

WRITTEN STATEMENT

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I am honored to appear before this Subcommittee to testify about the military commissary, exchange, and morale, welfare and recreation (MWR) programs.

Let me begin by stating unequivocally: the Department of Defense is steadfast in our commitment to these benefits during transformation. In 2001, the Social Compact recognized the importance of a renewed commitment to support troops and their families and to meet their changing expectations. The 2006 Quadrennial Defense Review (QDR), which accompanied President Bush's Fiscal Year 2007 Defense Budget, articulates that we must improve the quality of life of our Service members and their families.

The commissary, exchange, and MWR programs have a profound impact on the quality of life of our military families. The Fiscal Year 2007 budget requests over \$3.2 billion to operate commissary, exchange and MWR programs. In addition, the Fiscal Year 2007 military construction budget provides \$68 million for eight new child development centers and \$50 million for two new fitness centers. The requested level of resources sustains the Department's strong support for Service members and their families.

In an unprecedented period of change, the Resale and MWR programs are supporting military personnel and their families during a time of war and transition, migrating programs to a new U.S. global posture and domestic base structure, and responding to rising customer expectations fueled by a global market. The programs continue on the course of action, reported last year, to provide a high quality of life for those who serve and their families.

- We are developing new approaches that we plan to implement over the coming years with the help of the Congress.
- We are redefining and refining our programs to improve our support of our military and their families.

- We are streamlining business practices to address growing pressures on resources and to benefit from economies of scale.
- We are taking advantage of the information age.
- We are engaging partners from the private sector, philanthropic organizations, other federal agencies, and state and local governments.

SUPPORTING THE WAR AND HURRICANE RELIEF AND RECOVERY

The Department has very successful resale and MWR programs to support troops and their families. We take great pride in the service of the 144,000 employees who make this possible. The commissary, exchange, MWR, child care and youth programs are integral to the war effort, as mission support activities that contribute to the Department's impressive retention rates. The Fiscal Year 2005 Supplemental Appropriations Bill requested \$145 million and the Fiscal Year 2006 request contains \$140.5 million for exchange and MWR programs that support security stabilization efforts in Iraq and Afghanistan and the fight against terrorism in other locations. The funding request supports both activities for personnel deployed and for deployed troops' families.

The commissary, exchange, MWR, and family support programs played a significant role in relief efforts in the aftermath of the hurricanes in the Gulf States. They were in place and supporting the largest, fastest deployment of military forces for a civil-support mission in U.S. history. Our folks cut through bureaucracy. They were resourceful and imaginative in the ways they delivered health and comfort items to troops and families. In testimony today, the Commanders will discuss those incredible efforts.

As a result of the storms, many of our facilities are severely damaged and our employees and their families displaced, in Alabama, Florida, Louisiana, Mississippi, and southeastern Texas. The commissary, exchange and MWR programs estimate \$211 million of costs to respond to and recover from the catastrophic effects of hurricanes in

the Gulf Region during calendar year 2005. The FY 2006 Supplemental Request for Hurricane Relief and Recovery includes \$104.5 million for commissary, exchange and MWR facilities, inventories and equipment that were damaged. This is in addition to the \$80 million previously appropriated.

MIGRATING TO THE NEW GLOBAL POSTURE AND DOMESTIC STRUCTURE

The Global Defense Posture plans will realign or close a number of bases overseas in favor of installations better suited for rapid deployments. As part of the posture changes, some 70,000 troops and 100,000 family members and civilian employees will be leaving overseas bases and returning into the domestic infrastructure. Quality of life support must coincide with the movement of troops and families.

Implementing Global Defense Posture Realignment. Some overseas changes are already underway in Germany, Japan, the Republic of Romania, and the Republic of Korea. The Services are realigning and rescaling their commissary, exchange, and MWR activities in concert with the changes. Where new missions or significant troop movement create facility requirements, appropriations and funds available under host nation agreements will be sought. At closing installations, agreements with host nations govern payment for the value of our facilities. As implementation progresses, the Resale and MWR programs may absorb some implementation costs and lose some overseas revenue, which may affect capital investment and MWR dividends. We will watch this transition closely and seek avenues to mitigate adverse effects on the system's finances.

Base Realignment and Closure (BRAC) 2005. On November 9, 2005, the Department became legally obligated to implement BRAC 2005 recommendations to realign and close installations. Several initiatives are underway to implement the recommendations. We are developing business plans to lay out the requisite actions, their timing, and costs and savings associated with implementing each recommendation.

The process serves as a high level foundation for the complex program management necessary to ensure BRAC 2005 recommendations are implemented efficiently and effectively and recognizes our obligation to work with the communities affected by BRAC 2005.

We are fully engaged in planning for quality of life programs at 25 installations that are receiving sizeable numbers of military families and 12 joint base sites identified in BRAC 2005. The plans will be evaluated using a model that takes into account commissary, exchange and MWR program operational and funding requirements. The model also recognizes the importance of assessing quality of life services in the surrounding communities. The Department, in conjunction with 22 Federal Agencies, is working with these communities. Our plan is to partner with community based service agencies to deliver family support such as child care, fitness, youth, and other family services. Examples are buying down fitness center memberships or child care spaces. Partnering with Boys and Girls Clubs outside the gate has served as a model of success for many years.

As we evaluate specific locations, our primary consideration is the impact of closure and realignment on active duty personnel and their families who use the commissary, exchange, and MWR activities. Generally, resale and MWR activities cease operations when a base closes. We would continue operation of MWR and resale activities only if there is a significant active duty population remaining in the area that would otherwise not be supported. At the 25 installations closing under BRAC 2005 and based on our experience in previous BRAC rounds, this is highly unlikely.

We appreciate your concern about retaining and redirecting funding made available during closure and realignment and we thank you for the legislation that released funds in the reserve accounts from the previous BRAC rounds. The authorized Fiscal Year 2005 funding has been disbursed and will be used by the resale and MWR programs to construct or improve facilities. As resale and MWR operations that are no longer required to support active duty missions are divested, substantial savings will be

realized. Those resources will be needed at installations with new missions to sustain and improve the quality of life for our men and women in uniform and their families. Where on-base expansion of services is required, BRAC 2005 funding is being programmed. Commissary surcharge and nonappropriated funding will be considered only when BRAC 2005 funding is not available or authorized.

Combined Commissary and Exchange Stores. Our experience shows that the "combined store" format has not been successful as a "one size fits all" mechanism to continue commissary support and reduce appropriated funding at closed and realigned locations. As required by statute, edible groceries are sold at cost plus five percent and the operations may receive appropriated funding up to 25% of the amount used by DeCA in the last year it operated the commissary. For over ten years, the combined stores sustained operating losses and only two stores remain in operation using the model. Exhaustive reviews have not produced a model that could be successful without obliterating appropriated savings identified within the BRAC recommendations. The concept may fit locations with significant reserve and retired populations, who actively use the commissary and exchange, such as NAS, Fort Worth. In the future, we will tailor operating formats on a case-by-case basis.

Last year, you asked that the planned closure of the Homestead Air Reserve Base (ARB) combined store be delayed pending a review of future requirements for support in southern Florida. Presently, the Commissary Operating Board and the Army are analyzing U.S. Southern Command requests for commissary and exchange support at their Miami Headquarters and Homestead ARB.

COMMISSARY BENEFITS

The commissary benefit is a critical quality of life component for members of the Armed Services and their families – providing non-pay compensation through savings on grocery purchases. The Defense Commissary Agency (DeCA) estimates that a 30 percent savings on commissary purchases for a military family of four equals \$2,700 of annual disposable income. The commissary also has intrinsic value as a community anchor for military families relocating, returning from overseas, or seeking familiarity to allay the stress of separation during deployment.

Oversight. The Department’s strategy remains to sustain the value of the commissary benefit without increasing its cost to the taxpayer. The Commissary Operating Board deserves much credit for its oversight of the commissary system and emphasis on setting goals and measuring performance. DeCA's management has a proven track record of achieving performance goals that are benchmarked to the commercial grocery industry. Since 2000, DeCA increased sales, sustained capital investment, and reduced constant dollar unit cost through business process improvements – all while improving customer savings and satisfaction ratings.

Commissary Savings. With the help of Congress, DeCA has taken advantage of industry best practices to make sure that the right products are purchased at the best price. These improvements translate to 32 percent savings for the commissary customer – topping the 30 percent goal. This achievement is especially notable given the price competition from the major discounters positioning near our installations.

Customer Satisfaction. DeCA continually improves quality and availability of goods and services – targeting those that are most important to our military patrons. The Department uses the American Customer Satisfaction Index (ACSI), a nationally recognized index that is widely used as a uniform measure of customer satisfaction by leading retailers, and internal measures of commissary customer satisfaction. DeCA’s internal customer satisfaction score of 4.55 surpasses their long-term goal of 4.50. DeCA

performed admirably well in the ACSI, receiving a score of 77, a point higher than last year. It scored 3 points higher than the supermarket industry average, a statistically significant factor. It is not surprising that the Defense Manpower Data Center survey of active duty personnel found that 82 percent are satisfied or very satisfied with their commissary.

Produce Acquisition. In FY 2006, DeCA is assuming responsibility from the Defense Logistics Agency (DLA) for acquiring fresh fruit and vegetables sold throughout the commissary system. Produce is the only resale product not procured by DeCA and customer satisfaction was low. In September 2005, DeCA completed a test to acquire fresh produce using commercial grocery practices that rely on small business concerns. The results of the test were impressive: cheaper prices, better quality, increased sales, and streamlined business practices. DLA will continue to support DeCA until the transition is completed.

Impulse Items Test. The Department is testing the sale of telephone cards, film, and one-time use cameras in commissaries. The Resale Commanders developed parameters and are conducting the test under the review of the Executive Resale Board. The two year test began on November 1, 2005, and was gradually expanded across the ten test stores until it was fully implemented in March of this year. DeCA purchases the items from the exchanges and sells the items to the customer at the exchange selling price. The 5 percent surcharge is not assessed; but DeCA will receive a two percent management fee from the exchanges.

Store Openings and Closures. DeCA operates 268 stores worldwide using appropriated funding. Four commissaries, Camp Howze and Camp Page, Korea, and Aschaffenburg and Rhein Main, Germany closed in FY 2005. The commissary stores at NSA Naples, and Gricignano, Italy, closed in May 2005 in conjunction with the opening of a replacement store at NSA Naples, Italy. Closure of the commissary store at Camp Hialeah-Pusan, Korea, is planned for late FY 2006. The Department is reviewing a request to establish a new commissary store at Camp Eagle, Korea in 2006.

Seven commissaries are located at installations slated for closure under BRAC actions in Fiscal Years 2007 – 2011 -- Fort Monmouth, NJ, Fort McPherson, GA, Fort Gillem, GA, C.E. Kelly Support Center, PA, NS Athens, GA, NAS Brunswick, ME, and Cannon AFB, NM. The Department policy is to operate commissaries at locations with significant active duty presence. Given budget constraints and global posture objectives, we do not expect to continue operations at installations that close under BRAC action. Rather, we are focusing on redirecting resources to the military communities that will experience a significant increase of active duty personnel due to realignment. DeCA has identified nine commissaries that require construction to support realignment actions at Fort Carson, CO; Fort Benning, GA; Moody AFB, GA; Fort Riley, KS; Fort Bliss, TX; Fort Sam Houston, TX; Fort Belvoir, VA; Fort Lee, VA, and Naval Base Norfolk, VA.

Access to Benefits. DeCA is expanding outreach programs to improve access to commissary benefits through truck sales at Reserve locations and direct ordering through the Internet. In the early stages of developing a "virtual commissary," DeCA introduced "gift packs" that are shipped directly to authorized patrons. The concept is promising as a way to improve commissary support to members who are assigned at remote or isolated locations. Although DeCA is restricted from paying for advertising to reach the two-thirds of the active duty military population living off base, Reserves, and retirees, DeCA is getting the word out to customers by using military affiliated information services and by partnering with the exchanges to reach many off base authorized patrons, especially Guard and Reserve members.

Commissary Funding. Like other Defense activities, DeCA will operate under a constrained appropriated budget. In FY 2007, the operating costs are budgeted at \$1,186.4 million, one percent less than the adjusted FY 2006 budget. The appropriations request of \$1, 206.8 covers the operating budget and recoups prior year losses. The Commissary Operating Board closely monitors funding to ensure that DeCA is funded commensurate with its mission and the support provided to each Armed Service. DeCA is aggressively seeking methods to reduce manpower costs and pursuing other operating

efficiencies. The last resort will be to curtail store hours and customer services. DeCA's strong stewardship of taxpayer dollars has been demonstrated by the fourth consecutive unqualified audit opinion of its financial records.

DeCA forecasts nearly \$5.3 billion of sales in FY 2007. Surcharge collections will continue to support over \$241 million of capital investment, with \$82 million earmarked for information technology modernization. Should construction costs continue to rise, the surcharge funds designated for facilities and improvement won't cover as many projects as in years past.

Competitive Sourcing. The Department of Defense continues to strongly support the President's Management Agenda Initiative for competitive sourcing. Competition improves business efficiency and reduces cost to the taxpayer. DeCA has competed or received credit for 3,572 of the 6,392 positions to be studied by Fiscal Year 2008. As required by the recent change in law, DoD will not require DeCA to conduct competitive sourcing studies of the remaining store positions identified for study through December 31, 2008. This will permit DeCA time to complete work force and store restructuring. DeCA does plan to conduct a competitive sourcing study, above store level, in Fiscal Year 2006.

Work Force Restructuring. To improve business efficiency and unit cost to the taxpayer, DeCA is pursuing efficiencies through business system modernization, re-engineering stores and headquarters, and reorganizing the region structure. The Defense Commissary Agency's re-engineering efforts are two-fold. They are identifying efficiencies in store operations and reorganizing the headquarters structure to reduce overhead and improve processes. Although in the early stages of re-engineering, DeCA has demonstrated success. To better position the organization and employees for success, DeCA is introducing a prototype store concept of operations with more generic personnel positions. As recommended by the General Accounting Office, DeCA is realigning into two CONUS regions and balancing the span of control.

ARMED SERVICES EXCHANGES

The exchanges perform a wide range of functions that contribute to military quality of life and readiness. The exchange benefit is a form of non-pay compensation, providing retail goods and services at a savings to military personnel and their families. Exchanges support military communities *everywhere*-- on military installations no matter how remote or isolated, to Internet and catalog shoppers around the world, on board ships at sea, in deployed locations and contingency operations, and at the site of humanitarian and disaster relief efforts. With very limited taxpayer support, the exchanges offer the military community almost every imaginable retail service found in the American mainstream. Finally, they return a majority of their profits as dividends to support the MWR programs.

Oversight. This challenging work is performed by three independent exchange systems under the guidance of the Armed Services: the Army and Air Force Exchange Service (AAFES), the Navy Exchange Service Command (NEXCOM), and the Marine Corps Exchange (MCX). The Armed Services or Military Departments do not jointly oversee the exchanges. Each Exchange Service responds to a board of directors that represents only its Armed Service stakeholders.

Performance Indicators. The exchange performance is a component of the Quality of Life Social Compact Improvement Index in the Performance Accountability Report and the Defense Annual Report to the President and the Congress. Exchange performance indicators include customer savings and satisfaction and exchange sales, profits, capital expenditures, and dividends to MWR. The DoD-wide performance measures and benchmarks assist the Armed Services in uniformly evaluating their exchange benefits and progress towards goals established in the Social Compact.

The Under Secretary of Defense for Personnel and Readiness regularly reviews performance with the Assistant Secretaries of the Military Departments who oversee these programs. This attention has targeted improvements within the programs and directed refinements of the measures and benchmarks. Significant progress has been

made to more consistently measure sales, profits, capital expenditures, and MWR dividends.

Each of the exchanges is actively aligning their business processes with commercial best practices. Further, the exchanges continue to build on the cooperative efforts established over the past six years. The exchanges have benefited from cooperative efforts and significant opportunities exist for future initiatives. The Exchange Commanders recently reported a renewed commitment to joint initiatives that improve program delivery and operate more effectively.

Customer Savings and Satisfaction. We are making progress toward consistently measuring exchange savings. The Exchanges are working toward utilizing the same market basket and methodology to measure savings. The exchanges report average savings ranging from 17 percent (Marine Corps) to 22 percent (AAFES and NEXCOM). The American Customer Satisfaction Index provides a uniform measure of the exchange customer satisfaction and supplements their internal assessment surveys. Each exchange service is focused on improving their customer satisfaction.

Deployment Support. The exchanges are deployed with our Service members fighting the Global War on Terror and support the war-time military communities at home. AAFES operates exchanges, with manpower assistance from the Marines, in OIF/OEF. NEXCOM operates ships stores afloat in all theaters. In the Operations Iraqi and Enduring Freedom theaters, there are 62 Tactical Field Exchanges, 39 exchange supported/unit run field exchanges, and an average of 15 ships' stores providing quality goods and services necessary for day-to-day living and to provide a modicum of American quality of life. Goods and services vary by location based on troop strength and unit missions requirements.

The exchanges are making sure that Service members have better access to telephones, email and Internet. They are committed to lowering rates for telephone calls. Calling rates dropped from 25¢ to 19¢ per minute in Iraq and from \$1 to 50¢ on ships.

Usage is up. The exchange web-based “Help Our Troops Call Home Program” makes it easy to donate calling cards to deployed personnel.

Appropriated Funding. As is now required by law, the Department policy is to fund transportation of U.S. goods to overseas exchanges. The Army is to submit to Congress an errata sheet to its FY 2007 budget to fully fund AAFES second destination transportation for FY 2006 and 2007. With full funding of second destination transportation, the Fiscal Year 2007 budget proposes \$205 million in support of the exchanges.

Longstanding DoD policy, developed in consultation with the Congress, requires appropriated funding of exchange mission-related costs in areas of military conflict and losses due to natural disasters. The FY 2006 Supplemental Appropriation requests \$81.8 million for AAFES to support forward deployed operations. As the House Armed Service Committee has urged in the past, the Military Departments sought supplemental funding for \$69 million of exchange hurricane damage.

Sales and Profits. For the retail year 2005, the exchanges estimate sales of nearly \$11.4 billion, a 3.5% increase over last year. Part of the growth came from introducing the newly authorized projection televisions and furniture items and we thank you for supporting our request to ease those merchandise restrictions. We appreciate your continued support as we consult with Congress on other opportunities to improve the stock assortment and services offered to exchange customers.

Using improved merchandising and inventory tools, the exchanges expect 1.4% sales growth in Fiscal Year 2006. The deployment, business interruption in the Gulf States, fuel margins, and rising medical and utilities costs contributed to declining profitability in 2005. Profits are not expected to recover significantly in Fiscal Year 2006 and 2007 as market shifts occur due to transformation.

Fuel Sales. Just like the private sector, the rising costs of motor fuel are passed to customers in the form of higher prices. More gallons are being sold, but margins are

reduced. Fuel is priced to be competitive in the local market, but generally not below cost. Unlike other merchandise purchased for resale, the exchanges are required to pay all local, state, and federal taxes on gasoline under 4 U.S.C. Section 104. Overseas pricing models vary by country, but are generally designed to recoup fuel and dispensing costs and align with market prices. With three, independent exchange services each buying and selling fuel, there will be differences in price per gallon.

Dividends. On a combined basis, the exchanges plan to distribute \$318.9 million (66.2 percent) of their 2005 profits as dividends, down from \$333 million in FY 2004. Dividends have not recovered to the FY 2000 level of \$361.1. Actual and projected exchange dividends are:

MWR Dividends							
	Actual	Actual	Actual	Actual	Actual	Preliminary	Projected
	2000	2001	2002	2003	2004	2005	2006
AAFES Dividend to:							
Army MWR	\$149.4	\$138.1	\$123.0	\$123.8	\$129.5	\$127.7	\$112.3
Army National Guard	\$7.9	\$7.5	\$9.0	\$13.5	\$18.0	\$16.9	\$17.2
Navy MWR	\$1.6	\$1.8	\$0.9	\$0.5	\$0.5	\$0.6	\$0.7
Air Force MWR	\$93.3	\$86.4	\$76.1	\$79.9	\$82.3	\$76.6	\$66.0
Marine Corps MWR	\$8.2	\$10.2	\$11.1	\$11.9	\$11.9	\$12.6	\$13.2
Total	\$260.4	\$244.0	\$220.1	\$229.6	\$242.2	\$234.4	\$209.4
NEXCOM Dividend to:							
Navy MWR	\$53.3	\$53.1	\$41.4	\$50.6	\$48.7	\$47.7	\$39.6
Navy MWR (from Ships' Stores)	\$14.9	\$15.7	\$19.4	\$18.2	\$16.1	\$10.8	\$10.5
Total	\$68.2	\$68.8	\$60.8	\$68.8	\$64.8	\$58.5	\$50.1
MCX Dividend to:							
Marine Corps MWR	\$32.5	\$29.9	\$30.7	29.5	\$26.1	\$26.0	\$26.0
Total	\$32.5	\$29.9	\$30.7	\$29.5	\$26.1	\$26.0	\$26.0
Total Exchange Dividends	\$361.1	\$342.7	\$311.6	\$327.9	\$333.1	\$318.9	\$285.5

Exchange Capital Expenditures. Exchange profits will continue to support capital investment over \$1 billion combined for fiscal years 2006 and 2007. The exchanges

continue healthy investment in information technology modernization. As with commissaries, rising construction costs will affect the number of projects that can be accomplished in the Fiscal Years 2006 and 2007 programs.

Exchange Integration. All three of the exchange systems are modernizing their practices to remain competitive in a challenging retail market. Force repositioning, BRAC, and the Global War on Terror, with its attendant increased costs to provide the exchange benefit, will continue to challenge exchange profitability. The Unified Exchange Task Force completed their study and recommended that the Department begin detailed planning to implement a Shared Services Business Unit whereby AAFES would serve as the provider of five common services. Each Military Department expressed significant reservations about the risk of proceeding with the wholesale concept. Of particular concern is the different risk to reward ratio for each Armed Service.

The Military Departments are reviewing options that would build on the task force work to devise a mutually-beneficial business proposal. In that way, each fiduciary can assess their individual exchange strategies within the framework of their defense transformation plans and end state. No decision has been made to proceed with the Task Force recommendations to establish a Shared Services concept of operations for the Armed Services Exchanges.

MORALE, WELFARE AND RECREATION (MWR) OVERSIGHT

MWR Financial Condition. The continued vitality of the MWR program depends on sound management, a predictable stream of nonappropriated fund revenues, and also solid APF support of Category A and B activities. Each of the Service's MWR program nonappropriated fund instrumentalities is in sound financial condition. However, nonappropriated fund net profits decreased in Fiscal Year 2005. Army reports a \$33 million net loss and Air Force reports a \$6.2 million net loss. Navy's \$11.1 million net income was an \$11.6 million decrease from last year. The nonappropriated fund loss is attributed to higher operating expenses, using nonappropriated funds to sustain

appropriated fund operations, lower MWR sales and exchange dividends, the effects of natural disasters (numerous hurricanes that hit the Gulf Coast), and the on-going war on terrorism.

We are closely evaluating the impact of base restructuring initiatives and BRAC 2005 on capital investment programs. Overseas locations produce a significant portion of MWR revenues and exchange profits used to support capital programs. Between FY 2006 and 2007, planned nonappropriated capital investment for MWR and lodging climbs from \$538 million to \$627 million.

At current performance levels, the MWR programs are not generating sufficient profits or receiving exchange dividends to support future capitalization at this level. In 2006 and 2007, exchange dividends are expected to drop below \$300 million – the lowest level in ten years.

MWR Program Funding. Fiscal Year 2005 MWR program appropriated funding was \$1.789 billion, which includes \$36 million of supplemental funding for the global war on terror. All of the Services met minimum DoD standard percentages of APF support for Categories A and B in Fiscal Year 2005. In the past decade, the Military Departments made tremendous strides improving the funding profiles for MWR activities. Category A activities (fitness, libraries, recreation centers, single Service member programs, intramural sports, and unit activities) should be entirely funded with appropriations. The Department sets a minimum standard requiring at least 85% of total expenses being supported with APF. From 1995 to 2005, DoD improved annual APF support to Category A by \$213.1 million – raising the level of support from 83% to 92%. Category B activities (child care, youth programs, outdoor recreation, crafts and hobby shops, and small bowling centers) should be supported with a minimum APF of 65% of total expense. Since 1995, DoD has increased APF support by \$358.1 million to Category B from 57% to 71%, of which \$143.9 million went to the child care program.

We appreciate the flexibility afforded by the new authority to support Category C utilities. However, available resources should be first applied to Categories A and B in

order to maintain the relative percentages of appropriated funding. As permitted in law, we are executing an increasing portion of the authorized operations and maintenance appropriations using our nonappropriated fund personnel and procurement systems. We are careful to limit this practice so as not to detrimentally affect other programs.

The FY 2006 revised budget includes \$1.779 billion of funding for MWR programs, including \$532 million for child care and youth programs. The FY 2007 MWR program budget request of \$1.804 billion increases 1.4 percent from FY 2006. DoD-wide appropriated fund support to MWR improves in FY 2007 by \$22.5 million when compared to FY 2003.

2006 Olympics. The first documented member of the US Armed Forces to compete at an Olympics was 2LT George S. Patton who competed in the Modern Pentathlon at the 1912 Olympics. He finished fifth. Four US military athletes competed in the 2006 Winter Olympics Games. Army National Guard Specialist Shauna Rohbock, a driver in the female 2-Man Bobsled event, won a Silver medal for the United States. Our military Olympians proudly represented all our men and women in uniform.

Lodging. Through the Privatization of Army Lodging initiative, the Army intends to transfer ownership of Army transient lodging facilities throughout the continental United States, Alaska, and Hawaii to a private sector partner or to the Army and Air Force Exchange Service, who will serve as the lodging developer and property manager. The initial test phase of the Army's lodging privatization initiative will take place at 11 locations and the transfer of facilities and management is anticipated by September 2007. We will closely monitor the test to ensure this initiative does not adversely impact the Army Lodging Program or the Army Lodging Fund.

Supporting the War Fighter. In theater, the MWR programs include 185 free, MWR-operated Internet cafes in Iraq and 32 Internet cafes in Afghanistan. Computers and Internet service at home station libraries and youth centers ensure families can send and receive e-mails from their loved ones who are deployed. Additional recreational and social activities include cardiovascular and weight equipment, sports, recreation, motion

pictures, reading materials and continuing education support, board games, large screen televisions, DVD/CD players, up-to-date video games and game CDs, and first-run movies. Aboard ship, MWR Fleet library multimedia resource centers provide free email and internet access, fitness equipment, afloat deployment kits and movies. AFRC hotels in Germany, Hawaii and Florida offer special rest and recreation rates and packages. MWR programs are fully engaged in return and reunion programs. The MWR Outdoor Recreation Program is engaging personnel in high adventure activities to address the high adrenalin of the returning warriors.

Professional Entertainment. The Department has a responsibility to provide morale enhancing entertainment for troops and families assigned overseas. Nowhere is this support more important than in the austere locations where Service members are performing duty in support of the Global War on Terror. Armed Forces Entertainment (AFE), in cooperation with the USO, continues to provide much welcomed celebrity and professional entertainment to our forces, both overseas and on military installation in the United States. In 2005, Armed Forces Entertainment conducted 136 tours with 1,268 shows at 370 sites, many with USO coordination. Entertainers included Drew Carey, Gary Sinise and the Lt. Dan Band, Harlem Globetrotters, World Wrestling Entertainers, Dallas Cowboy, Miami Dolphin, and Orlando Magic cheerleaders, and numerous bands, comedians, and entertainment groups.

From 2002 through 2005, the Robert and Nina Rosenthal Foundation has worked closely with the Country Music industry to provide 62 celebrity entertainment shows at military installations at no cost to military personnel and their families. The Spirit of America Tour provides a brief reprieve from the stresses of deployments. Performers have given generously of their time and talents.

CHILD CARE

DoD is proud of our child development program, the nation's largest employer-sponsored system serving more than 200,000 children daily. Having a multi-faceted delivery system to meet the demand for child care has assisted commanders and families in balancing the competing demands of family life and military missions. The military system has continued to receive recognition as an exemplary program from national magazines and organizations. A report issued in 2005 on non-monetary benefits shows child care to be one of the most important benefits we provide to our Service members and families. Child care also supports spouse employment as part of a family's financial readiness. Most recently The National Women's Law Center published "Be All that We Can Be: Lessons from the Military for Improving Our Nation's Child Care System, 2004 Follow-Up" which noted that the military system has continued to improve the system since the NWLC evaluated it in 2000. Of special note were strengthening the accreditation requirements, integrating programs for youth ages 13 to 18, making child care more affordable for the lowest income military families and increasing the number of military child care spaces. Additionally, the Child Care Information Exchange in its February 2005 issue called the U.S. Military child care system a model worth replicating.

Adding Spaces. Despite serving this large number of children, the Department projects a need for an additional 31,000 spaces. We continue to explore all options to meet this demand through construction, use of subsidies to recruit and retain additional Family Child Care providers, creation of Family Child Care homes off the installation, contracting child care through civilian programs through a partnership with the National Association of Child Care Resource and Referral Agencies (NACCRRA), and expanded partnerships with other quality programs such as Boys & Girls Clubs and local schools.

Supporting the Deployment. Since FY 2003, over 10 million hours of subsidized child care have been provided to support families impacted by the Global War on Terror. With the support of Congress, the Department is increasing the availability of child care to address the most pressing infant and child care needs at locations impacted by high

deployments. In FY 2006, the Department will devote over \$90M to purchase modular facilities and renovate and expand current facilities, which will create 4,077 child care spaces in 35 high perstempo locations. The Army will build 17 Centers and the Navy and Marine Corps will each build 2 Centers. The Air Force will add or renovate space at 24 locations. In FY 2005, the Department dedicated \$9M to subsidize child care on a temporary basis for deployed active duty and activated Guard and Reserve families, who did not have access to on-base care. Funding provided extended hours care, subsidies for family child care providers, reserve component weekend drill care, and family support group meetings. Under normal circumstances, parenting is a challenge to balance home and work. However, with the high operations tempo related to Iraq and other contingency operations, the need for support is greater than ever. Services have been able to respond to many of these needs through careful use of the supplemental funding to expand child care options. These programs are not designed to usurp the role of the parent, but rather to reduce the number of changes a child has to deal with and help the parent.

Youth Programs. We find that quality programs give the deployed military member peace of mind knowing that there are quality alternatives available to assist the spouse who is dealing with life as a geographically single parent. Youth can often communicate with parents, especially those deployed, through computer labs at youth centers.

DoD responded to support youth even more by recently publishing an instruction for youth programs. This will help create continuity across installations with focus on character and leadership, education and career development, health and life skills, arts and sports and fitness. The Services have embraced the concept and continue to enhance programs and additional opportunities for youth.

Of course, all the work cannot be done alone. Partnerships with other youth organizations and assistance from the Operation Purple camps that the National Military Family Association has designed and sponsored go a long way to support military

families. This year NMFA will continue with camps at twenty-two locations throughout the United States.

Sesame Street Workshop, with support from Wal-Mart, is currently working on a video especially for military children. Based on the inventive video "You Can Ask", this will show scenes with Sesame Street characters designed to open the communication channels between parents and their children to discuss sensitive issues such as deployment or moves. DoD also recently developed a "Guide for Helping Youth Cope with Separation" as an additional resource.

Our children continue to be a top priority within the Department of Defense. As we provide programs and services and opportunities for youth to have a voice in designing future programs, we reinforce that their health, education, safety and future are a top priority.

INFORMATION AND SUPPORT SERVICES

Two-thirds of military families do not live on DoD installations. Reserve and Guard families are often long distances from support systems. Therefore, DoD leveraged technology to reach all military families who need information and assistance. Information and support services are available 24 hours a day, 365 days a year via Military OneSource, a toll-free information service. A quality of life Web portal - www.MilitaryHomefront.mil, links military Web sites and act as a directory for quality of life information. DeCA and the Military Departments maintain web sites to provide information and on-line access to commissary, Armed Service exchange, and MWR benefits. We partnered with military.com, a division of Monster, Inc. to create a military spouse career network Web site portal: www.military.com/spouse. Over 60 spouse-friendly employers, including our Resale and MWR programs, are actively recruiting military spouses for their vacant positions and may do spouse-specific resume searches.

THE WAY AHEAD

Clearly the road ahead is a challenging one. DoD is transitioning to a joint environment where the needs of individual Service members and their families still must be met. The Department will continue to explore the most effective means of underwriting support to families and developing innovative new support systems within the framework of the new joint environment. We will continue to conduct analyses and assessments of these programs, individually and in aggregate, to ensure they are meeting the needs of our service members and are contributing positively to recruiting, retention, and readiness. Program results – measured in satisfied, healthy families and combat ready members will drive our efforts. We appreciate your support of these important programs, and will continue to consult with you and will seek your continued support as we implement these far-reaching and enduring changes.