

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

**FISCAL YEAR (FY) 2003 BUDGET ESTIMATES
OPERATING AND CAPITAL BUDGET**



**FEBRUARY 2002
CONGRESSIONAL DATA**

DEFENSE COMMISSARY AGENCY (DeCA)
WORKING CAPITAL FUND

FY 2003 BUDGET ESTIMATES
FEBRUARY 2002

OPERATING AND CAPITAL BUDGET

Operating Budget

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

The Defense Commissary Agency (DeCA) operates a world-wide system of commissary stores. These commissaries sell food and related household items to active and reserve members of the Military Departments, their families, retirees, and other authorized patrons. The items sold in the commissaries are priced to recover product cost and, as a result, provide the commissary patrons direct savings of over 30 percent on a typical market basket. 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 much of the same type items found in a typical state-side 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. Thus, military members embrace this valuable contribution to their lifetime compensation package and consider it to be one of the most important non-pay compensations they receive.

DeCA headquarters and field operating activities are located at Fort Lee, Virginia. There are 4 region offices, 33 zones, 276 commissaries, and 12 Navy Exchange Marts (NEXMARTs) on military installations worldwide. DeCA employs over 16,000 personnel, has annual sales of around \$5.1 billion, and has an annual budget of approximately \$1.1 billion (\$1.1 billion in DeCA Working Capital Fund (DeCA WCF) Commissary Operations, and \$4.6 million in DeCA WCF Capital). The direct appropriation request for FY 2003 is \$996.8 million and includes the Federal Employees Health Benefit/Civil Service Retirement System accruals. These accruals are intended to improve the accounting for and make the cost of government programs more visible. Therefore, the Administration is proposing to align the full annual budgetary costs of resources used by programs with the budget accounts that fund the programs. To that end, this budget includes a request for a direct appropriation of \$27.6 million to fund the full accruing cost of the Civil Service Retirement System and retire health benefits for civilian employees in the Federal Employee Health Benefit Program. This proposal does not increase the total costs to the Federal government, since these costs were previously funded from government-wide OPM accounts.

DeCA also purchases services from the Defense Logistics Agency (DLA), Defense Finance and Accounting Service (DFAS), Defense Information Services Agency (DISA), United States 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 Working Capital Fund (DWCF): 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 2003. Projected sales for FY 2003 are \$5.1 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 appropriated funds that are transferred from the Military Departments Operations and Maintenance Accounts. Commissary Operations also receives additional revenues, about \$35 million, from manufacturers' coupon redemption fees, handling fees for tobacco products, and reimbursements for other support. Commissary Operations unit cost goal is based on sales as the output.

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 check-out counter. This fund was established by law, so authorized patrons share responsibility for overall costs of the commissary system, including information management equipment and support, and commissary construction program. This fund also receives revenue from prompt payment discounts, the sale of used cardboard and equipment, and services provided to others. Consistent with the FY 2001 National Defense Authorization Act (NDAA) all building, renovation, and repair and maintenance costs are funded by surcharge collections beginning in FY 2002 and all operational costs are funded with appropriated funds. This legislation substantially increased the funds available for store infrastructure revitalization through FY2007 and beyond.

II. WORKLOAD ASSUMPTIONS

The annual sales forecast for FY 2003 is \$5.1 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 12 million. DeCA's customers include active duty military members, reserve component members, retired personnel and their families, government departments or agencies, and DoD civilians in overseas areas.

b. Organization: DeCA plans to begin FY 2003 with 276 commissaries. There are also 12 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. Openings and Closures: DeCA is charged by DOD Directive to annually evaluate and determine whether to establish, continue, or downsize commissary stores. Criteria used in the evaluation are: the active duty military served by the commissary, the availability of other commissaries in the general area, and economic viability. Based on these evaluations and previous Base Realignment and Closure (BRAC) actions, the following stores were approved for closure by the Commissary Operating Board (COB) for this budget cycle: Fitzsimons (Colorado), Brooks Air Force Base (Texas), Naval Computer Telecommunications Station - Cutler NCUC (Maine), Defense Supply Center - Richmond (Virginia), Kelly Air Force Base (Texas), Pope Air Force Base (North Carolina), Defense Distribution Center - New Cumberland (Pennsylvania), Naval Air Warfare Center - Point Mugu (California), Presidio of San Francisco (California), and Fort Shafter (Hawaii). In addition, commissaries at the following locations will be closed as a result of the downsizing of forces and/or base closures: Bad Aibling (Germany), Bad Kreuznach (Germany), Costanzo (Sicily), and Winter Harbor Naval Security Group Activity (Maine). Using the same criteria that is used to develop closure recommendations, stores at Buckley Air Force Base, (Colorado), Camp Red Cloud (Korea) and the Navy Regional Contracting Center - Singapore (Republic of Singapore) were requested by the Services and approved by the COB for opening during this budget cycle.

d. Location: OCONUS and remote locations cost more per dollar of sales than 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. This military population does not have adequate alternative shopping available. OCONUS commissaries are more than a place for acquiring groceries. They are an essential "life-line" for the overseas military community and their quality of life.

e. Hours of Operations: Commissary operating hours and days are determined by sales, patron demographics, and local installation needs. Due to funding limitations, commissaries are open an average of 50 hours a week. This is significantly less than the commercial grocery store average of 117 hours. The high sales volume, coupled with limited hours, has an extensive impact on store construction, store layout, and overall operations.

f. Workforce: DeCA projects 16,439 civilians in FY 2003. During FY 2003 the Full-time equivalent (FTE) level is 15,040 (13,557 Direct Hire and 1,483 Indirect Hire). Military personnel strength is 13. 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.

g. Commercial Activities: 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 188 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.

III. PRODUCTIVITY ASSUMPTIONS:

This budget represents a milestone for the commissary system, as DeCA fully implements the cultural, managerial and organizational changes needed 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 these changes 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 a commissary system that will maintain quality service, but with a reduction in operating costs of approximately \$149 million by the end of FY 2003 from the levels in the FY 2002 Amended President's Budget. At the same time, DeCA is implementing a surcharge revitalization program that will eliminate the backlog of maintenance and repair by FY 2009, and improve the condition of stores. DeCA is continuously looking to improve the quality of goods and services for commissary patrons while developing more cost effective business practices. Some of the initiatives that facilitate increasing sales or reduce costs include:

a. Increased Customer Savings: Savings are the ultimate performance metric of the commissary system. Customer savings were 27 percent over the commercial sector in FY 2000 without considering supercenters. Savings are projected to be 32 percent in FY 2003 when compared to the commercial sector including supercenters.

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 almost 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 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. 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, the metrics outlined in the FY 2003 Performance Contract are supported by sweeping cultural, managerial and organizational changes within DeCA. DeCA's corporate culture has strikingly changed from one that focused on inputs to one that is output focused, cost-conscious and performance-based. Building on this cultural change, responsibility and accountability are being assigned and managed through the implementation of Activity Based Management concepts at all levels within DeCA, from Headquarters down to the departments within each store. This will reduce unit costs throughout the organization. Technology investments are being made based on Return on Investment (ROI). Restructuring, realigning and reducing Headquarters, region and store management are providing more efficient and effective operations and are streamlining the organization. To support this more efficient organizational structure, the workforce's ability to meet the flexible job requirements and multiple skills needed for the future is being assessed and will be adjusted as needed.

c. Improve the Infrastructure: The surcharge revitalization legislation enacted effective FY 2002 substantially increased the scope of DeCA's efforts to reverse the decaying conditions of the stores and to build new stores. The results of this legislation are embodied in the sound capital investment program contained in this budget request.

d. Improved Convenience and Shopping Cycle Time of Customers: DeCA Zone Managers and Store Directors are identifying convenience products that are frequently shopped by young active duty single shoppers and resetting these categories to 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. Resetting commissaries to allow easier access to these types of convenience products will allow express customers to shop and checkout in twenty minutes or less and will make using the commissary benefit more attractive for the active duty customers. Additionally, Store Directors and Zone Managers have coordinated with installations to establish reserved thirty-minute parking spaces for commissary customers.

e. 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.

f. Improved In Stock Rate: DeCA Stores Directors are working with distributors to ensure proper delivery schedules are developed to achieve a ninety-nine percent in stock rate for commissaries throughout the shopping day. The in stock rate can significantly impact sales when the ninety-nine percent rate is achieved consistently throughout the shopping day. Stores will

track distributor fill rates and report distributors that fall below the ninety nine percent threshold for appropriate action.

g. Improved Produce Customer Satisfaction: DeCA is currently working to make produce more appealing to customers by focusing on quality products, support through direct interface with the Defense Subsistence Offices (DSOs), and networking with regional produce specialists. Additionally, DeCA's Function Training Department has established a Produce Department Operations Course and trained produce department and staff in the latest handling and merchandising techniques. The goal is to make DeCA produce departments the place where customers choose to shop for all their produce needs.

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.

	FY 2001	FY 2002	FY 2003
<i>Efficiencies/Closures</i>			
Commissary Operations (\$ Millions)	9.1	80.3	59.5
<i>Workload Indicators</i>			
Commissaries (begin year)	288	282	276
Annual Sales (\$ Millions)	5,058.1	5,089.4	5,139.8
<i>Performance Indicators</i> <i>(Goals for FY01-FY03)</i>			
Inventory Turns	16.6	15.5	15.7
Customer Savings	30%	31%	32%
<i>End Strength and Full-time</i> <i>Equivalents (FTEs)</i>			
Civilian End Strength	18,273	17,250	16,439
Direct Hire	16,779	15,756	14,945
Indirect Hire	1,494	1,494	1,494
Military End Strength	12	13	13
Civilian FTEs	16,438	15,781	15,040
Direct Hire	14,944	14,291	13,557
Indirect Hire	1,494	1,490	1,483
Military FTEs	12	13	13

OPERATING BUDGET

COMMISSARY RESALE STOCKS

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

FUNCTIONAL DESCRIPTION

DeCA Commissary Resale Stocks finance 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 provides commissary patrons with an invaluable non-pay compensation. 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 12 million personnel.

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. These funds are managed by DeCA in a revolving trust fund for Commissary Surcharge Collections.

BUDGET HIGHLIGHTS

Revenue of approximately \$5.1 billion consists primarily of cash, charge sales, and manufacturer coupons. Cash and coupon transactions to active duty and reserve military members and their families, retirees, foreign entities and non-appropriated funds represent over 99 percent of total 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.

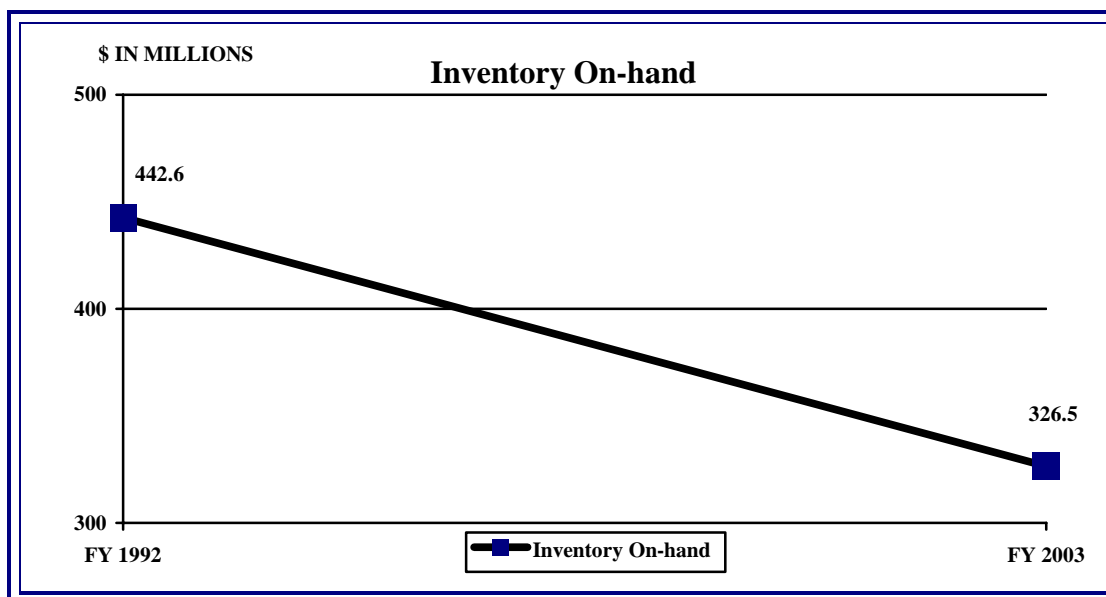
In the October 2001 DeCA survey, more than 57 percent of commissary shoppers selected the commissary benefit as their number one benefit. Additionally, the commissary benefit was ranked second for enlisted members and third for officers in the rank order of quality of life factors that were satisfiers and reasons to stay in the military, in an August 1999 GAO Report.

CHANGES IN OPERATIONS

Department of Defense right-sizing efforts and efficiency reviews from FY 1992 through FY 2003 will result in the net closure of 136 commissaries or a reduction of approximately 33 percent. Commissary sales projections will decline by about 15 percent from FY 1992 through FY 2003.

Since FY 1992, DeCA Point of Sale (POS) systems capitalized from the four Military Services' commissary systems were outdated, incompatible and unable to recoup normal grocery department losses. Implementation of the Commissary On-line Product Pricing System (COPPS) during FY 2000 has provided DeCA Resale Stocks with the mechanism to recover normal operating losses. Our analysis of FY 2001 Net Operating Results for Commissary Resale Stocks indicates the COPPS system is achieving the desired results.

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 2003, with 23 days of supply. In comparison, average daily sales for FY 1991 were \$16.5 million with 36 days of supply. This represents a 36 percent reduction in terms of days of supply through FY 2003. DeCA will reduce the on-hand inventory level by 26 percent from the level maintained by the Military Departments at the end of FY 1991 as noted in the following chart:



Realignment of functional areas into Business Areas within DeCA has improved operational efficiencies and effectiveness in delivering the commissary benefit. 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: The Best Value Items (BVI) program is a great success as evident by increased volumes for BVI items. The BVI program ensures DeCA customers receive goods that are equal to or better than name brand quality items at the lowest price available. The BVI program 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. DeCA customers have earned their benefit and DeCA is committed to ensuring they get the best prices through the BVI program.

b. Market the Benefit: In an effort to get in touch with our customers, store directors have created focus groups to receive feedback and provide continuous improvements in the delivery of the commissary benefit. Store directors are briefing the commissary benefit to new recruits at the Services' orientation briefings, installation meetings and other avenues whenever the opportunity is available. DeCA is bringing the commissary benefit to Reserve and National Guard units through off-site case lot sales.

c. Improve Convenience and Shopping Cycle Time of Customers: DeCA zone managers and store directors are identifying convenience products that are frequently shopped by young active duty single shoppers and resetting these categories to 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. Resetting commissaries to allow easier access for grab and go products will allow customers to shop and checkout in twenty minutes or less and will make using the commissary benefit more attractive for the active duty customers. Additionally, store directors and zone managers are working with installations to request reserved thirty-minute parking spaces for commissary customers.

d. Optimize Store Operating Hours: DeCA regions are evaluating 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 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 more access and convenience for our customers.

e. Improve In-Stock Rate: DeCA store directors are working with distributors to ensure proper delivery schedules are developed to achieve a 99 percent in stock rate for commissaries throughout the shopping day. The in-stock rate becomes significant when the 99 percent rate is achieved consistently throughout the shopping day. Commissaries need to have stocked shelves in order to generate sales and keep customers satisfied. Stores will track distributor fill rates and report distributors that fall below the 99 percent threshold for appropriate action.

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 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 created and deployed a produce team to make unannounced visits to commissary produce departments worldwide. The produce team will provide technical expertise and training to enhance produce department operations worldwide. Produce department inspections focus on quality of product received from DSCP, merchandising of products, fixtures and equipment condition, proper handling and culling techniques to include technical assistance vital to improving our produce departments throughout DeCA. The produce team will take immediate action to help resolve any deficiencies that may exist in the stores they review. Our goal is to make DeCA produce departments the place where our customers choose to shop for their produce needs.

g. Super Stores: Super Store locations offer our customers larger selections of popular items like vitamins, DeCA Power Buys, and an increased supply of products that people buy in large quantities. The new store layout is designed to help busy active duty shoppers make a quick run through the store by placing baby food, snacks and other grab and go items at the front of the aisles. Heavier items will be placed earlier in the traffic flow so customers can put them in the bottom of their shopping cart instead of on top of their other purchases. Additionally, the new design will allow customers to find a few necessary items without having to shop the entire commissary.

h. Improve Store Infrastructure: DeCA has realigned operating costs that were previously paid out of the Surcharge Collections account, into the Commissary Operations account. The realignment will free up surcharge funding to re-energize the construction program and help reduce some of the construction backlog that currently exists. Because the new store layout designed for the Super Stores seems to work 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 their commissary. The improved facility conditions and store layouts will enhance our customers shopping experience and should help to 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 2000)

<i>WORKLOAD DATA – AVERAGES</i>	<i>DeCA COMMISSARIES</i>	<i>COMMERCIAL SUPERMARKETS</i>
Weekly Sales per Store	\$ 454,157	\$ 334,479
Weekly Sales Per Square Foot	\$ 15.69	\$11.17
Sales Per Customer Transaction	\$ 56.93	\$ 23.04

(Commissary data for CONUS locations used for comparison.)

<u>Workload Indicators</u>	<u>FY01</u>	<u>FY02</u>	<u>FY03</u>
Number Commissaries (begin year)	288	282	276
Annual Sales (\$ Millions)	5,058.1	5,089.4	5,139.8
Ending Inventory On-Hand (\$ Millions)	315.1	323.3	326.5

<u>Performance Measures</u>	<u>FY01</u>	<u>FY02</u>	<u>FY03</u>
Inventory Turns	16.6	15.5	15.7
Customer Savings	30%	31%	32%
Commissary Customer Satisfaction Survey (CCSS)	4.24	4.25	4.30

<u>Financial Indicators</u>	<u>FY01</u>	<u>FY02</u>	<u>FY03</u>
Revenue (\$ Millions)	5,051.8	5,083.2	5,133.6
Cost of Goods Sold (\$ Millions)	5,028.5	5,099.4	5,129.8
Net Operating Results (\$ Millions)	23.3	(16.2)	3.8
Accumulated Operating Results	12.4	(3.8)	0.0
Unit Cost (Per \$ of Sales)	0.99	1.00	1.00

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

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Revenue:			
Gross Sales	5,058.1	5,089.4	5,139.8
Operations	5,058.1	5,089.4	5,139.8
Capital Surcharge			
Depreciation excluding Major Construction			
Other Income			
Refunds/Discounts	(6.3)	(6.2)	(6.2)
Total Income:	5,051.8	5,083.2	5,133.6
 Expenses:			
Cost of Material Sold from Inventory	5,028.5	5,099.4	5,133.6
 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	5,028.5	5,099.4	5,129.8
 Operating Result	23.3	(16.2)	3.8
 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	23.3	(16.2)	3.8
 Other Changes Affecting AOR	0.0	0.0	0.0
 Accumulated Operating Result	12.4	(3.8)	0.0

ACTIVITY GROUP ANALYSIS
DEFENSE COMMISSARY AGENCY/COMMISSARY RESALE STOCKS
SOURCE OF NEW ORDERS AND REVENUE

(Dollars in Millions)

	<u>FY2001</u>	<u>FY2002</u>	<u>FY2003</u>
1. New Orders			
a. Orders from DoD Components:			
Army	0.3	0.2	0.2
Navy	5.7	6.1	6.1
Air Force	0.3	0.4	0.4
Marine Corps			
Other	0.3	0.2	0.2
b. Orders from Other Fund Activity Groups			
c. Total DoD	6.6	6.9	6.9
d. Other Orders:			
Other Federal Agencies	1.0	1.1	1.1
Trust Fund			
Non Federal Agencies	5,050.5	5,081.4	5,131.8
Foreign Military Sales			
Total New Orders	5,058.1	5,089.4	5,139.8
2. Carry-in Orders			
3. Total Gross Orders	5,058.1	5,089.4	5,139.8
4. Revenue			
5. End of Year Work-in-Progress			
6. Direct Contract Obligations	5,065.4	5,099.4	5,129.8
7. Non DoD, BRAC, FMS, and DWCF Orders			
8. Funded Carry-over			
9. Months of Carryover			

Exhibit Fund-11 Source of New Orders and Revenue
February 2002

FY 2001 BUDGET
SUPPLY MANAGEMENT BY DIVISION

(Dollars in Millions)

[illegible]

FY 2002 BUDGET
SUPPLY MANAGEMENT BY DIVISION

(Dollars in Millions)

[illegible]

FY 2003 BUDGET
SUPPLY MANAGEMENT BY DIVISION
(Dollars in Millions)

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FY 2001 BUDGET		DIVISION February 2002 Commissary Resale Stocks		
DEFENSE COMMISSARY AGENCY SUPPLY MANAGEMENT				
INVENTORY STATUS	TOTAL	MOBILIZATION	PEACETIME OPERATING	PEACETIME OTHER
1. INVENTORY BOP	307.1		307.1	
2. BOP INVENTORY ADJUSTMENTS				
a. RECLASSIFICATION CHANGE (Memo)				
b. PRICE CHANGE AMOUNT (Memo)				
c. INVENTORY RECLASSIFIED AND REPRICED				
3. RECEIPTS AT STANDARD	5,034.5		5,034.5	
4. SALES AT STANDARD	5,051.8		5,051.8	
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)	25.3		25.3	
h. TOTAL ADJUSTMENTS				
6. INVENTORY EOP	315.1		315.1	
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)	5.2		5.2	
9. NARRATIVE (Explanation of unusual changes)				
g. One time inventory adjustment to correctly record daily store delivery receipts per KPMG audit and increased inventory to support 99% in stock rate.				

FY 2002 BUDGET		DIVISION February 2002 Commissary Resale Stocks		
DEFENSE COMMISSARY AGENCY SUPPLY MANAGEMENT				
INVENTORY STATUS	TOTAL	MOBILIZATION	PEACETIME OPERATING	PEACETIME OTHER
1. INVENTORY BOP	315.1		315.1	
2. BOP INVENTORY ADJUSTMENTS				
a. RECLASSIFICATION CHANGE (Memo)				
b. PRICE CHANGE AMOUNT (Memo)				
c. INVENTORY RECLASSIFIED AND REPRICED				
3. RECEIPTS AT STANDARD	5,099.4		5,099.4	
4. SALES AT STANDARD	5,083.2		5,083.2	
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)	1.0		1.0	
h. TOTAL ADJUSTMENTS				
6. INVENTORY EOP	332.3		332.3	
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)	5.0		5.0	
9. NARRATIVE (Explanation of unusual changes)				
5g. Increased inventory in support of sales and 99% in stock rate.				

FY 2003 BUDGET		DIVISION		February 2002	
		Commissary Resale Stocks			
DEFENSE COMMISSARY AGENCY SUPPLY MANAGEMENT					
INVENTORY STATUS	TOTAL	MOBILIZATION	PEACETIME OPERATING	PEACETIME OTHER	
1. INVENTORY BOP	332.3		332.3		
2. BOP INVENTORY ADJUSTMENTS					
a. RECLASSIFICATION CHANGE (Memo)					
b. PRICE CHANGE AMOUNT (Memo)					
c. INVENTORY RECLASSIFIED AND REPRICED					
3. RECEIPTS AT STANDARD	5,129.8		5,129.8		
4. SALES AT STANDARD	5,133.6		5,133.6		
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)	7.0		7.0		
h. TOTAL ADJUSTMENTS					
6. INVENTORY EOP	335.5		335.5		
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.					

COMMISSARY OPERATIONS

DEFENSE COMMISSARY AGENCY (DeCA)
WORKING CAPITAL FUND
COMMISSARY OPERATIONS

FUNCTIONAL DESCRIPTION

Commissary Operations finances 276 resale stores, 11 central distribution centers, 12 NEXMARTs, 33 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, travel and Permanent Change of Station (PCS), 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. Reimbursements received from Military Department appropriations are an essential part of this process and are the foundation that allows military members and their families to receive direct savings of over 30 percent below the typical market basket. The commissary has become an integral segment of the entitlement and lifetime military compensation package used in recruiting and retaining military members.

BUDGET HIGHLIGHTS

The Military Services' reimbursements represent about 96 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 Services have committed to retaining the commissary benefit to include mission` changes due to base realignment and closure, quality of life concerns, expansion of operating hours, and other business-like considerations. This FY 2003 President's Budget Submission reflects this commitment by requesting cost authority of \$1,114.0. The planned Accumulated Operating Result (AOR) is breakeven with a unit cost goal of .2167.

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

	FY 2001	FY 2002	FY 2003
REVENUE (\$M):			
APF Transfer	917.8	1,091.3	996.8
APF Adjustment	0	0	0
Other Reimbursements	34.5	39.6	34.8
Other Adj. (Depreciation)	0	3.0	4.6
Total Revenue	952.3	1,133.9	1,036.2
EXPENSES \$M	1,011.0	1,063.9	1,114.0
Less Capital Reserve	(2.1)	(6.0)	0
NOR \$M	(60.8)	64.0	(77.8)
AOR \$M	13.8	77.8	0

DeCA projects 16,439 civilians in FY 2003. Full-time equivalent (FTE) levels for FY 2003 are 15,040 (13,557 Direct Hire and 1,483 Indirect Hire.) 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. Military personnel strength increased by 1, from 12 to 13, beginning in FY 2002 to account for the Director's position.

a. DeCA has complied with Program Decision Memorandum (PDM) direction on Competitive and Strategic Sourcing. 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 188 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.

d. To improve the accounting for and make the cost of government programs more visible, the Administration is proposing to align the full annual budgetary costs of resources used by programs with the budget accounts that fund the programs. To that end, this budget includes a request for a direct appropriation of \$27.6 million in FY 2003

to fund the full accruing cost of the Civil Service Retirement System and retire health benefits for civilian employees in the Federal Employee Health Benefit Program. This proposal does not increase the total costs to the Federal government, since these costs were previously funded from government-wide OPM accounts.

CHANGES IN OPERATIONS

Opening and closing commissaries are a significant change in operations. DeCA is charged by DOD Directive to annually evaluate and determine whether to establish, continue, or downsize commissary stores. Criteria used in the evaluation are: the active duty military served by the commissary, the availability of other commissaries in the general area, and economic viability. Based on these evaluations and previous Base Realignment and Closure (BRAC) actions, the following stores are identified for closure for this budget cycle: Fitzsimons (Colorado), Brooks Air Force Base (Texas), Naval Computer Telecommunications Station - Cutler NCUC (Maine), Defense Supply Center - Richmond (Virginia), Kelly Air Force Base (Texas), Pope Air Force Base (North Carolina), Defense Distribution Center - New Cumberland (Pennsylvania), Naval Air Warfare Center - Point Mugu (California), Presidio of San Francisco (California), and Fort Shafter (Hawaii). In addition, commissaries at the following locations will be closed as a result of the downsizing of forces and/or base closures: Bad Aibling (Germany), Bad Kreuznach (Germany), Costanzo (Sicily), and Winter Harbor Naval Security Group Activity (Maine). Using the same criteria that is used to develop closure recommendations, stores at Buckley Air Force Base, (Colorado), Camp Red Cloud (Korea) and the Navy Regional Contracting Center - Singapore (Republic of Singapore) were requested by the Services and the opening of commissaries at these locations are included in this budget estimate.

In terms of significant changes in funding strategies, the FY 2001 National Defense Authorization Act (NDAA) directed that all buildings, renovations, repair and maintenance costs be funded by the surcharge fund beginning in FY 2002 and, at the same time, all operational costs be funded with appropriated funds. This FY 2003 President's Budget Submission reflects this new financial structure and accelerates cost savings not shown in earlier transitional submissions. Most importantly, it fulfills the promises made by DeCA to improve the commissary system, and improve the condition of the stores to a level that provides the shopping experience and services our customers deserve.

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. Posters greet customers at the door and flyers are handed out explaining that a BVI sign means that product has been identified as the best price available on grocery shelves anywhere. Popular products and sizes were chosen to kick off the program, but shoppers can expect to see changes in the products marked as BVI every time they shop. Product selection and variety will change rapidly in a continuing effort to drive commissary prices down even further.

DeCA is currently working to make produce more appealing to customers by focusing on quality products, support through direct interface with the Defense Subsistence Offices (DSOs), and networking with regional produce specialists. Additionally, DeCA's Function Training Department has established a Produce Department Operations Course and trained produce department and staff in the latest handling and merchandising techniques.

MISSION EFFECTIVENESS

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

a. Customer surveys have found that the military member and their families, the reserve components, and retirees consistently rank the commissary system as their number one non-pay benefit, ahead of other non-pay benefits such as medical and MWR programs. More than 57 percent of commissary shoppers selected the commissary as their number one benefit in the October 2001 DeCA survey. This perception of the commissary benefit greatly assists the Department in retaining a quality military force.

b. DeCA has established a consumer advocate position for commissary shoppers as a first step in marketing the benefit. The advocate will bring customer's points of view to decision making and will report regularly to the Commissary Operating Board (COB).

To continue satisfying its mission requirements, DeCA must continue modernizing commissary operations. The patron of today is much different than of yesterday; e.g., over 67 percent of the active duty population is married. Given the mobile and deployable force of today, family considerations are extremely important to the modern volunteer military member. With the pressure to retain a qualified workforce, the commissary system must better understand customer expectations and provide services that are required by today's forces.

DeCA continues to seek improved customer service by conducting surveys at all stores annually and analyzing results using the Commissary Customer Satisfaction Survey (CCSS). 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. Quality of produce, while scoring the lowest, increased to 4.22 in FY 2001. The courteous/helpful employee score, currently at 4.64 has been the highest rated survey item each year. 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.

The strategic goal cores, "Customer Satisfaction", "People Commitment", and "Sound Operational and Financial Management" provide the basis for this Budget Estimate Submission. DeCA continues to ensure that objectives of the Strategic Plan are fully integrated into financial planning. Building on the core strategic goals, the following core corporate objectives guide this budget estimate:

Increase Savings:

We plan to achieve market basket savings of 31 percent over commercial grocery and superstore competition beginning FY 2003 and sustain and improve through FY 2007. Buyers will monitor the 500 top selling products by manufacturer and product category to ensure lowest prices are obtained. At the same time, we plan to achieve double-digit sales increases of at least 10 percent by FY 2006 by maintaining full shelves, improving distributor fill rates and vendor shelf stocking, optimizing operating hours, reducing checkout time and marketing the benefit.

Reduce Unit Cost:

To reduce unit cost throughout the organization, responsibility and accountability are being assigned and managed through the implementation of Activity Based Management concepts at all levels within DeCA, from Headquarters down to the departments within each store. A broad range of initiatives is being pursued to reduce unit costs. These include:

- Achieve savings by implementing best practices in Commercial Activities (A-76) contracts. Eliminate marginally needed requirements and reduce service frequency without lowering overall effectiveness;

- Reduce layers of management in stores by realigning management tier to sales bands and hours of operation;

- Obtain better pricing and reduce on-hand supplies. Increase utilization of plastic versus paper bags;

- Implement automation enhancements. Aggressively deploy Computer Assisted Ordering (CAO) to reduce store level resupply/ordering workload. Modify existing business systems to reduce labor input;

- Reorganize to reduce management and consolidate oversight functions. Realign region and zone assets to eliminate redundancies. Centralize store financial and inventory accountability;

- Conduct Business Case reviews to determine best return on alternatives for traditional service providers like in-theater transportation, training, TDY/travel, network communications, and BASOPS.

Improve the Infrastructure:

The surcharge revitalization legislation enacted effective FY 2002 substantially increased the scope of our efforts to reverse the decaying conditions of the stores and to build new stores. This budget estimate supports customer needs and store operations by providing minor maintenance and repair including decor upgrades, eliminating the capital investment backlog by 2009, improving the facility condition index to 95, and adjusting the inventory and sizes of stores to meet our customer needs.

Shape the Workforce:

We must develop a multi-skilled workforce that can meet the demands of the future. Thus, we have defined the appropriate skills and expertise mix to meet our mission requirements, and will provide a trained, flexible, and sustained workforce in sufficient numbers and skill levels no later than FY 2004.

Leverage Technology:

Leveraging technology for more efficient and effective commissary operations is the final objective. We are taking immediate steps to achieve parity with commercial industry by FY 2004 in the employment of leading edge technology by investing in systems that meet established security requirements or have a payback period of at least four years. This will focus on systems that improve the benefit, reduce unit costs, and support a skilled workforce.

<u>Workload Indicators</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Commissaries (begin year)	288	282	276
Annual Sales (\$M)	5,058.1	5,089.4	5,139.8
Resale Inventory (\$M) On-hand	315.1	323.3	326.5
<u>Performance Indicators</u> <u>(Goals for FY01-FY03)</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Inventory Turns	16.6	15.5	15.7
Customer Savings	30%	31%	32%
Commissary Customer Service Survey (CCSS)	4.24	4.25	4.30
<u>Financial Indicators</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Operating Budget (\$M)	1,011.0	1,063.9	1,114.0
Capital Budget (\$M)	3.5	8.9	4.6
Net Operating Results (\$M)	(60.8)	64.0	(77.8)
Accum Operating Results (\$M)	13.8	77.8	0
Unit Costs (Per \$ of Sales)	.1999	.2090	.2167
<u>End Strength and Full-time</u> <u>Equivalents (FTEs)</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Civilian End Strength	18,273	17,250	16,439
Direct Hire	16,779	15,756	14,945
Indirect Hire	1,494	1,494	1,494
Military End Strength	12	13	13
Civilian FTEs	16,438	15,781	15,040
Direct Hire	14,944	14,291	13,557
Indirect Hire	1,494	1,490	1,483
Military FTEs	12	13	13

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

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Revenue:			
Depreciation (Excluding Major Construction)	0.0	3.0	4.6
Other Income	34.5	39.6	34.8
Total Income:	34.5	42.6	39.4
Expenses:			
Salaries and Wages:			
Military Personnel Compensation & Benefits	0.8	0.9	1.0
Civilian Personnel Compensation & Benefits	641.8	623.4	650.0
Travel & Transportation of Personnel	9.1	11.8	10.7
Materials & Supplies (for Internal Operations)	4.0	43.1	47.6
Other Purchases from Revolving Funds	35.3	37.7	36.7
Transportation of Things	85.4	102.9	113.3
Depreciation	1.3	3.0	4.6
Printing & Reproduction	0.3	0.3	0.3
Advisory & Assistance Services	(0.1)	0.6	0.6
Rent, Communication & Misc. Charges	1.6	5.6	5.7
Other Purchased Services	231.5	234.6	243.5
Total Expenses	1,011.0	1,063.9	1,114.0
Operating Result	(976.5)	(1,021.3)	(1,074.6)
Less Capital Reservation	(2.1)	(6.0)	0.0
Plus Appropriations Affecting NOR/AOR	917.8	1,091.3	996.8
Other Adjustments Affecting NOR	0.0	0.0	0.0
Net Operating Result	(60.8)	64.0	(77.8)
Other Changes Affecting AOR	0.0	0.0	0.0
Accumulated Operating Result	13.8	77.8	0.0

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</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
Air Force Operations and Maintenance	0.0	0.0	0.0
Marine Corps Operations and Maintenance	0.0	0.0	0.0
Other Reimbursements (Non-Appropriated Funds and Trust Funds)	12.5	18.4	13.1
b. Orders from other Fund Activity Group	0.0	0.0	0.0
c. Total DoD	12.5	18.4	13.1
d. Other Orders:			
Other Federal Agencies	0.8	1.2	1.3
Trust Fund	0.0	0.0	0.0
Non Federal Agencies	21.2	20.0	20.4
Foreign Military Sales	0.0	0.0	0.0
Total New Orders	22.0	21.2	21.7
2. Carry-In Orders	0.0	0.0	0.0
3. Total Gross Orders	34.5	39.6	34.8
4. Funded Carry-over	0.0	0.0	0.0
5. Total Gross Sales	34.5	39.6	34.8

Defense Commissary Agency/Commissary Operations
Changes in the Costs of Operation
February 2002
(Dollars in Millions)

	<u>Expenses</u>
1. FY 2001 Actual Costs	1,011.0
2. FY 2002 PB	1,144.2
3. Pricing Adjustments	
Annualization of Prior Year Pay Raise	0.8
FY 2002 Pay Raises	2.2
Civilian Personnel	
General Purchases Inflation	3.0
4. Program Changes:	
Store Closures (Fitzsimons, Bad Krueznach, Point Mugu, Presidio	(8.7)
Winter Harbor, New Cumberland, Constanzo, and Bad Aibling)	
Store Openings (Buckley and Singapore)	4.8
Transportation	(4.6)
Workload Adjustments	(7.1)
5. Productivity Initiatives and Other Efficiencies	
Productivity Initiatives	(1.6)
Reorganization	(12.1)
More Efficient and Effective Organization	(13.0)
Commercial Activities Efficiencies	(2.4)
6. Other (non-baseline adjustment)	(41.6)
7. FY 2002 Current Estimate	1,063.9
8. Pricing Adjustments	
Annualization of Prior Year Pay Raise	6.6
FY 2003 Pay Raises	14.0
Civilian Personnel	
General Purchases Inflation	7.5
Retirement & FEHB Accrual	27.6
9. Program Changes:	
Store Closures (Fort Shafter)	(5.9)
Store Openings (Camp Red Cloud)	1.6
10. Productivity Initiatives and Other Efficiencies	
Productivity Initiatives	(14.7)
Reorganization	(4.3)
More Efficient and Effective Organization	(22.4)
Commercial Activities Efficiencies	(1.5)
11. Other (non-baseline adjustment)	41.6
12. FY 2003 Current Estimate:	1,114.0

CAPITAL BUDGET

COMMISSARY OPERATIONS

Activity Group Capital Investment Summary
Component: Defense Commissary Agency
Activity Group: Commissary Operations
Date: February 2002
(\$ in Millions)

<u>Line Number</u>	<u>Item Description</u>	FY 2001		FY 2002		FY 2003	
		Quantity	Total Cost	Quantity	Total Cost	Quantity	Total Cost
1001	Non-ADP Equipment (<500K)						
2001	Total ADP Equipment (<500K)			3	0.5	2	0.6
3001	Software Development			1	1.0	1	0.5
4001	Minor Construction						
5001	Total ADP Equipment (\$500K-999K)			3	1.7	2	1.2
6001	Defense Civilian Personnel Data System	1	3.5	1	0.5		
6002	Corporate Decision Support System Software & Hardware			1	1.5	1	1.0
6003	Corporate Server III			1	2.1	1	1.3
6004	Video Teleconferencing System			1	1.6		
	Total ADP Equipment (>\$1M)	1	3.5	3	5.7	2	2.3
	TOTAL CAPITAL PURCHASE PROGRAM	1	3.5	10	8.9	7	4.6

ACTIVITY GROUP CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)							A. FY 2003 President's Budget		
B. DeCA WCF Commissary Operations February 2002	C. 2001. Various ADP Equipment \$100-\$499K				D. Activity Identification				
	FY 2001			FY 2002			FY 2003		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Various ADP Equipment \$100K-\$499K				3	500.0	500.0	2	600.0	600.0
<u>FY 2002</u> Standardize Shared Tape Storage - \$100,000 Expand Connectivity to Shared Disk - \$300,000 Upgrade Shared Disk Storage - \$100,000 <u>FY 2003</u> Standardize Shared Tape Storage - \$100,000 Upgrade Shared Disk Storage - \$500,000									

ACTIVITY GROUP CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)							A. FY 2003 President's Budget		
B. DeCA WCF Commissary Operations February 2002	C. 3001. Software Development				D. Activity Identification				
	FY 2001			FY 2002			FY 2003		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Software Development \$500K-\$999K				1	950.0	950.0	1	500.0	500.0
<u>FY 2002</u> Momentum Financials (American Management Systems (AMS)) - \$950,000.00									
<u>FY 2003</u> Momentum Financials (American Management Systems (AMS)) - \$500,000.00									

ACTIVITY GROUP CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)							A. FY 2003 President's Budget		
B. DeCA WCF Commissary Operations February 2002	C. 5001. Various ADP Equipment \$500-\$999K			D. Activity Identification					
	FY 2001			FY 2002			FY 2003		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Various ADP Equipment \$500K-\$999K				3	1,708.0	1,708.0	2	1,217.0	1,217.0
<u>FY 2002</u>									
Public Key Infrastructure Computer Software (Operating System) - \$508,000									
Enterprise Storage - \$600,000									
<u>Software</u>									
Information Technology Architecture - \$600,000									
<u>FY 2003</u>									
Public Key Infrastructure Computer software (Operating System) - \$517,000									
Worldwide WEB Computer Hardware (Production) - \$700,000									

ACTIVITY GROUP CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)							A. FY 2003 President's Budget		
B. DeCA WCF Commissary Operations February 2002	C. 6001.Defense Civilian Personnel Data System			D. Activity Identification					
	FY 2001			FY 2002			FY 2003		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
ADP Equipment (Productivity) > \$1M	1	3,511.0	3,511.0	1	500.0	500.0			
<u>Narrative Justification:</u> FY2001 funds are needed to support the mandated Modern DCPDS system. Without this equipment in FY2001 no personnel actions for DeCA can be processed. The equipment in the amount of \$3.5M identified are the requirements set forth by Civilian Personnel Management Service (CPMS) to support the mandated Modern Defense Civilian Personnel Data System (DCPDS). In FY 2002 additional hardware in the amount of \$79 K will be required to support worldwide reporting to DeCA's managers. FY2001 funds are needed to support the mandated Modern DCPDS system. FY2002 will allow the DeCA managers to view the reports generated by the OLAP tools. The San Antonio Defense Mega Center currently maintains the equipment for the existing system, which will not support the Modern DCPDS. In FY 2001 Resumix software at a cost of \$485K is a required portion set forth by Civilian Personnel Management Service (CPMS) to support the mandated Modern Defense Civilian Personnel Data System (DCPDS). Without the designated software, personnel actions may not be processed. In FY 2001 Business Objects in the amount of \$363K is required by CPMS the Program Manager for DCPDS. Each agency is required to select an OLAP tool; Business Objects is DeCA's reporting software package of choice. In FY 2002 \$353K is to enable support worldwide for the reporting function. In FY 2001 Telecommunications hardware and software costs in the amount of \$541K identified by CPMS dictates enhancements to the network support by DeCA for the (DCPDS). Without the appropriate equipment DeCA personnel will not have the network needed to access the system. Without connectivity DeCA would not be able to transmit and complete personnel actions. The current system does not have the network requirements that the Modern DCPDS system has. In FY 2001 DCPDS Services at a cost of \$354K are required, DeCA does not have the manpower to configure and install the equipment identified by CPMS to support the mandated DCPDS.									
<u>Economic Analysis Summary:</u> The ASD for Personnel & Readiness directed all DoD components use the modern DCPDS. The Deputy Director of CPMS who is also the Chief, Vendor Management Office for Deployment and Management of DCPDS directed on August 10, 2000 that WHS would be DeCA's region and technical support for Modern DCPDS. The DCPDS modernization system was designed to operate on the proposed hardware that DeCA defined in this requirement. Regardless of the service provider, the hardware and software system requirements are the same. The HP UNIX hardware requirement is driven by the standard DCPDS Modernization software application. The proponent that directed us to use the DCPDS Modernization system should be contacted for an Economic Analysis.									
<u>Impact of Project Disapproval:</u> Without the required hardware, software, telecommunications, and the appropriate support to configure and start-up DCPDS, DeCA will not be able to process personnel actions in FY 2001.									

ACTIVITY GROUP CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)							A. FY 2003 President's Budget			
B. DeCA WCF Operations Commissary February 2002		C. 6002. Corporate Decision Support System			D. Activity Identification					
		FY 2001		FY 2002			FY 2003			
Element of Cost		Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
ADP Equipment (Productivity) > \$1M					1	1,500.0	1,500.0	1	1,000.0	1,000.0
<p><u>Narrative Justification:</u> These NCR WorldMark upgrades are required for the sustainment of the DeCA Corporate Decision Support System (CDSS) located at DeCA Headquarters, Ft Lee Virginia. DeCA is currently loading 6GB of raw data per day into the CDSS housed on an NCR WorldMark 4700 platform. The present configuration will no longer be in production and have limited vendor support. With increased growth of DeCA CDSS processing requirements the current equipment will not be able to keep up with demand. DeCA is already heavily invested in the current system; it is imperative that the current structure be continued by purchasing only hardware and software that is precisely compatible with what DeCA presently has installed.</p> <p><u>Economic Analysis Summary:</u> In accordance with DeCA's Strategic Goals and Objectives DeCA requires replacement of this equipment to help determine and calculate shelf replenishments and to satisfy other contracting requirements. To maintain operational continuity, this upgrade will be an optimally configured, cost-effective solution compatible with the present DeCA system. DeCA's plan is to purchase 2 NCR nodes to upgrade 2 of the NCR 4700 computers at a cost of \$350K per node at a total cost of \$700K and \$500K for the necessary O/S software, also \$300K for required disc storage in FY 2002. In FY 2003 DeCA plans to purchase 2 NCR nodes for \$700K to upgrade the remaining 2 NCR 4700 computers and \$300K for the necessary O/S software required. Economic Analysis: DeCA must ensure continuity of operations and support for its enterprise business systems in order to continue to reduce unit costs, sustain its initial investment in the NCR data warehouse and avoid costs that would be incurred if compatible hardware and software were not acquired. Comparative analysis indicates an investment (or cost avoidance) of \$5.2M 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><u>Impact of Project Disapproval:</u> It is anticipated that maintenance of the NCR 4700 computers will not be available after FY 2002. Therefore if the NCR 4700's are not upgraded to NCR 4800's the old equipment will not be under maintenance and production will stop on the NCR 4700's.</p>										

ACTIVITY GROUP CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)							A. FY 2003 President's Budget			
B. DeCA WCF February 2002		Commissary Operations			C. 6003. Corporate Server III		D. Activity Identification			
		FY 2001			FY 2002			FY 2003		
Element of Cost		Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
ADP Equipment (Productivity) > \$1M					1	2,113.0	2,113.0	1	1327.0	1327.0

Narrative Justification: In the mid-90’s DeCA embarked on a program to provide continuous technical refresh of its corporate servers. The original servers (Corporate I) were purchased in early 1995. 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 eight years old when removed from the inventory. Industry standards determine that a server has depleted its value in eight years. The speed of technological change determines that servers loose value much faster. DeCA will migrate 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. The Corporate I and II Servers are the platforms on which the development, testing and production for many of DeCA’s most critical information systems are accomplished. These systems include bill paying, electronic data interchange, data warehousing, and item movement, and are essential to DeCA’s mission. The Corporate I Server has reached the end of its lifecycle and requires maintenance and contracted technical support expenditures of over \$.6M per year. The Corporate Servers are the backbone of DeCA’s Enterprise Computing initiative. This initiative will bring a multitude of stovepipe systems into a single operating environment and drastically cut operating costs. DeCA will consolidate systems that are dispersed on multiple smaller servers. The maintenance and contracted technical support of these smaller servers exceeds \$1.7M annually. These platforms have reached the end of their lifecycles. They are no longer being manufactured and are difficult to maintain. Due to their age these platform’s maintenance costs continue to increase. The Corporate III Server will also be utilized to host new requirements that are generated by DoD or by business requirements of the Agency. The Corporate III Server hardware cost of \$2.113M is required in FY 2002—this amount is compensated by elimination of maintenance and technical support for the Corporate I server and the smaller servers in the first year alone. The Corporate III Server will utilize the latest technology and its’ maintenance costs will be lower. The purchase of the Corporate III server is part of a planned technology refresh.

Economic Analysis Summary: The recommended alternative is based on comparison of current hardware maintenance and operatinng 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 III suite will include a server for developing and testing systems to ensure configuration management prior to publishing the system to the production server. DeCA intends to refresh its corporate servers in FY 2002. DeCA also intends to acquire a copy of the Corporate III Server for business continuance and to provide additional capacity for testing and production growth at a cost of \$1,327.0 in FY 2003. This equipment will be located at the Agency’s alternate operation site. The DeCA technical support staff will be able to perform the work that is now accomplished by contractors because the new Corporate III platform will utilize DeCA standard operating system and utilities for which the DeCA staff is trained and experienced.

Impact of Project Disapproval: Not purchasing the Corporate III servers means continuing critical DeCA systems on platforms that are no longer supported. 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. Additionally, the Agency will be unable to develop additional applications to address new business requirements.

ACTIVITY GROUP CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)						A. FY 2003 President's Budget			
B. DeCA WCF Commissary Operations February 2002	C. 6004. Video Teleconferencing						D. Activity Identification		
		FY 2001			FY 2002			FY 2003	
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
ADP Equipment (Productivity) > \$1M				1	1,600	1,600			
<p><u>Narrative Justification:</u> FY 2002 funds are needed for Phase I acquisition of a standardized Video Teleconferencing (VTC) solution for HQ DeCA, each of the respective Region HQ, and the Far East. In accordance with DeCA's Strategic Goals and Objectives, implementing a VTC solution ensures DeCA is moving forward to ensure parity with industry and employ technology that improves the benefit, reduces travel costs, and supports a skilled workforce. VTC is a technology that allows people to interact with others in remote locations as naturally as meeting with them in the same conference room, and makes use of people and resources that might not be so readily available, for face-to-face meetings, due to prohibitive costs or short notice. VTC provides a highly effective meeting environment where communication is made simpler and more time efficient, expediting decision making. The VTC initiative will provide the benefits of multi-point conferencing, allow remote presentations and training, provide collaboration tools, maintain staff assistance to the field, and significantly reduce TDY travel budgets. FY 02 funds requested include hardware/software installation, training, and one-year maintenance. Integration, upgrades, and installation of VTC equipment and Multiple Conferencing Units (MCU) at HQ DeCA, the respective Region HQ, and the Far East totals \$1.600M.</p> <p><u>Economic Analysis Summary:</u> In September 2000, the Operations/Systems Modernization Branch began Concept Exploration to find Commercial Off The Shelf (COTS) products that could be used within DeCA to reduce the TDY travel budget without reducing the quality of training and other staff assistance to the field. Eastern Region HQ and Area Offices were already using the PolyCom Viewstation MP model between their three sites.</p> <p><u>Impact of Project Disapproval:</u> Project disapproval would deter meeting the Agency Strategic Objectives of using technology to reduce travel costs and maintaining quality training and staff assistance to the field.</p>									

Defense Commissary Agency
Activity Group: Commissary Operation
FY 2001
FY 2003 President's Budget

PROJECTS ON THE FY 2002 AMENDED 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	0	0	0	0	
01	Equipment - ADPE and TELCOM	0	3.5	3.5	0	
	Software Development	0	0	0	0	
	Minor Construction	0	0	0	0	
	Total FY 2001	0	3.5	3.5	0	

Defense Commissary Agency
Activity Group: Commissary Operation
FY 2002
FY 2003 President's Budget

PROJECTS ON THE FY 2002 AMENDED 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					
02	Equipment - ADPE and TELCOM		6.300	7.921	1.621	1/
02	Software Development			0.950	0.950	2/
	Minor Construction					
	Total FY 2002	0.000	6.300	8.871	2.571	

1/ Increase is needed to meet DeCA's main objective for use of Video Teleconferencing System to reduce costs spent on off-site conferences, meetings, and training initiatives between HQs, Regions, Zones, and store personnel.

/2 Increase is needed to implement new accounting system initiatives. Momentum Financials (American Management Systems (AMS)), which will replace its legacy DFAS counterpart the Defense Business Management System (DBMS).

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

PROJECTS ON THE FY 2002 AMENDED 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 TELCO	0	0	0	0	
					0	
03	Equipment - ADPE and TELCOM	0	4.1	4.1	0	
					0	
03	Software Development	0	0	0.5	0.5	1/
					0	
	Minor Construction	0	0	0	0	
					0	
	Total FY 2003	0	4.1	4.6	0.5	

1/ Increase is needed to implement new accounting system initiatives