

Defense Commissary Agency (DeCA)

**FISCAL YEAR (FY) 2005
BUDGET ESTIMATES**

OPERATING AND CAPITAL BUDGET



February 2004

DEFENSE COMMISSARY AGENCY (DeCA)

FISCAL YEAR (FY) 2005
BUDGET ESTIMATES
FEBRUARY 2004

OPERATING AND CAPITAL BUDGET

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DeCA Commissary Agency (DeCA)

**Fiscal Year (FY) 2005
President's Budget**

DEFENSE OVERVIEW

February 2004

DEFENSE COMMISSARY AGENCY - CORPORATE OVERVIEW
DeCA WORKING CAPITAL FUND
COMMISSARY RESALE STOCKS AND COMMISSARY OPERATIONS

The Defense Commissary Agency (DeCA) operates a worldwide system of the commissary stores. These commissaries sell food and related household items to active, reserve and guard members of the Military Departments, their families, retirees, and other authorized patrons. The items sold in the commissaries are priced to only recover product cost and, as a result, provide the commissary patron direct savings of approximately 30 percent off the typical market basket survey. These savings are the reason that the commissary system exists, as this benefit is a valuable non-pay component of the total military compensation package. This is especially true in overseas communities and remote locations where the commissaries provide the same quality and types of items found in a typical stateside grocery store, but at substantial savings. The fact that the commissary benefit is instrumental in recruiting and retaining military members, fostering a sense of community, and maintaining a positive sense of quality of life is supported by a number of studies. As a core military family support element, and a valued part of military pay and benefits, commissaries enhance the quality of life for America's military and their families. Thus, military members embrace this valuable contribution and consider it to be one of the most important non-pay compensations they receive. This request for appropriated funds continues the efficient delivery of the commissary benefit to Armed Services personnel and their families.

DeCA has transformed its cultural, managerial and organizational base to reduce costs and improve performance throughout the agency. The incorporation of activity-based management concepts at all levels within DeCA, from headquarters down to the departments within each store, is making this possible. DeCA has instilled ownership, greater accountability, efficiency, and effectiveness in commissary operations, enabling us to streamline headquarters, region and store management, and improve store operations. The end result is an efficient commissary system that will maintain quality service.

DeCA headquarters and field operating activities are located at Fort Lee, Virginia. There are 4 region offices, 29 zones, 274 commissaries, and 11 Navy Exchange Marts (NEXMARTs) on military installations worldwide. DeCA employs over 18,000 personnel, has annual sales of over \$5.1 billion, and has a total annual operating budget of approximately \$1.2 billion in DeCA Working Capital Fund (DeCA WCF) Commissary Operations, and \$5.6 million for Capital Investment. The direct appropriation request to fund the operating costs for FY 2005 is \$1,174.9 million.

DeCA also uses services from Defense Logistics Agency (DLA), Defense Finance and Accounting Service (DFAS), Defense Information Services Agency (DISA), US Transportation Command (USTRANSCOM), and the Military Departments for support in areas associated with procuring fresh fruits and vegetables, disbursing services, construction, transportation, and local base support.

I. OPERATING AND CAPITAL BUDGETS

DeCA financially manages two activity groups within the DeCA WCF: Commissary Resale Stocks and Commissary Operations. DeCA is also responsible for cash management.

a. Commissary Resale Stocks finances the purchase of inventory for resale to authorized patrons. Products offered by commissaries include groceries, meat, poultry, fruits, vegetables, dairy products, and household products. There is no requirement for appropriated fund support in FY 2005. Projected sales for FY 2005 are \$5.2 billion.

b. Commissary Operations finances operating costs for resale stores, agency and region headquarters, field operating activities, and support services. Specific costs include civilian and military labor, labor contracts, travel, transportation of commissary goods overseas, and other indirect support. The primary revenue source for this activity group is funds appropriated by Congress. Commissary Operations also receives additional revenues, about \$32 million, from manufacturers' coupon redemption fees, handling fees for tobacco products, and reimbursements for other support. The Commissary Operations unit cost goal is approximately 23 cents per dollar of sales (operating costs divided by sales).

Surcharge Collections represents a third major source of funding. Surcharge Collections is a trust fund primarily funded by a five percent surcharge applied to patron sales at the checkout counter. This fund was established by law, so authorized patrons share responsibility for overall costs of the commissary system, including store information technology and the commissary construction program. This fund also receives revenue from prompt payment discounts, the sale of used cardboard and equipment, and services provided to others.

II. WORKLOAD ASSUMPTIONS

The annual sales forecast for FY 2005 is \$5,135.5 billion. Sales are the primary factor in determining DeCA's workload. However, there are many other factors that influence workload; e.g., authorized patrons, number and location of commissaries, distribution systems, and operating hours and days, among other factors.

a. Patrons. DeCA's total authorized patron base is over 10 million. DeCA commissaries process over 90 million customer order transactions annually. DeCA's customers include active duty military members, guard and reserve component members, retired personnel and their families, government departments or agencies, 100% disabled veterans, Medal of Honor recipients, and DoD civilians in overseas areas.

b. Organization. DeCA plans to begin FY 2005 with 274 commissaries. There are also 11 NEXMARTs, which combine commissary and exchange operations at small locations overseas. The Navy Exchange Command (NEXCOM) manages these stores, but DeCA provides the resale inventory and reimburses NEXCOM for total costs of commissary operations. DeCA operates 11 central distribution centers (CDC) to support inventory requirements: 3 in Europe and 8 in the Western Pacific.

c. Location. Outside Continental United States (OCONUS) and remote locations cost more per dollar of sales than Continental United States (CONUS) locations. These commissaries are more expensive because operating and support costs in foreign and remote locations are higher. Many locations service small-to-medium military populations with smaller sales and higher fixed costs. Additionally, there are significant support costs incurred in providing U.S. food products and household items to overseas locations. In spite of these cost considerations, commissary operations overseas are efficient and effective because DeCA's infrastructure provides economies that are not achievable by other alternatives. The commissary system is critical in supporting military members and their families overseas. The investment of taxpayer's dollars in DeCA provides essential services and a touch of home in many areas of the world where our patrons have little or no alternative for their grocery and household item purchases. The overseas commissaries are more than a place for acquiring groceries; they are essential for the overseas military community and their quality of life.

d. Hours of Operations. Commissary operating hours and days is determined by sales, patron demographics, and local installation needs. The high sales volume, coupled with limited hours, has an extensive impact on store construction, store layout, and overall operations.

e. Workforce. DeCA projects a civilian end-strength of 18,499 in FY 2005. The full-time equivalent (FTE) level for FY 2005 is 14,982 (13,499 Direct Hire and 1,483 Indirect Hire). The civilian FTEs are below the civilian end strength levels because DeCA uses a mix of full-time, part-time, and intermittent employees to provide scheduling flexibility required by commissaries. In fact, there is continued emphasis on increased use of part-time employees, including students, to reduce payroll costs, increase flexibility in hiring and firing, and provide an ongoing recruitment pipeline for permanent hires. The flexibility to use other than full-time personnel is critical to enable commissaries to function in a business-like manner and to achieve the programmed efficiencies. Military personnel strength level for FY 2005 is 13.

DeCA has been very successful in reducing FTEs by outsourcing certain functions and services under OMB Circular A-76 procedures. DeCA plans to aggressively pursue, at every opportunity, competitive sourcing and privatization A-76 cost studies. Currently DeCA has over 170 A-76 contracts in effect for shelf stocking, custodial and warehousing functions. DeCA has developed a two-phased competitive sourcing approach for implementation of the President's Management Agenda (PMA) initiative. This program plays a major role in reducing store level unit costs.

III. PRODUCTIVITY ASSUMPTIONS

DeCA continues to develop performance metrics to establish linkage between resource requirements and outputs as required in the PMA initiative for the budget and performance integration. This effort provides meaningful information for program evaluation and the decision process. As part of the strategic plan development, DeCA is continuously looking to improve the quality of goods and services we provide our patrons while developing more cost effective business practices. Performance measures are used to determine how well DeCA is achieving its strategic plan goals and objectives for the following corporate objectives:

a. Increased Customer Savings. Savings are the ultimate performance metric of the commissary system. Customer savings are approximately 30 percent when compared to the commercial sector including super centers. To promote customer savings, DeCA is making the job of bargain hunting easier for shoppers by ensuring they get the best prices on products ranging from snacks to paper goods. The Best Value Item, or BVI program, began in commissaries worldwide on July 1, 2000 with about 100 items in popular sizes and now number greater than 600 items. Product selection and variety change rapidly in a continuing effort to drive commissary prices down even further. The BVI program ensures DeCA customers receive goods that are equal to or better than name brand items at the lowest price around. The BVI program also responds to our customers' demand for more price savings. The commissary system is making an effort to encourage single shoppers, military families and retirees on fixed incomes to take greater advantage of their benefit.

b. Improved Customer Satisfaction. DeCA continuously strives to improve the quality of goods and services provided to its patrons while developing more cost effective business practices. To satisfy mission requirements, DeCA must modernize and restructure its operations to meet the changing demands of authorized patrons while, at the same time, ensuring that costs are carefully controlled. DeCA's customer satisfaction is evaluated by surveys based on statistically sound sampling techniques. The Commissary Customer Service Survey (CCSS) is conducted biannually, whereby customers are asked to evaluate such things as low prices/overall savings, product availability, convenience of operating hours, cleanliness of facilities, quality and selection of items offered in the various departments, store layout and time required to shop, checkout waiting time, and accessibility to courteous, friendly and helpful employees. DeCA will also use the American Customer Satisfaction Index (ACSI) as a measure to evaluate customer satisfaction. The American Customer Satisfaction Index (ACSI) is a uniform, independent measure that is general enough to be compared across sectors, industries, and the ACSI organizations of the U.S. economy. The ACSI is measured as a multivariable set of equations and is based on a system of cause and effect relationships explicitly designed to explain customer loyalty. The ACSI model ties customer loyalty to customer satisfaction. DeCA's current baseline score of 75 matches the grocery average score.

c. Reduce Unit Costs. DeCA benchmarks well against industry, both operationally and financially. However, we believe we must strive to do even better at reducing unit costs, while at the same time improving performance. To this end, sweeping cultural, managerial and organizational changes within DeCA are supported by the implementation of activity-based

management concepts throughout the organization, thus reducing unit costs and improving service and output. DeCA has produced significant cost savings by restructuring, realigning, and reducing HQs, region, and store management. DeCA continuously re-engineers its processes in order to provide more efficient and effective operations.

d. Improve the Infrastructure. Our customers expect to shop in bright, clean and attractive stores comparable to world-class supermarkets. They also deserve well-designed, constructed and maintained commissaries that are sized to handle the customer traffic and are conveniently located. Success in meeting these demands will be measured annually using defined metrics for assisting facility condition index and through analysis of the results of customer satisfaction surveys.

Performance Measures	FY 2003	FY 2004	FY 2005	FY 2009 Target
Customer Savings	32.1%	30%	30%	30%
Commissary Customer Service Survey (CCSS) (1-5 Scale)	4.42	4.42	4.46	4.50
Unit Costs (current year \$)	.2172	.2214	.2288	.2286
Unit Costs (FY02 Constant \$)	.2125	.2138	.2158	.2119
American Customer Satisfaction Index (ACSI)	*	75	76	77
Facility Condition Index	**	77.1	79.7	90

* Begin performance measure in FY 2004

** Data unavailable until February 2004

e. Shape the Workforce. In order to efficiency provided the commissary benefit, DeCA needs a retail oriented workforce that is multi-skilled, diverse and properly sized, to meet mission requirements. This will be accomplished through implementation of human resources initiatives and pilot programs that provide a more flexible personnel system and performance evaluation and awards systems that mirror the commercial sector.

f. Improve Technology. Employing technology as a strategic tool is crucial to DeCA's desired business outcome: a commissary benefit that not only improves the quality of life for Armed Services members and their families, but at the same time minimizes the cost to the American taxpayers. Each of DeCA's Information Technology (IT) initiatives must support sustainment of commissary savings, improvement of service and the lowering of operating costs, as well as complying with the Expanded Electronic Government PMA initiative.

The following initiatives are used to assist DeCA in achieving the goal of delivering the premier quality of life benefit for our military efficiently and effectively:

a. Improved Convenience and Shopping Cycle Time of Customers. DeCA Zone Managers and Store Directors continuously identify convenience products that are frequently shopped by young active duty single shoppers and are resetting these categories to the front of the store to allow for easier access for Grab-N-Go products. In addition, commissaries that carry Home Meal Replacement products are moving these products to the front of the store to allow quick stop and shop access for commissary customers.

b. Optimize Store Operating Hours. DeCA Regions are monitoring existing store hours to determine the average cost per output and will adjust store hours within current funding to maximize sales and cost per output. Stores with potential sales opportunities have implemented early bird shopping. The commissary will open earlier with minimum staff to service customers wishing to purchase fifteen items or less.

c. Computer Assisted Ordering (CAO). DeCA implemented CAO at commissaries through FY 2003. CAO provides the mechanism necessary to increase and maintain sufficient in-stock rates that enable DeCA to provide our customers the right product at the right time throughout the shopping day.

	FY 2003	FY 2004	FY 2005
<i>Workload Indicators</i>			
Commissaries (begin year)	276	275	274
Annual Sales (\$M)	5,038.1	5,101.0	5,135.5
<i>End Strength and Full-time Equivalent (FTEs)</i>			
Civilian End Strength	18,201	18,268	18,499
Direct Hire	16,718	16,785	17,016
Indirect Hire	1,483	1,483	1,483
Military End Strength	13	13	13
Civilian FTEs	15,222	15,016	14,982
Direct Hire	13,739	13,533	13,499
Indirect Hire	1,483	1483	1,483
Military FTEs	13	13	13

DeCA Commissary Agency (DeCA)

**Fiscal Year (FY) 2005
President's Budget**

OPERATING BUDGET

February 2004

DeCA Commissary Agency (DeCA)

**Fiscal Year (FY) 2005
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COMMISSARY RESALE STOCKS

February 2004

**DEFENSE COMMISSARY AGENCY
DECA WORKING CAPITAL FUND
COMMISSARY RESALE STOCKS**

FUNCTIONAL DESCRIPTION

DeCA Commissary Resale Stocks finance resale inventory sold in the commissary system. DeCA's product assortment includes groceries, meat, poultry, fruits, vegetables, dairy products, and household goods. Sales of commissary products generate revenue that DeCA uses to replenish the resale inventory. DeCA Commissary Resale Stocks is self-sufficient, requiring no appropriated fund support, except for recovery of inventory losses due to natural disasters.

DeCA continuously strives to improve our operations while providing one of the top-rated military non-pay benefits. The investment of taxpayer's dollars in DeCA provides essential services and a touch of home in many areas of the world where our patrons have little or no alternative for their grocery and household item purchases. Authorized commissary patrons include: military members and their families, reserve forces personnel, retired personnel and annuitants. Other authorized sales include government civilian employees overseas, appropriated and non-appropriated fund activities, and U.S. State Department activities. DeCA's total authorized patron baseline is approximately ten million personnel. DeCA commissaries process over 90 million customer transactions annually.

DeCA adds a five percent surcharge to sales at the check out counter. This surcharge is required by law and is used to finance certain commissary store infrastructure and construction costs. DeCA manages these dollars in the Surcharge Collections Trust fund.

BUDGET HIGHLIGHTS

Revenue from the sale of commissary products of approximately \$5.1 billion consists primarily of cash, charge sales, and manufacturer coupons. Cash and coupon transactions from active duty and reserve military members and their families, retirees, foreign entities and non-appropriated funds represent over 99 percent of total resale stocks revenue. Charge sales include NEXMARTS, National Guard, and other appropriated and non-appropriated fund sales.

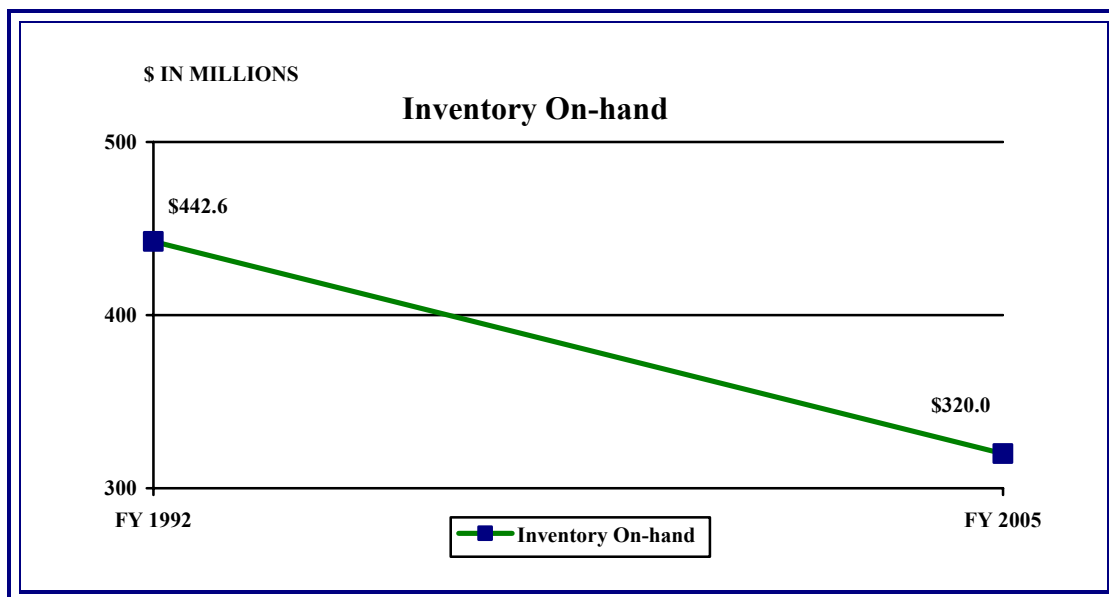
The unit cost goal for this activity group is \$1.00 per dollar of sales because resale products sold must recoup all costs to make the Commissary Resale Stocks fund whole.

In the November 2003, 53 percent of surveyed patrons selected the commissary benefit as their number one benefit. Additionally, the commissary benefit was ranked second for enlisted members and third for officers in the rank order of quality of life factors that were satisfiers and reasons to stay in the military. This is documented in an August 1999 GAO Report.

CHANGES IN OPERATIONS

Department of Defense right-sizing efforts and efficiency reviews from FY 1992 through FY 2005 result in the net closure of 138 commissaries or a reduction of approximately 33 percent. Commissary sales projections decline by about 15 percent over the same period.

DeCA has reduced the investment in inventory for both operating and safety levels. The inventory levels are expressed in days of supply based on average daily sales. Projected average daily sales are \$14.1 million for FY 2005, with 23 days of supply. In comparison, average daily sales for FY 1991 were \$16.5 million with 27 days of supply. This represents a 15 percent reduction in terms of days of supply through FY 2005. DeCA will reduce the on-hand inventory by 28 percent from the level maintained by the Military Departments at the end of FY 1991 as noted in the following chart:



The Marketing Business Unit (MBU) of the Product Support Business Area is one of the key players in the success of the Agency's efforts to achieve overall cost reductions and keep customer prices at commissaries significantly below those in the commercial sector. The MBU performs centralized category management reviews for new, national brands and Regional/Local products. The MBU conducts category reviews to ensure product selections within the managed categories continue to provide our patrons with desired products at the lowest prices available. Analysis of product movement and price data ensures optimum price negotiations for both national and regional products. The category review and analysis also serves as the basis for refining product selection for category plans, plan-o-grams and store resets to ensure the right product facing and quantity are available for commissary patrons.

DeCA is continuously looking to improve the quality of goods and services we provide our patrons while developing more cost effective business practices. Some of the initiatives that facilitate increasing sales include:

a. Increase Customer Savings. DeCA continually strives to provide our customers, savings through Manager's Specials and the Best Value Item (BVI) program. Manager's Specials are generally top-selling, recognizable brands at deeply discounted prices that go on sale for a short time. Manager's Specials provide our customers greater savings than the already low prices offered in the commissary. In addition to the Manager's Specials the BVI program continues to be a great success with our customers. This program ensures DeCA customers receive name brand quality items at the lowest price found on DeCA shelves as well as the lowest price (for the same size item, national or store brand) at grocery stores, supermarkets, or supercenters. Through Manager's Specials and the BVI program DeCA is responding to our customers needs with quality products and greater savings. DeCA is making a concerted effort to encourage single shoppers, military families and retirees to take advantage of their benefit. Our customers have earned their benefit and DeCA is committed to ensuring they get the best prices through these programs.

b. Patron Outreach. DeCA has initiated an aggressive patron outreach program aimed at appealing to E1 through E6 single service members and families. Annually, May is designated as Commissary Awareness Month. Vendors offer discounts and special buys all month long, with flyers and banners promoting the commissary benefit to service members. In May of FY 2004, DeCA will start the semiannual case lot sale that offers our patrons greatly reduced prices on high moving items such as toilet tissue, canned goods, detergent, etc. As part of the outreach effort industry is funding an Outreach/Goody Bag that contains trial size products and free item coupons targeted at the E1 through E6 demographics. DeCA is focusing marketing efforts for building sales by carefully listening to our customers and targeting commissary products and services based on customer feedback. Several means of communication are available for our patrons to provide feedback on what's good and what may be improved to ensure successful delivery of the premier quality of life benefit to authorized customers. Customers can provide comments and suggestions by speaking directly to store personnel, attending quarterly focus group meetings, submitting Your Action Line customer comment cards at the commissary, or by accessing the Contact DeCA section on the www.commissaries.com website. Feedback helps Store Directors to provide continuous improvements in the delivery of the commissary benefit. Store Directors brief the commissary benefit to new recruits during the Services' orientation, installation meetings and other venues when the opportunity is available. DeCA is bringing the commissary benefit to Reserve and National Guard units through off-site case lot sales and our annual and semiannual World's Biggest Case Lot Sale. Case lot sales offer patrons the opportunity to purchase items sold in bulk. High moving items (toilet tissue, canned goods, detergent, etc.) are sold at case lot sales at greatly reduced prices.

c. Computer Assisted Ordering (CAO). CAO is providing the mechanism necessary to increase and maintain sufficient in-stock rates that enable DeCA to provide our customers with the right product at the right time throughout the shopping day. CAO helps ensure all stores are in compliance with promotional programs and that store displays for promotional items are available throughout the promotional period. Commissaries need to have merchandise available in order to generate sales and keep customers satisfied

d. Improve Convenience and Shopping Cycle Time of Customers. DeCA Zone Managers and Store Directors continuously identify convenience products that are frequently purchased by young active-duty single patrons. These products are relocated in the front of the store for customer convenience. In addition, commissaries that carry Home Meal Replacement products are moving these products to the front of the store to allow quick stop and shop access for commissary customers. Arranging commissaries to allow easier access for grab and go products allow customers to shop and checkout in twenty minutes or less and make the commissary benefit more attractive for our active duty customers.

e. Optimize Store Operating Hours. DeCA Regions and stores continuously evaluate and adjust store hours to provide maximum convenience for our customers. Stores with potential sales opportunities will implement early bird shopping, where the commissary store will open up earlier with minimum staff to support foot traffic, for fifteen items or less. Implementation of early bird shopping hours will provide additional access and greater convenience for our customers.

f. Improve Produce Customer Satisfaction. DeCA continues to work with the Defense Supply Center Philadelphia (DSCP) to ensure they deliver quality produce to our commissaries. DeCA will reject produce deliveries that do not meet our quality standards, at or better than commercial standards, at the time of delivery. DeCA is demanding superior support from DSCP for the replacement of rejected produce, with quality product, within a few hours of notification. In addition to obtaining better produce, the merchandising of produce will be eye appealing to enhance the visual impact and quality of selections offered our customers. Additionally, DeCA has established teams to randomly inspect Produce departments throughout DeCA. These inspections will help to ensure department managers stay focused on receiving quality products from DSCP, employ superior merchandising of products, maintain fixtures and equipment in operational condition, and ensure proper handling and culling techniques. These teams also provide technical assistance to improve and keep our produce departments the place our customers choose to shop for their produce needs.

g. Improve Store Infrastructure. DeCA realigned operating costs that were previously paid out of the Surcharge Collections Trust fund into the Commissary Operations account. Through efficiencies, the Commissary Operations account offset the transferred costs. The realigned operating costs provided increased surcharge funding necessary to re-energize the construction program and help reduce the construction backlog. Because the new store layout designed for

Super Stores worked so well, DeCA plans to implement this design in all commissaries. Implementation of the new store design throughout DeCA commissaries will take a few years. Standardizing the commissary layout will allow our customers to travel around the world and still feel right at home when they shop at their commissary. The improved facility conditions and revised store layouts will enhance our customers' shopping experience and help generate additional sales.

DeCA productivity is best illustrated by comparing workload data between commercial supermarkets and the commissary system. This comparison clearly demonstrates that commissaries are cost effective and highly used by their patrons.

(Source for Supermarket Data: Supermarket Facts Industry Overview 2002)

<i>WORKLOAD DATA – AVERAGES</i>	<i>DeCA COMMISSARIES</i>	<i>COMMERCIAL SUPERMARKETS</i>
Weekly Sales per Store	\$ 467,046	\$ 361,564
Weekly Sales Per Square Foot	\$ 15.73	\$11.13
Sales Per Customer Transaction	\$ 57.55	\$ 24.63

(Calendar year 2002 commissary data for stateside locations.)

<u>Workload Indicators</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Number Commissaries (begin year)	276	275	274
Resale Stocks Sales (\$ Millions)	5,038.1	5,101.0	5,135.5
Ending Inventory On-Hand (\$ Millions)	313.9	317.9	320.0

<u>Performance Measures</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Inventory Turns	15.7	15.8	15.8
Customer Savings	32.1%	30%	30%
Commissary Customer Satisfaction Survey (CCSS)	4.42	4.42	4.46
American Customer Satisfaction Index (ACSI)	*	75	76

* Begin performance measure in FY 2004

Financial Indicators

Revenue (\$ Millions)	5,033.7	5,094.8	5,129.3
Cost of Goods Sold (\$ Millions)	5,020.6	5,101.6	5,136.1
Net Operating Results (\$ Millions)	13.2	(6.8)	(6.8)
Non Recoverable AOR Adjustment ¹	(12.6)		
Accumulated Operating Results (AOR)	13.6	6.8	0.0
Unit Cost (Per \$ of Sales)	1.00	1.00	1.00
Collections	5,041.2	5,094.8	5,129.3
Disbursements	5,046.6	5,101.6	5,136.1
Outlays	5.4	6.8	6.8

¹ Non Recoverable AOR Adjustment - Accounting adjustment to reflect transfers in/out between stores and CDC's for FY 92 through FY96.

**ACTIVITY GROUP ANALYSIS
DEFENSE COMMISSARY AGENCY/COMMISSARY RESALE STOCKS
SOURCE OF NEW ORDERS AND REVENUE
(Dollars in Millions)**

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
1. New Orders			
a. Orders from DoD Components:			
Army	0.3	0.3	0.3
Navy	5.0	5.2	5.2
Air Force	0.1	0.3	0.3
Marine Corps			
Other	0.3	0.3	0.3
b. Orders from Other Fund Activity Groups			
c. Total DoD	5.7	6.1	6.1
d. Other Orders:			
Other Federal Agencies	1.2	1.2	1.2
Trust Fund			
Non Federal Agencies	5,034.4	5,091.1	5,132.9
Foreign Military Sales			
Total New Orders	5,041.3	5,098.4	5,140.2
2. Carry-in Orders			
3. Total Gross Orders	5,041.3	5,098.4	5,140.2
4. Revenue			
5. End of Year Work-in-Progress			
6. Direct Contract Obligations			
7. Non DoD, BRAC, FMS, and DWCF Orders			
8. Funded Carry-over			
9. Months of Carryover			

DeCA WORKING CAPITAL FUND
ACTIVITY GROUP: COMMISSARY RESALE STOCKS
REVENUE AND EXPENSES
(Dollars in Millions)

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Revenue:			
Gross Sales	5,038.1	5,101.0	5,135.5
Operations	5,038.1	5,101.0	5,135.5
Capital Surcharge			
Depreciation excluding Major Construction			
Other Income			
Refunds/Discounts	(4.4)	(6.2)	(6.2)
Total Income:	5,033.7	5,094.8	5,129.3
Expenses:			
Cost of Material Sold from Inventory	5,020.6	5,101.6	5,136.1
Salaries and Wages:			
Military Personnel Compensation & Benefits			
Civilian Personnel Compensation & Benefits			
Travel & Transportation of Personnel			
Materials & Supplies (for Internal Operations)			
Equipment			
Transportation of Things			
Depreciation			
Printing & Reproduction			
Advisory & Assistance Services			
Rent, Communication, Utilities, & Misc. Charges			
Other Purchased Services			
Total Expenses	5,020.6	5,101.6	5,136.1
Operating Result	13.2	(6.8)	(6.8)
Less Cash Surcharge Reservation	0.0	0.0	0.0
Plus Appropriations Affecting NOR/AOR	0.0	0.0	0.0
Other Adjustments Affecting NOR	0.0	0.0	0.0
Net Operating Result	13.2	(6.8)	(6.8)
Accumulated Operating Results	26.2		
Non Recoverable Adjustment Impacting AOR ⁽¹⁾	(12.6)	0.0	0.0
Accumulated Operating Result for Budget Purposes	13.6	6.8	0.0

⁽¹⁾ Accounting adjustment to reflect transfers in/out between stores and CDC's for FY 92 through FY96. Footnoted in September 2003 Accounting Report (M) 1307 - Line 13 Net Operating Results

**FY 2003 BUDGET
DEFENSE COMMISSARY AGENCY SUPPLY MANAGEMENT BY DIVISION**

(Dollars in Millions)

Division	Peacetime Inventory	Net Customer Orders	Net Sales	Obligation Targets					Total	Commitment Target	Target Total
				Operating	Mobilization	Other	Total				
Commissary Resale Stocks	328.9	5,041.3	5,033.7	5,056.3			5,056.3		5,056.3		

**FY 2004 BUDGET
 DEFENSE COMMISSARY AGENCY SUPPLY MANAGEMENT BY DIVISION**

(Dollars in Millions)

Division	Obligation Targets						Target Total
	Peacetime Inventory	Net Customer Orders	Net Sales	Operating	Mobilization	Other	
Commissary Resale Stocks	332.9	5,094.8	5,094.8	5,098.1			5,098.1

**FY 2005 BUDGET
DEFENSE COMMISSARY AGENCY SUPPLY MANAGEMENT BY DIVISION**

(Dollars in Millions)

Division	Peacetime Inventory	Net Customer Orders	Net Sales	Obligation Targets					Total	Commitment Target	Target Total
				Operating	Mobilization	Other					
Commissary Resale Stocks	335.0	5,140.2	5,129.3	5,132.9				5,132.9		5,132.9	

FY 2003 BUDGET				DIVISION		February 2004	
				Commissary Resale Stocks			
DEFENSE COMMISSARY AGENCY SUPPLY MANAGEMENT							
INVENTORY STATUS				TOTAL	MOBILIZATION	PEACETIME OPERATING	PEACETIME OTHER
1. INVENTORY BOP				317.3		317.3	
2. BOP INVENTORY ADJUSTMENTS							
a. RECLASSIFICATION CHANGE (Memo)							
b. PRICE CHANGE AMOUNT (Memo)							
c. INVENTORY RECLASSIFIED AND REPRICED							
3. RECEIPTS AT STANDARD				5,037.4		5,037.4	
4. SALES AT STANDARD				5,020.8		5,020.8	
5. INVENTORY ADJUSTMENTS							
a. CAPITALIZATIONS + or (-)							
b. RETURNS FROM CUSTOMERS FOR CREDIT +							
c. RETURNS FROM CUSTOMERS WITHOUT CREDIT							
d. RETURNS TO SUPPLIERS (-)							
e. TRANSFERS TO PROPERTY DISPOSAL (-)							
f. ISSUES/RECEIPTS WITHOUT REIMBURSEMENT + or (-)							
g. OTHER (LIST/EXPLAIN)				(5.0)		(5.0)	
h. TOTAL ADJUSTMENTS							
6. INVENTORY EOP				328.9		328.9	
7. INVENTORY EOP, REVALUED (LAC, DISCOUNTED)							
a. ECONOMIC RETENTION (Memo)							
b. CONTINGENCY RETENTION (Memo)							
c. POTENTIAL DOD REUTILIZATION (Memo)							
8. INVENTORY ON ORDER EOP (Memo)				1.0		1.0	
9. NARRATIVE (Explanation of unusual changes)							
5g. Adjusted unrealized holding allowance							

FY 2004 BUDGET				DIVISION		February 2004	
				Commissary Resale Stocks			
DEFENSE COMMISSARY AGENCY SUPPLY MANAGEMENT							
INVENTORY STATUS				TOTAL	MOBILIZATION	PEACETIME OPERATING	PEACETIME OTHER
1. INVENTORY BOP				328.9		328.9	
2. BOP INVENTORY ADJUSTMENTS							
a. RECLASSIFICATION CHANGE (Memo)							
b. PRICE CHANGE AMOUNT (Memo)							
c. INVENTORY RECLASSIFIED AND REPRICED							
3. RECEIPTS AT STANDARD				5,101.0		5,101.0	
4. SALES AT STANDARD				5,101.0		5,101.0	
5. INVENTORY ADJUSTMENTS							
a. CAPITALIZATIONS + or (-)							
b. RETURNS FROM CUSTOMERS FOR CREDIT +							
c. RETURNS FROM CUSTOMERS WITHOUT CREDIT							
d. RETURNS TO SUPPLIERS (-)							
e. TRANSFERS TO PROPERTY DISPOSAL (-)							
f. ISSUES/RECEIPTS WITHOUT REIMBURSEMENT + or (-)							
g. OTHER (LIST/EXPLAIN)				4.0		4.0	
h. TOTAL ADJUSTMENTS							
6. INVENTORY EOP				332.9		332.9	
7. INVENTORY EOP, REVALUED (LAC, DISCOUNTED)							
a. ECONOMIC RETENTION (Memo)							
b. CONTINGENCY RETENTION (Memo)							
c. POTENTIAL DOD REUTILIZATION (Memo)							
8. INVENTORY ON ORDER EOP (Memo)				1.0		1.0	
9. NARRATIVE (Explanation of unusual changes)							

5g. Increased inventory in support of sales.

FY 2005 BUDGET				DIVISION		February 2004	
				Commissary Resale Stocks			
DEFENSE COMMISSARY AGENCY SUPPLY MANAGEMENT							
INVENTORY STATUS				TOTAL	MOBILIZATION	PEACETIME OPERATING	PEACETIME OTHER
1. INVENTORY BOP				332.9		332.9	
2. BOP INVENTORY ADJUSTMENTS							
a. RECLASSIFICATION CHANGE (Memo)							
b. PRICE CHANGE AMOUNT (Memo)							
c. INVENTORY RECLASSIFIED AND REPRICED							
3. RECEIPTS AT STANDARD				5,135.5		5,135.5	
4. SALES AT STANDARD				5,135.5		5,135.5	
5. INVENTORY ADJUSTMENTS							
a. CAPITALIZATIONS + or (-)							
b. RETURNS FROM CUSTOMERS FOR CREDIT +							
c. RETURNS FROM CUSTOMERS WITHOUT CREDIT							
d. RETURNS TO SUPPLIERS (-)							
e. TRANSFERS TO PROPERTY DISPOSAL (-)							
f. ISSUES/RECEIPTS WITHOUT REIMBURSEMENT + or (-)							
g. OTHER (LIST/EXPLAIN)				2.1		2.1	
h. TOTAL ADJUSTMENTS							
6. INVENTORY EOP				335.0		335.0	
7. INVENTORY EOP, REVALUED (LAC, DISCOUNTED)							
a. ECONOMIC RETENTION (Memo)							
b. CONTINGENCY RETENTION (Memo)							
c. POTENTIAL DOD REUTILIZATION (Memo)							
8. INVENTORY ON ORDER EOP (Memo)				1.0		1.0	
9. NARRATIVE (Explanation of unusual changes)							

5g. Increased inventory in support of sales.

DeCA Commissary Agency (DeCA)

**Fiscal Year (FY) 2005
President's Budget**

COMMISSARY OPERATIONS

February 2004

**DEFENSE COMMISSARY AGENCY (DeCA)
WORKING CAPITAL FUND
COMMISSARY OPERATIONS**

FUNCTIONAL DESCRIPTION

Commissary Operations finances 274 commissaries, 11 central distribution centers, 11 Navy Exchange Marts (NEXMARTs), 29 zones, 4 region offices, field operating activities, headquarters and related support services. Areas of significant cost include U.S. and foreign national civilian labor, A-76 and other support contracts, operating supplies, transportation of commissary goods overseas and in-theater, DoD service providers like the Defense Finance and Accounting Service (DFAS), Defense Information Systems Agency (DISA), and Defense Logistics Agency (DLA) and base operations support.

Commissaries sell products at acquisition cost to authorized patrons, while maintaining high standards for quality, facilities, products and services. A direct appropriation received from Congress is an essential part of this process and is the foundation that allows military members and their families to receive direct savings of approximately 30 percent below the typical market basket. The commissary has become an integral part of the non-pay compensation package used in recruiting and retaining military members.

BUDGET HIGHLIGHTS

Appropriated fund requests represent 97.3 percent of required revenue. Remaining revenue is obtained through other sources such as, fees paid by grocery manufacturers for redemption of manufacturers coupons, cost recovery fees for selling tobacco in commissaries and funds from the Government of Korea as part of their agreement to share costs.

The Military Departments, that provide oversight of the commissary system, have committed to retaining the commissary benefit to include mission changes due to previous base realignment and closure actions, quality of life concerns, expansion of operating hours and other business-like considerations. This budget submission reflects this commitment by requesting cost authority of \$1,174.9M for FY 2005. The planned Accumulated Operating Result (AOR) is breakeven for FY 2005 with a unit cost goal of .2288.

The chart below summarizes revenue and expenses during this budget cycle.

REVENUE (\$M):	FY 2003	FY2004	FY 2005
Services Reimbursement			
Appropriation	959.1	1,089.2	1,174.9
Other Reimb/Adj (Deprec)	34.5	38.3	32.0
Total Revenue	993.6	1,127.5	1,206.9
EXPENSES (\$M)	1,094.1	1,129.6	1,174.9
NOR	(100.5)	(2.1)	32.0
AOR	(29.9)	(32.0)	0.0

DeCA projects 18,499 civilians in FY 2005. Full-time equivalent (FTE) levels for FY 2005 are 14,982. Civilian FTEs are consistently below the civilian end strength levels because DeCA uses a mix of full-time, part-time and intermittent employees to provide scheduling flexibility required by commissaries.

a. DeCA is committed to Competitive and Strategic Sourcing integration as required by the President's Management Agenda. Detailed plans for all competitive sourcing and strategic sourcing studies are being developed.

b. DeCA has developed engineered staffing standards to support the new commissary organizational structure. The standards support both department level and total store staffing requirements to realize unit cost reductions.

c. DeCA has been successful in reducing FTEs by outsourcing certain functions and services under OMB Circular A-76 procedures. DeCA plans to aggressively pursue, at every opportunity, competition and privatization A-76 cost studies. Currently DeCA has about 172 A-76 contracts in effect for shelf stocking, custodial and warehousing functions. An A-76 Task Force has been established with primary responsibility of developing business strategy and determining the direction of DeCA's commercial activities program. The program plays a major role in reducing store level unit costs.

CHANGES IN OPERATIONS

Opening and closing commissaries continue to have a significant impact on operations. DeCA is charged by DoD Directive to annually evaluate and determine whether to establish, continue or downsize commissary store. Criteria used in the evaluation are: the active duty

military served by the commissary, the availability of other commissaries in the general area and the economic viability.

In an effort to stay in tune with the needs of our customer, DeCA has made the job of providing popular and nutritious lunches much easier by providing Grab-N-Go meals. In the fast paced world of the military, convenient and affordable items in the commissaries Grab-N-Go section have taken on a new role for time-pressed parents of schoolchildren: that of the traditional bagged lunch. These items are conveniently placed at the front of the store where they are easy to find. The items are constantly reviewed in an effort to make the service even better. DeCA has received many positive responses for this service.

DeCA is constantly striving to accommodate its customer even when they are away from American soil. One example of DeCA taking care of its customers can be found at Incirlik Commissary (Turkey). Customers can fax or e-mail their orders and commissary personnel will box and mail the items via military postal service. After the product is taken to the post office, the customer is called and informed that the order is on the way. This is just another example of DeCA working hard to support its patrons.

MISSION EFFECTIVENESS

DeCA has successfully demonstrated its ability to operate an efficient commissary system that provides a non-pay benefit, improves the quality of life of authorized patrons and enhances military readiness by retaining quality personnel

Customer surveys have found that the military member and their families, the reserve components and retirees consistently rank the commissary system as one of their top rated nonpay benefits ahead of other nonpay benefits such as medical and Moral Welfare and Recreation programs. More than 53 percent of commissary shoppers selected the commissary as their number one benefit in a recent DeCA survey. This perception of the commissary benefit greatly assists the Department in retaining a quality military force.

To continue meeting its mission requirements, DeCA must continue modernizing commissary operations. The patrons of today are much different than those of yesterday; e.g., over 67 percent of the active duty population is married. Given the increased deployments over the past few years, the commissary system is striving to better understand customer expectations and to provide services to support the needs of today's forces. The signing of the 2004 National Defense Authorization Act by President Bush signaled increased benefits for members of the Guard and Reserve and their families and those benefits include unlimited commissary shopping. With approximately 1.2 million Guard and Reserve personnel and their family members gaining unlimited use to the commissary benefit, DeCA will have even more opportunities to serve our armed forces and their families at the same cost as when limited access restrictions were in place.

DeCA continues to seek improved customer service by conducting surveys at all stores annually and analyzing results using the Commissary Customer Satisfaction Survey (CCSS) and the American Customer Satisfaction Index (ACSI). The scores consistently show the positive

results of a customer service focus. Patrons now rate all areas at “good” or “better” on a scale from zero to five. The latest survey shows improved scores in every survey item. Improvements to the CCSS have been initiated to shift emphasis from demographics to customer satisfaction. This approach focuses on responding quickly to customer survey concerns and maximizes customer input in operational decisions.

DeCA’s goal is to deliver the premier quality of life benefit for our military efficiently and effectively. This overarching goal is directly supported by strategic objectives and action plans to fulfill the goal. Together, these metrics are guiding improvements throughout the commissary system and provide the foundation of this budget submission:

Increase Savings. The program and performance metrics outlined in this budget ensure the long-term viability of customer savings. They also reflect DeCA’s ability to leverage our worldwide sales activities into the best prices for our military and their families and operate high unit cost stores in remote and overseas locations by leveraging the cost efficiencies of the larger stores. Finally, they reflect the continuing feedback we receive from our customers and their satisfaction with multiple aspects of our store operations, prices and service. Our target is to sustain 30 percent savings over the commercial grocery and super center chains.

Reduce Unit Cost. DeCA benchmarks well against industry, both operationally and financially. However, we believe we must strive to do even better at reducing unit costs, while at the same time improving performance. To this end, the metrics outlined in this budget estimate are supported by the implementation of activity-based management concepts at all levels within DeCA, from headquarters down to the departments within each store. The intent is to reduce unit costs throughout the organization and at the same time improve service and outputs. Technology investments are being made based on return on investment. Restructuring, realigning and reducing headquarters and region and store management is providing more efficient and effective operations and is streamlining the organization. To support this more efficient organizational structure, the workforce is being assessed and will be adjusted to meet the flexible job requirements and multiple skills needed for the future.

<u>Workload Indicators</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Commissaries (begin year)	276	275	274
Annual Sales (\$M)	5,038.1	5,101.0	5,135.5

Performance Indicator/Goals

Customer Savings	30%	30%	30%
Commissary Customer Service Survey (CCSS)	4.42	4.42	4.46
American Customer Satisfaction Index (ACSI)	*	75	76
Unit Costs (current year \$)	.2172	.2214	.2288
Unit Costs (FY 2002 Constant \$)	.2125	.2138	.2119

* Begin performance measure in FY 2004

End Strength and Full-Time Equivalent (FTEs)

Civilian End Strength	18,201	18,268	18,499
Military End Strength	13	13	13
Civilian FTEs	15,222	15,016	14,982
Military FTEs	13	13	13

**ACTIVITY GROUP ANALYSIS
DEFENSE COMMISSARY AGENCY/COMMISSARY OPERATIONS
SOURCE OF NEW ORDERS AND REVENUE
(Dollars in Millions)**

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
1. New Orders			
a. Orders from DoD Components:			
Army Operations and Maintenance	0.0	0.0	0.0
Navy Operations and Maintenance	0.0	0.0	0.0
Marine Corps Operations and Maintenance	0.0	0.0	0.0
Air Force Operations and Maintenance	0.0	0.0	0.0
Other Reimbursements (Non-Appropriated Funds and Trust Funds)	10.0	9.4	9.9
b. Orders from other Fund Activity Group	0.0	0.0	0.0
c. Total DoD	10.0	9.4	9.9
d. Other Orders:			
Other Federal Agencies	1.6	1.6	1.6
Trust Fund	0.0	0.0	0.0
Non Federal Agencies	19.8	19.5	20.5
Foreign Military Sales	0.0	0.0	0.0
Total New Orders	21.4	21.1	22.1
2. Carry-In Orders	0.0	0.0	0.0
3. Total Gross Orders	31.4	30.5	32.0
4. Funded Carry-over	0.0	0.0	0.0
5. Total Gross Sales	31.4	30.5	32.0

DeCA WORKING CAPITAL FUND
ACTIVITY GROUP: COMMISSARY OPERATIONS
REVENUE AND EXPENSES
(Dollars in Millions)

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Revenue:			
Services Reimbursement			
Operations			
Capital			
Total Services Reimbursement			
Depreciation (Excluding Major Construction)	3.1	7.8	0.0
Other Income	31.4	30.5	32.0
Total Income:	34.5	38.3	32.0
Expenses:			
Salaries and Wages:			
Military Personnel Compensation & Benefits	1.0	1.1	1.1
Civilian Personnel Compensation & Benefits	639.7	657.3	681.1
Travel & Transportation of Personnel	10.0	11.1	11.2
Materials & Supplies (for Internal Operations)	56.2	47.6	51.6
Other Purchases from Revolving Funds	27.7	28.3	31.5
Transportation of Things	105.2	113.0	115.0
Depreciation	3.1	7.8	5.7
Printing & Reproduction	0.4	0.7	0.7
Advisory & Assistance Services	0.0	0.6	0.6
Rent, Communication & Misc. Charges	53.6	55.4	60.1
Other Purchased Services	197.2	206.7	216.3
Total Expenses	1,094.1	1,129.6	1,174.9
Operating Result	(1,059.6)	(1,091.3)	(1,142.9)
Less Capital Reservation	0.0	0.0	0.0
Plus Appropriations Affecting NOR/AOR	959.1	1,089.2	1,174.9
Net Operating Result	(100.5)	(2.1)	32.0
Other Changes Affecting AOR	0.0	0.0	0.0
Accumulated Operating Result	(29.9)	(32.0)	0.0

**Defense Commissary Agency/Commissary Operations
Changes in the Costs of Operation
February 2004
(Dollars in Millions)**

	<u>Expenses</u>
1. FY 2003 Actual Costs	1,094.1
2. FY 2004 PB	1,111.3
3. Pricing Adjustments	
Impact Additional FY 03 1% Pay Raise	4.1
FY 2004 Civilian Pay Raises	9.3
General Purchase Inflation	(0.9)
Outside Continental U.S. (OCONUS) Transportation	2.1
Services and Supply Contracts	1.8
Inter-Service Support and Utilities	0.6
4. Program Changes:	
Information Technology Wide Area Network-OCONUS	1.3
5. FY 2004 Current Estimate	1,129.6
6. Pricing Adjustments	
Annualization of Prior Year Pay Raise	2.4
FY 2005 Civilian Pay Raises	18.3
General Purchase Inflation	7.4
Overseas Pricing Adjustments	10.9
Department of Labor Wage Rate	1.0
7. Program Changes:	
Voluntary Early Retirement Authority	2.9
Workforce Adjustments and Training	2.0
100% Equipment Inventory Contract	0.6
Store Closure	(1.1)
Store Opening	0.9
8. FY 2005 Current Estimate:	1,174.9

DeCA Commissary Agency (DeCA)

**Fiscal Year (FY) 2005
President's Budget**

CAPITAL BUDGET

February 2004

DeCA Commissary Agency (DeCA)

**Fiscal Year (FY) 2005
President's Budget**

COMMISSARY OPERATIONS

February 2004

Activity Group Capital Investment Summary
Component: Defense Commissary Agency
Activity Group: Commissary Operations
Date: February 2004
(\$ in Millions)

<u>Line Number</u>	<u>Item Description</u>	FY 2003		FY 2004		FY 2005	
		Quantity	Total Cost	Quantity	Total Cost	Quantity	Total Cost
1000	Equipment, Other Than ADPE and Telecommunications Resources						
2000	ADPE and Telecommunications Equipment						
2001	ADP Equipment (<500K)	2	0.6				
2002	ADP Equipment (\$500K-999K) - Located at DeCA HQ	2	1.2				
2003	ADP Equipment \$1,000K and Over	1	1.4	1	2.0	1	3.8
2004	Corporate Decision Support System	1	1.4	1	2.8	1	1.0
2005	Corporate Server III			1	3.0	1	0.8
	DeCA Electronic Records Management & Archive						
3000	Software Development/Modernization						
4000	Minor Construction						
	TOTAL CAPITAL PURCHASE PROGRAM	6	4.6	3	7.8	3	5.6
	Total Capital Outlays		6.5		6.4		6.5
	Total Depreciation Expense		4.6		7.8		5.6

ACTIVITY GROUP CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)		A. FY 2005 President's Budget												
B. DeCA WCF/ Commissary Operations February 2004		C. Line No. & Item Description 2002. Various ADP Equipment \$500-\$999K					D. Activity Identification							
Element of Cost	Various ADP Equipment \$500K-\$999K	FY 2003			FY 2004			FY 2005						
		Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost				
		2	1,217.0	1,217.0										
<p><u>FY 2003</u></p> <p>Public Key Infrastructure Computer software (Operating System) - \$517,000 Worldwide WEB A1 Computer Hardware (Production) - \$700,000</p>														

ACTIVITY GROUP CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)		A. FY 2005 President's Budget						
B. DeCA WCF/ Commissary Operations February 2004	C. Line No. & Item Description 2001. Various ADP Equipment \$100-\$499K	FY 2003		FY 2004		FY 2005		
		Quantity	Unit Cost	Total Cost	Unit Cost	Total Cost	Unit Cost	Total Cost
Element of Cost								
Various ADP Equipment \$100K-\$499K		2	2	600.0				
FY 2003 Standardize Shared Tape Storage - \$100,000 Upgrade Shared Disk Storage - \$500,000								

ACTIVITY GROUP CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)										A. FY 2005 President's Budget		
B. DeCA WCF/ Commissary Operations February 2004		C. Line No. & Item Description 2003. Corporate Decision Support System			D. Activity Identification							
		FY 2003			FY 2004			FY 2005				
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost			
ADP Equipment (Productivity) > \$1M	1	1,350.0	1,350.0	1	2,000.0	2,000.0	1	3,800.0	3,800.0			
<p>Narrative Justification: Corporate Decision Support System (CDSS)/Enterprise Data Warehouse (EDW) provides DeCA with a single version of the truth for sales data across the enterprise empowering end-users to make informed business decisions, obtain competitive advantage and achieve parity with industry. In line with the Agency's Strategic Objectives: increase sales, reduce unit cost and improve savings to customers, CDSS must be populated with the additional cost, savings, demographics and Capital Investment data to meet these objectives. CDSS is the keeper of the Agency's corporate data. After CDSS is fully populated, the data will be used by all levels of management within DeCA HQs, Regions, and stores to make better-informed business decisions. In accordance with the Warehouse Centric architecture plan, contractor services for skill sets unavailable within DeCA are required. Teradata Data Base Administrators, Data Architects and Data Management specialists for design, development, test and deployment are critical to the success of this corporate project. DeCA is currently loading 8 to 9 gigabytes of data per day into the CDSS on the NCR WorldMark platform. With an estimated 300% increase in growth in data elements, the current configuration was expanded in FY 2003 to an eight-node, 14 Terabyte system. DeCA is heavily invested in the current Warehouse Centric system, with complete corporate sponsorship. For this reason, \$2M in FY 2004 and \$3.8M in FY 2005 is needed to fund the current configuration.</p> <p>Economic Analysis Summary: In accordance with DeCA's Strategic Initiatives, DeCA requires this additional processing capability to increase sales, decrease costs and achieve parity with private industry. To maintain operational continuity, this additional equipment is an optimally configured, cost effective Warehouse Centric solution. DeCA must ensure continuity of operations and support for its business systems in order to continue to reduce unit costs, sustain its initial investment in CDSS and avoid costs that would be incurred if compatible hardware and software were not acquired. Comparative analysis indicates an investment (or cost avoidance) of \$12.5M would be required to replace all hardware, software, licensing fees and re-development services to convert to a different hardware platform and a different database environment at this time.</p> <p>Impact of Project Disapproval: DeCA will be unable to meet its Strategic Initiatives of increasing sales, reducing unit costs and achieving parity with private industry, and therefore unable to provide the resulting benefit to our soldiers, airman, seamen, marines, their families and our retirees.</p>												

ACTIVITY GROUP CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)		A. FY 2005 President's Budget								
		D. Activity Identification								
B. DeCA WCF/ Commissary Operations February 2004	C. Line No. & Item Description 2004. Corporate Server III	FY 2003		FY 2004		FY 2005				
		Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
	ADP Equipment (Productivity) > \$1M	1	1,400.0	1,400.0	1	2,800.0	1	1,000.0	1,000.0	
<p>Narrative Justification: In the mid-90's DeCA embarked on a program to provide continuous technical refresh of its corporate servers. When these servers reached capacity, DeCA elected to purchase newer technology in 1998 (Corporate II). The Agency intends to refresh its corporate servers on a four-year cycle. This will mean that a server is five years old when removed from the inventory. Industry standards determine that a server has depleted its value in four years. The speed of technological change determines that servers lose value much faster. DeCA has migrated applications to new corporate servers based on the criticality of the application and the urgency to utilize new technology features to improve functionality or efficiency of the applications. These systems include DeCA's Interactive Business System (DIBS), Computer Assisted Ordering, bill paying, electronic data interchange, data warehousing, and item movement, and are essential to DeCA's mission. The Corporate Servers are the backbone of DeCA's Enterprise Computing initiative. This initiative has brought a multitude of stovepipe systems into a single operating environment and drastically cut operating costs. DeCA will consolidate systems that are dispersed on multiple servers each life cycle to save on maintenance and operating costs. The Corporate Servers will be utilized to host new requirements that are generated by DoD or by business requirements of the Agency. The Corporate Servers will continue to utilize the latest technology and its' maintenance costs will be lower by instituting a four year refresh and replacement cycle. During FY 2004 through FY 2006, DeCA will complete a Technology refresh of the Corporate Servers, EMC disk array for Centralized Disk Storage, and the tape backup archiving system. The EMC disk array will provide more reliable data replication and enhanced backup capabilities to an alternate processing center for disaster recovery. The EMC technology refresh will use state of the art technology to enhance disaster recovery preparedness as directed by OSD. The refresh of the backup and archiving system will give DeCA a reliable means to archive historical data and provide a restore capability to the Corporate Servers in the event of data corruption.</p> <p>Economic Analysis Summary: The recommended alternative is based on comparison of current hardware maintenance and operating costs versus a technology refresh with maintenance. DeCA requires Corporate Server hardware and software to replace obsolete production equipment platforms that can no longer be supported. The Corporate suite will include a server for development used by developers to create deliverables; a server for testing systems to ensure accuracy, acceptance and configuration management; and the Corporate Servers running DeCA's applications. DeCA did a refresh of its corporate servers in FY 2002. DeCA also intends to acquire Corporate Servers for business continuance and to provide additional capacity for testing and production growth at a cost of \$1.3M in FY 2003 and \$2.1M in FY 2004. This equipment will be located at the Agency's headquarters and alternate operation site. The DeCA technical support staff is able to perform the work that was accomplished by contractors because the new Corporate platform utilizes DeCA standard operating system and utilities for which the DeCA staff is trained and experienced. During FY 2003 through FY 2006, DeCA will initiate the Technology refresh of the EMC disk array for Centralized Disk Storage, and more reliable data replication to an alternate processing center at a cost of \$.700M per year. DeCA will also enhance the backup capabilities at the alternate processing center in the event of a disaster at a projected cost of \$.3M in FY2005 to refresh the Tape Library at the alternate site. The EMC technology refresh will use state of the art technology to enhance disaster recovery preparedness as directed by OSD. The current EMC disk array in use at DeCA was purchased in 2002 and contains current networking technology. The current alternate site tape library was purchased in FY 2001, and is in desperate need of being upgraded to support the agency in case of a transfer of processing of our HQ computer facility to the alternate site for disaster recovery. During FY 2006 through FY 2009, DeCA will be repeating the technology refresh cycle initiated in 2002 with the replacement of the Corporate / Enterprise Server Environment with state of the art technology.</p> <p>Impact of Project Disapproval: Not continuing with the technology refresh of the EMC disk array for Centralized Disk Storage and the enhancement of the backup capabilities at the alternate processing center in the event of a disaster at a projected cost of \$.3M in FY2005 to refresh the Tape Library at the alternate site, means continuing critical DeCA systems on platforms that are no longer supported or have dramatically reduced capacity. The maintenance costs will increase annually and spare parts may no longer be available. The ability of the Agency to continue to perform mission critical functions such as bill paying, inventory management and electronic commerce will be imperiled. The current alternate site tape library will not be able to support the agency in case of a transfer of processing of our HQ computer facility to the alternate site for disaster recovery. Additionally, the Agency will be unable to develop additional applications to address new business requirements. Not approving FY 2003 through FY 2006 funding will greatly compromise DeCA's ability to comply with the OSD mandate to implement and maintain the architecture for Disaster Recovery and Continuity of Operations of the Commissary benefit in the event of a disaster at either of DeCA's two processing centers. This would eliminate the Commissary benefit to our Military and their families.</p>										

ACTIVITY GROUP CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)									
B. DeCA WCF/ Commissary Operations February 2004					A. FY 2005 President's Budget				
C. Line No. & Item Description 2005. DeCA Electronic Records Management & Archive					D. Activity Identification				
Element of Cost	FY 2003			FY 2004			FY 2005		
	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
ADP Equipment (Productivity) > \$1M				1	2,969.0	2,969.0	1	849.0	849.0
<p>Narrative Justification: Recommend implementation of a fully certified Electronic Records Management System (DERMAS). In the mid-90's the Defense Commissary Agency (DeCA) Information Systems Review Council (DAISRC) approved the total electronic records management concept for DeCA. The system is mandated by several e-Government initiatives from the President's Management Agenda (PMA). Currently the agency has a legacy records management system that is not fully compliant and no longer support the need. That legacy system is the DeCA's Document Management System (DDMS). This portion of the electronic records management concept was pilot tested and has been totally implemented throughout all commissaries. DDMS currently houses the financial records only. The PMA e-Government initiative is stressing the electronic records management program for all government agencies.</p> <p>Economic Analysis Summary: The records management application (RMA) software that DeCA is requesting to purchase is fully compliant with DoD Standard 5015.2 and certified by DISA for use up to Top Secret. The RMA also meets ISO 9000/9001 standards and DITSCAP requirements for secure and authorized use. The current software application is outdated and does not fully meet agency needs. Disaster recovery and maintenance of the existing system is costly. Implementation of this fully integrated system will reduce overall agency costs, will expand its use, is fully compliant with federal mandates, and is in line with the agency's strategic objectives. In FY04 we began putting together a proposal package allowing us to obtain program approval. Resources required are \$1.050M for hardware and \$1.919M for software to implement this project. In FY05 there is an additional requirement of \$294K for hardware and \$555K for software.</p> <p>Impact of Project Disapproval: Offsite storage of these records has impacted the agency's overall cost of normal operations support. In addition, word has been received from the Fort Lee Installation Records Holding Area (RHA) that no paper-based records (except for permanent records that are transferred to a records center immediately upon receipt) will be accepted due to elimination of all Army RHA facilities. DeCA has a RHA, but without the ability to transfer temporary records to the installation, RHA saturation will be reached during 2004. Implementation of the remaining portion of the electronic records system will greatly eliminate storage problems that are anticipated.</p>									

Defense Commissary Agency
Activity Group: Commissary Operations
FY 2003
FY 2005 President's Budget

PROJECTS ON THE FY 2005 PRESIDENT'S BUDGET

(Dollars in Millions)

<u>FY</u>	<u>Approved Project</u>	<u>Reprogs</u>	<u>Approved Proj Cost</u>	<u>Current Proj Cost</u>	<u>Asset/ Deficiency</u>	<u>Explanation</u>
	Equipment except ADPE and TELCOM					
	Equipment - ADPE and TELCOM		4.567	4.567	0.000	
	Software Development					
	Minor Construction					
	Total FY 2003		4.567	4.567	0.000	

Defense Commissary Agency
Activity Group: Commissary Operations
FY 2004
FY 2005 President's Budget

PROJECTS ON THE FY 2005 PRESIDENT'S BUDGET

(Dollars in Millions)

<u>FY</u>	<u>Approved Project</u>	<u>Reprogs</u>	<u>Approved Proj Cost</u>	<u>Current Proj Cost</u>	<u>Asset/ Deficiency</u>	<u>Explanation</u>
	Equipment except ADPE and TELCOM					
	Equipment - ADPE and TELCOM		0.000	7.769	7.769	
	Software Development		0.000	0.000	0.000	
	Minor Construction					
	Total FY 2004		0.000	7.769	7.769	

Defense Commissary Agency
Activity Group: Commissary Operations
FY 2005
FY 2005 President's Budget

PROJECTS ON THE FY 2005 PRESIDENT'S BUDGET

(Dollars in Millions)

<u>FY</u>	<u>Approved Project</u>	<u>Reprogs</u>	<u>Approved Proj Cost</u>	<u>Current Proj Cost</u>	<u>Asset/ Deficiency</u>	<u>Explanation</u>
	Equipment except ADPE and TELCOM					
	Equipment - ADPE and TELCOM		0.000	5.649	5.649	
	Software Development		0.000	0.000	0.000	
	Minor Construction					
	Total FY 2005		0.000	5.649	5.649	