary system by the Coalition of Military Distributors. The elimination of backroom inventories and the introduction of frequent delivery and electronic data interchange billing information have eliminated significant inventory carrying costs along with construction requirements.

DeCA already has greatly reduced its operating budget through many initiatives including nearly \$1 billion in annual cost reductions associated with:

- Consolidation of the commissaries from separate service systems.
- Reduced inventory and warehousing costs from supply chain improvements.
- Closing of nearly 100 stores associated with base closures and realignments stateside and abroad.

Through these major structural changes and myriad on-going efficiency initiatives, DeCA's budget has been contained while costs of other DoD family support programs have doubled or even tripled.

These are extraordinary times. Our Nation is at war and has been so for nearly ten years. The nature of this conflict with extended deployments, multiple family separations, and expanded roles for the Guard and Reserves has created a level of stress never before experienced. Our retirees and veterans, our guardsmen and reservists, along with our military are facing reductions in their home values, retirement accounts and reduced employment opportunities.

. Mr. Chairman—at no time in our history have these benefits been so critical. This criticality is underscored by the fact that in recent years there has been a 70 percent

increase in the number of food stamps being redeemed at commissaries. Commissary patrons also redeemed 12 percent more coupons.

The exchange and commissary commanders will tell you of their efforts to accommodate the needs of the Guard and Reserves—groups that the Nation has come to rely upon for more and more in today's high operating tempo environment. Every deployed Guardsman or Reservist is one less paycheck for that military household. Exchange and commissary benefits help stretch these decreasing household dollars. As equal partners in the total force, we should examine ways to provide a permanent presence at guard and reserve centers to provide them with the benefits that they want and deserve.

And let's not forget the benefits that the industry partners provide to the DoD and the Nation. Collectively, our member companies contribute nearly \$1.2 trillion to the economy and generate millions of jobs. This includes support for large manufacturing jobs and a large number of small businesses that are vital to the future growth of our economy. Our member companies provide products through the resale system that generate \$16 billion and produce 30,000 jobs for American industry. This contribution is larger overseas where \$4 billion in US products are sold to our patrons—funds that would otherwise flow to foreign economies. Industry contributes nearly \$500 million in support services for these operations in the form of in-store labor support, product delivery, and in-kind services. And, goods and services purchased by the resale

system generate thousands of jobs in communities adjacent to military bases with a large percentage of these businesses being smaller and independently owned.

And, we are committed to using all of our resources to protect these benefits. This year, we plan to embark on an aggressive program to reach out to patrons—using the power of the internet—to increase awareness of the value of their benefits and encourage increased usage of these programs. We will work with our member companies to ensure that each patron knows about the savings and quality available and makes full use of all available discounts. Often, those people who need the benefit most—National Guardsmen and Reservists—do not live near military bases. We intend to ensure that they are fully aware of their privileges to shop on line. A benefit is a benefit only if it is used....and we intend to ensure that this benefit is well used.

This year we also intend to pursue initiatives to ensure that companies selling to the military resale system are not burdened with high interest rates to finance their operations. The cost of borrowing is especially burdensome on small businesses. We intend to work with the MWR and resale commanders to institute a program to ensure that companies can use the full-faith and credit of the U.S. Government to gain favorable rates on financing the cost of carrying inventory. We estimate that this initiative could save the resale agencies and suppliers more than \$50 million each year. We will keep you informed on the progress of this initiative and seek your assistance when needed.

ALA is committed to ensuring that these successful programs remain intact and are reinforced, at the same time it is a system that requires diligence to ensure that it remains strong and viable.

We believe that the following legislative initiatives will ensure it remains viable.

We urge you to:

- Continue your support for funding of commissaries, shipment of American products to our overseas bases, and full support for all authorized categories of morale, welfare and recreation programs.
- Continue your support for authorization for appropriations for commissary, exchange and other nonappropriated fund construction at bases that are expanding as a result of global re-stationing and BRAC.
- Ensure that industry representatives and authorized patrons have unimpeded and secure access to military installations.¹
- Support efforts by the exchanges and commissaries to reach out to National Guard and reservists who live in communities where they cannot readily access on-base services.
- Urge the Department of Defense to ensure that military people deployed into war zones are provided as much as is practicable with familiar products and offerings.

¹ It makes no sense to spend billions of dollars on an annual basis to issue common access cards (CAC) and other forms of identification to military personnel and yet not require a mechanism to read and validate these credentials at the point of access. Right now, there is a hodge-podge of credentialing programs with a varying degree of security being required at various activities. While we understand the prerogatives of base commanders need to be protected, there is a pressing need for a consistent and uniform policy with regard to which identity credentials are authorized and a program to make all (government and industry issues) certified secure cards interoperable and recognized at all military bases.

- Support expanding the eligibility to use these stores to more Veterans. We need to capitalize on the billions of dollars in investment that taxpayers and military people have made over the years to provide a helping hand to those who now need it most. We urge you to move to provide benefits to a larger group of Veterans and military people returning from multiple overseas deployments and suggest that this benefit be provided to all former military and their families for at least three years. We urge you to give these benefits to 30 percent disabled veterans. The Congress has directed a study of expanding this population shopping privileges in exchanges and commissaries. ALA supports this expansion.
- We urge you to either repeal Section 511 Tax Increase Prevention and Reconciliation Act of 2005 or exempt military MWR and resale entities from this requirement.² Implementation of this requirement to withhold 3 percent of all payments would, in effect, result in an increase of three or more percent to the price of goods on the shelves for military patrons. Should Congress choose to exempt companies supporting military resale and MWR programs, ALA would support a program to bar any companies who were delinquent in their taxes.

² This law mandates that federal, state, and local governments withhold 3% of nearly all their contract payments, Medicare payments, farm payments and certain grants. Compliance with this law will impose significant, unnecessary financial burdens on both the public and private sectors.

- Remove any restrictions on products and services that may be offered to authorized patrons.
- Ensure that any legislation that is passed to benefit military MWR and resale programs extend to the Coast Guard and the Department of Veterans Affairs where appropriate. Support supply chain initiatives that drive the lowest cost of goods for the military resale system while recognizing the importance of the vendor/broker/distributor support network that is unique to the military resale system.
- Be vigilant to extend and positive policy enhancements to cover Veterans Canteens and Coast Guard facilities and not allow these programs to fall through the cracks. These programs are integral parts of the military resale benefit, offering vital programs to millions of veterans and Coastguard men and women and their families. Jurisdictional boundaries need to be transcended to ensure that positive policy and legislative changes are extended to these programs.
- Be vigilant to monitor efforts on the part of DoD to consolidate exchange or exchange and commissary operations. These initiatives have been intensely examined over an extended period with two major reviews. It was determined that there was more risk than reward in any such initiatives and other alternatives provided a better opportunity for success.

The critical pillar for these programs is the support for funding stability. ALA urges Congress to oppose any initiative that would reduce benefits or savings for members, and strongly supports full funding of the benefit in FY 2011 and beyond to sustain the current level of service for all beneficiaries. ALA requests this subcommittee's support in closely monitoring commissary funding and policies and scrutinizing store closures, privatization, staff reductions, or other initiatives that may diminish the scope and quality of the benefit for all beneficiaries.

Overseas rebasing and Base Realignment and Closure (BRAC) issues also are of significant concern to our members. ALA continues to be concerned about the potential impact on every quality of life program during the Defense Department's transformation, global repositioning, Army modularity, and BRAC initiatives. ALA wants to ensure that necessary family support/quality of life program dollars and services are in line with DOD/Military Services rebasing plans, including critical family support/quality of life programs, such as MWR, child care, exchanges and commissaries, housing, TRICARE programs, health care, education, family centers, and other traditional support services.

Given the current fiscal environment and long-term financial challenges of war, ALA continues to express strong concerns about the importance of sustaining vital support services and quality of life programs. Mr. Chairman, no longer do we have to anticipate that these programs may be at risk, we know from military officials and

current news reports that cutbacks in base operation accounts and reduction in base services because of funding shortfalls are real and are expected to get worse.

Either DOD will need to continue to ask for supplemental funding, or the military services will have to fund transformation out-of-hide through program cuts that likely would hurt readiness. The most troublesome alternative is to fund changes by shifting the burden to service members and their families. That is, allowing them to come home to the United States or relocate to military and civilian communities that are unprepared, therefore threatening to degrade the quality of life for troops and families at a time of unprecedented stress on the all-volunteer force.

The resale programs are to be commended for their partnership efforts and outreach initiatives. These undertakings come with a cost and need to be funded to be sustainable and successful. We support the proposition that stores are operated in all locations where there is sufficient authorized patrons to support these operations.

There are two issues we would like to elaborate on, base access and the proposed 3% tax withholding:

Base access is an area that continues to challenge the entire military resale system. As I mentioned earlier in this testimony, industry provides a significant level of support unique to this business channel. We need to ensure expedited and secure access to military installations for industry people as well as patrons of these stores.

ALA has been engaged on the base access issue for the last six years and we appear no closer to a single solution than when we started. DoD and industry partnered on an initiative in the form of a federated solution. While this initiative has progressed, there is no one willing to step up and say this is the way ahead and communicate the same to the installation commanders. In fact, there are elements within DoD that have communicated to the security chain of command that a federated solution is not the desired end state. This has led to members being delayed, harassed and in some instances the credentials being confiscated. In one extreme case an individual was placed on the "terrorist watch list" for displaying a federated credential.

In another case, a Service adopted a credential for all CONUS bases and yet DoD says this solution does not meet its established criteria.

It is frustrating that 95 percent of the work needed to solve the base access issue is done. Billions of dollars have been spent issuing cards. All that needs to be done is for DoD to carry it over the finish line by establishing a uniform acceptance policy and making full use of the credentials by verifying identity with electronic readers. We urge you to pursue this program with the Department of Defense and gain from the DoD an understanding of why they have yet to promulgate a consistent and workable solution for allowing industry representatives with an expedited and secure access.

ALA has made progress but the effort remains ad hoc and needs your emphasis to urge DoD to proliferate a coherent and uniform approach to identity verification at the gate. We want to work with you to encourage this effort with the Administration and

work to ensure that patrons are provided with secure credentials as well. Given the increasing vital contributions that industry partners make to the resale system in the form of in-store support, it is vital that a secure, trusted and verifiable process be expanded so that this support continues in a high threat environment. It is vital that secure credentials be created and accepted in a standards based environment, both in industry and government, and provided to all eligible patrons in the event of a high threat environment where the traditional ID card might not suffice. Mr. Chairman and members of this subcommittee, **this is the year** to require DoD to provide a single, affordable credential to industry to allow them to provide the necessary support to the resale and MWR activities.

The 3% tax withholding law is the proverbial "elephant on the dance floor"... everyone sees it, no one likes it, we cannot quite figure out what to do about it... As we noted earlier, we urge repeal of section 511, of the *Tax Increase Prevention and Reconciliation Act of 2005* (P.L. 109-222). Compliance with this law will impose significant, unnecessary financial burdens on both the public and private sector. In a 2008 report, the Department of Defense estimated that it will cost the Department more than \$ 17 billion in the first five years to comply with the 3% withholding requirement. DoD is big but this cost represents only a small portion of the cost to the public and private sector and it far exceeds the projected savings from enacting this provision. In addition, this cost could not come at a worse time when companies are struggling to rebound from historically difficult economic times.

On a positive note, we are pleased to recognize the positive action taken on the part of the House Armed Services Committee Panel on Defense Acquisition Reform. The Findings and Recommendations of the Panel issue in the 23 March 2010 report at recommendation 5.3 specifically support this request to wit: "Congress should repeal the 3% contract withholding requirement." We also note with anticipation, the introduction the Improve Acquisition Act (H.R. 5013) which legislates many of the recommendations contained in the aforementioned Acquisition Reform Panel Report and while it does not provide the exact relief sought, it may pave the way for a more reasoned and deliberate approach to solving the delinquent taxpayer issue.

In the event, the "elephant" cannot be controlled, there must be relief granted for the resale programs. It makes no sense for Congress to approve pay raises and then force measures that obviate these pay increases. We propose the following language: "Section 511 of the Tax Increase Prevention and Reconciliation Act of 2005 (P.L. 109-222) shall not apply to purchases made for products to be sold by the military exchanges, the Defense Commissary Agency, the Veterans Canteen Service, the Coast Guard Exchange Service, as well as Morale, Welfare and Recreation activities of the respective military services, where the effect would be to increase prices to patrons of these retail outlets and quality of life support activities, provided these companies are not delinquent in tax payments as demonstrated by reconciliation of the Central Contractor Registry with records of the Internal Revenue Service." This coupled with recently released guidance from the Administration and the Office of Management and Budget that would prevent companies with serious tax delinquencies from receiving

contracts would provide meet the intent of the law and protect the buying power of our troops and their families.

Lastly, I would like to reiterate the importance of maintaining the working structure of the supply chain that serves commissaries and exchanges. The focus on execution and support to the stores by industry has led to increased customer satisfaction, increased store excitement, increased store sales and increased profit/savings for industry and the military retailer. This broker network provides merchandising and marketing support to all levels of resale equation. The military business channel while important is not considered mainstream business for most large suppliers. It is considered a specialty market. The government has different rules, delivering to military installations require different relationships; the overseas environment has differing requirements. The business model has evolved to meet these requirements. In many cases the military retailer is given the pricing advantages of the largest retailer even though it does not meet the requirements. The cost benefit of this structure does not make to the cost ledger of the retailer but it certainly has a positive impact on their bottom line. The ALA has watched the evolution of this business model over the last 90 years and it has developed into a support system that delivers world class support to a resale system that delivers a remarkable shopping environment for the troops and their families. We are proud to be an important part of the quality of life equation.

As the year progresses and given the dynamic nature of the challenges facing Government, issues will evolve and legislative challenges and opportunities will arise especially as the President submits the budget and Congress deliberates. ALA will monitor these changes and will react in the best interest of the membership and the MWR and resale programs.

Mr. Chairman, and Members of the subcommittee – you can be proud of the system that you nurture and protect and we are grateful for this support. Like Jimmy Stewart in "*It's a Wonderful Life*", we should pause for a minute and think about what military life would be like if these programs did not exist on base. It is a bargain for the taxpayer, a must for military quality of life and a great example the private and public sector collaboration. These programs could not prosper, contribute to the economy, take care of our military and employ so many people without your support.

Thank you and I am prepared to answer any questions you may have.