

Defense Commissary Agency (DeCA)

**FISCAL YEAR (FY) 2007
BUDGET ESTIMATES**

OPERATING AND CAPITAL BUDGET

FEBRUARY 2006

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**DEFENSE COMMISSARY AGENCY
(DeCA)**

**FISCAL YEAR (FY) 2007
BUDGET ESTIMATES
FEBRUARY 2006**

CORPORATE OVERVIEW

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 commissary stores. Our 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 provide the commissary patron direct savings of approximately 30 percent from a typical commercial supermarket market basket purchase. 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. Currently DeCA operates 268 Commissaries, 10 Central Distribution Centers (CDC's), and 1 meat processing plant. Our workforce is 5 military members and 16,514 employees (as of the end of FY 2005, with a full time equivalency of 15,058).

The changes reflected in the President's Budget submission include adjustments and the effects of the Gulf Coast hurricanes. For Commissary Operations, our FY 2007 budget reflects the revenue of \$22 million from the FY 2006 expense for foreign currency fluctuation in Europe and the Far East, a \$5.5 million reduction in revenue for efficiencies, a \$25.5 million reduction for Defense-wide offsets, and over \$4 million in unfunded pay raises. For FY 2008 through FY 2011, the Army has reflected a decrease in reimbursement each year (-\$28.6M in FY 2008, -\$29.7M in FY 2009, -\$30.9M in FY 2010, and -\$31.4M in FY 2011. This was not coordinated through the Commissary Operating Board (COB).

The Gulf Coast hurricanes caused significant damage to Commissaries; the Keesler, Mississippi Commissary requires complete reconstruction and the Gulfport, Mississippi Commissary major restoration (we are currently operating out of temporary facilities at these locations). The hurricanes also caused damage to the New Orleans, Fort Polk, Key West, Hurlburt Field, Meridian, Pensacola, and Whiting Field Commissaries. We have requested supplemental funding of \$2.9M for the loss of Resale inventory, \$4.2M for Commissary Operations expenses, and \$62.4M for Surcharge (the facilities themselves and the replacement equipment).

We continue to emphasize the efficient delivery of the commissary benefit to Armed Services personnel and their families. DeCA continues our business process improvement through the use of Lean Six Sigma to improve performance and resource

efficiencies. DeCA has instilled process ownership, greater accountability, efficiency, and effectiveness throughout the commissary system, enabling us to streamline processes at the headquarters, the region and the store levels, and ultimately improving store operations and the commissary benefit. Our initiatives include implementing a health and wellness product selection, expanding natural and organic food, designing a 'store of the future', expanding the web-based Virtual Commissary, and assuming the produce procurement mission from the Defense Supply Center, Philadelphia. We are also testing the concept of operations for a prototype store. We are continuing to implement above-store reengineering, and are realigning the Regional Office processes to the Headquarters; to date, over 80 people in the CONUS Regions have relocated to the Headquarters at Fort Lee, VA.

Our program, as reflected in this President's Budget, is:

	\$ Millions					
	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Sales	5,265.0	5,291.3	5,317.7	5,344.3	5,371.1	5,397.9
Expenses	1,198.6	1,186.4	1,249.8	1,275.9	1,305.5	1,336.0
Unit Cost	.2277	.2242	.2350	.2387	.2431	.2475
Full Time Equivalents (civilian)	14,912	14,839	14,839	14,839	14,839	14,839
Full Time Equivalents (military)	5	5	5	5	5	5

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Service Reimbursement	1,152.2	1,206.8	1,219.9	1,246.1	1,275.6	1,306.3
Army	396.4	415.1	419.6	428.6	438.8	449.4
Navy	300.7	315.0	318.4	325.2	332.9	340.9
Marines	101.4	106.2	107.4	109.7	112.3	115.0
Air Force	353.7	370.5	374.5	382.5	391.6	301.0

Note: Rounding causes a .1 differences

DeCA also uses the services of the Defense Finance and Accounting Service (DFAS), the Defense Information Services Agency (DISA), US Transportation Command (USTRANSCOM), and the Military Departments for support in areas associated with finance and accounting, communications, construction, transportation, and local base support.

I. OPERATING AND CAPITAL BUDGETS

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

a. Commissary Resale Stocks finances the purchase of inventory for resale to authorized patrons. Products offered by commissaries include perishable food items such as: meat, poultry, fruits, vegetables, dairy products, non-perishable food items, and household products, which include laundry and cleaning products, batteries, light bulbs, and pet foods. There is no requirement for appropriated fund support. Projected sales for FY 2006 and FY 2007 are approximately \$5.3 billion per year.

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 \$29 million, from manufacturers' coupon redemption fees, handling fees for tobacco products, and reimbursements for other support.

c. 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. Title 10 United States Code - Armed Forces, established this fund. By paying the surcharge on their purchases, authorized patrons share responsibility for the infrastructure cost of the commissary facilities, including store information technology and the commissary construction programs. This fund also receives revenue from prompt payment discounts, collection of fees for dishonored patron checks, the sale of used cardboard, plastic and equipment, and services provided to others. The DeCA Surcharge Collections Account has received \$37.7 million of appropriated funding in FY 2006 for losses and damages to Commissary facilities and equipment as the result of the Gulf Coast hurricanes.

II. WORKLOAD ASSUMPTIONS

The annual sales forecast for FY 2006 is \$5,265.0 million. 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.

a. Patrons. DeCA's total authorized patron base is over 11.8 million. DeCA commissaries process over 90 million customer order transactions annually. DeCA's patrons include active duty military members, guard and reserve component members, retired personnel and their families, government departments or agencies, 100% service disabled veterans, Medal of Honor recipients, and authorized DoD civilians stationed in overseas areas.

b. Organization. DeCA has 268 commissaries. There are also 11 NEXMARTs, which combine commissary and exchange operations at small locations overseas. The Navy Exchange Command (NEXCOM) provides managerial oversight for the NEXMARTs, while DeCA provides the resale inventory and reimburses NEXCOM for total costs of commissary operations. DeCA operates 10 Central Distribution Centers (CDC) to support inventory requirements in Europe and the Western Pacific and 29 zones strategically located in the Continental United States (CONUS) and outside the Continental United States (OCONUS).

c. Location. Historically, operations in OCONUS and remote areas cost more per dollar of sales than the CONUS locations, due to relative costs of operating in foreign and remote environments. Often these locations service small-to-medium military populations, resulting in fewer 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, the commissary operations overseas provide a critical quality of life benefit to the personnel serving the U.S., because DeCA's infrastructure provides economies that are not achievable by other alternatives. The investment of taxpayer's dollars in DeCA provides essential services, food safety, 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.

d. Hours of Operations. Commissary operating hours and days are determined by sales, patron demographics, and local installation needs, which include consideration for the families' needs during extended deployments.

e. Workforce. DeCA projects a civilian full-time equivalent (FTE) level of 14,912 for FY 2006, down from 15,058 for FY 2005. There are approximately 18,000 employees, including about 2,000 local nationals. 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 the scheduling flexibility required by commissaries. DeCA places a continued emphasis on the increased use of part-time employees, including students, for increased flexibility in hiring and scheduling, as well as providing 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.

III. PRODUCTIVITY ASSUMPTIONS

In accordance with the President's Management Agenda (PMA) initiatives and DoD's Balanced Scorecard concept, DeCA continues to further develop performance metrics to establish linkage between resource requirements and outputs. This effort provides meaningful information for program evaluation and the decision process and assists DeCA with strategic plan development and focusing on improving the quality of goods and services we provide our patrons while developing cost effective business practices. The following performance measures are used to determine how well DeCA is achieving its strategic plan goals and objectives and implementing the five initiatives under the PMA:

a. Sustain Customer Savings. The patron savings are calculated using a comprehensive database of actual prices for Universal Product Coded (UPC) items from commercial grocery stores and commissaries to perform the analysis for locations within the 48 contiguous states (over 30,000 items are compiled). All major supermarket chains (e.g., Kroger Co., Winn Dixie, Giant Foods, HEB, etc.), as well as super centers are included in the comparison. Because the database contains only items with a UPC, prices for fresh meat and produce are obtained by physical audit at randomly selected commissaries and nearby commercial grocery stores. This methodology was validated by the Air Force Audit Agency. DeCA's FY 2005 customer savings was 32 percent, which results in approximately \$2700 in annual savings for a family of four. The FY 2006 and FY 2007 customer saving goals are 30 percent.

b. Improved Customer Satisfaction. Customer satisfaction is evaluated by surveys based on statistically sound sampling techniques. Previously, the Commissary Customer Service Survey (CCSS) was conducted twice a year (spring and fall). During FY 2004, a decision was made to conduct the CCSS once per year to allow more time to complete the data collection and analysis. Surveys will now be conducted in May and June each year with reportable results tallied by the end of the fiscal year. In addition, DeCA incorporated recommendations of a GAO audit by modifying the method of weighting the surveys. All scores are now weighted to account for differences in commissary size. The FY 2005 score of 4.55 exceeded the FY 2005 goal of 4.47 (the scale is 1-5 with 5 being the highest possible score).

c. Unit Costs. DeCA benchmarks well against industry, both operationally and financially. We are cognizant of the need to control 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 and process improvements throughout the organization, thus improving service and output and reducing unit costs. DeCA has produced significant cost savings and patron service improvements through personnel and processes restructuring, realignment, and reductions, while at the same time increasing sales to commissary customers. The FY 2005 actual unit cost was \$.2171, compared to our goal of \$.2232.

d. Facilities Condition Index (FCI). The FCI is a numerical expression of the physical state of a commissary store. The FCI is a weighted measure of a commissary's condition, refrigeration system, and energy usage and efficiency. The FCI reflects the overall condition of commissary plant and facilities. Our

patrons deserve to shop in well-designed, constructed, and maintained commissaries that are sized to handle the customer traffic and are conveniently located. Success in meeting these demands is measured annually using defined metrics for assessing the facility condition index and through analysis of the results of customer satisfaction surveys. The FCI is used as a leading indicator in assessing the effectiveness of the investment of surcharge funding in the physical facilities program. FY 2003 FCI results were 74.5 against the goal of 74.5. The FY 2004 FCI score was 75.03.

<u>Performance Measures</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Customer Savings	32%	30%	30%
Commissary Customer Service Survey (CCSS) (1-5 Scale)	4.55	4.47	4.48
Unit Costs	\$.2171	\$.2277	\$.2242
Facility Condition Index	74.9	75	76

e. Strategic Management of Human Capital. The Agency's Corporate Successor Development Program (CSDP) ensures development of multi-skilled employees through a program of cross-training and rotational assignments at every level of the agency. The Commissary Career Program (CCP) and Corporate Successor Development Programs (CSDP) ensure a steady pipeline of highly qualified and trained individuals to fill anticipated vacancies in key mission critical and senior leadership positions. Through CSDP, the Agency makes a concerted effort to identify competencies required by commissary management specialists to become future leaders of the agency and develop these employees to become proficient in identified competencies. DeCA plans to expand CSDP to lower graded commissary management employees. This will support our effort to ensure a cadre of highly qualified and well trained employees exist at every level of commissary management.

f. Competitive Sourcing. DeCA was on track to meet our goal to study 50% of the FAIR inventory by the end of FY 2008. However, the FY 2006 NDAA placed a moratorium on studies at store

level until December, 2008. We are planning an initiative to study the above store function of resale accounting.

g. Improved Financial Performance. DeCA received its fourth consecutive unqualified audit opinion for its FY 2005 Financial Statements (also received for FY 2002, 2003 and FY 2004 Financial Statements). An unqualified opinion was also received on the FY 2001 Balance Sheet. Travel card holder delinquency rates for FY 2005 were at 1.77 percent for Individually Billed Accounts (IBA's) compared to the DoD standard delinquency rate of less than 2 percent. DeCA also had a zero delinquency rate for the government purchase card against the DoD goal of zero percent.

h. Expanded Electronic Government. For all systems, platforms, and networks, DeCA will complete the DoD process for Certification and Accreditation (C&A) bringing 100% into compliance and establish a renewal program to ensure compliance is maintained.

i. Budget and Integration. DeCA Senior Managers regularly utilize financial and performance measures from the Balanced Scorecard and the President's Management Agenda (PMA) scoring results in the conduct of senior staff meetings, quarterly senior management business reviews, and during Resource Management Council meetings to make informed decisions regarding approval and funding authority for programs and/or projects. DeCA's performance as articulated in the PMA initiatives and the Balanced Scorecard (BSC) process indicates positive progress in meeting our deliverables. This business based approach articulates the expectations for DeCA's performance while investing wisely in technologies, programs, and product support necessary to achieve and provide the commissary benefit to the Total Force personnel and their families. DeCA is committed to utilizing best business strategies to increase business productivity and increase customer satisfaction by operating effectively and efficiently and honoring DeCA's commitment to prudent stewardship of taxpayer funds.

**DEFENSE COMMISSARY AGENCY
(DeCA)**

**FISCAL YEAR (FY) 2007
BUDGET ESTIMATES
FEBRUARY 2006**

OPERATING BUDGET

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

FUNCTIONAL DESCRIPTION

The Defense Commissary Agency (DeCA) Commissary Resale Stocks account finances resale inventory sold in the commissary system. DeCA's product assortment includes non-perishable food items, as well as perishable food items such as, meat, poultry, fruits, vegetables, dairy products, and assorted household goods such as, laundry products, bleach, cleaners, batteries, pet foods, etc. Sales of commissary products generate revenue that DeCA uses to replenish the resale inventory. DeCA Commissary Resale Stocks account is self-sufficient, requiring no appropriated fund support, except for recovery of inventory losses due to natural disasters.

DeCA continuously strives to improve its 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 to obtain U.S. grocery and household items. Authorized commissary patrons include: active duty military members and their families, guard and reserve component members, and retired personnel and families. Other authorized sales include designated government civilian employees overseas, appropriated and non-appropriated fund activities, and U.S. State Department activities. DeCA's total authorized patron baseline is approximately 11.8 million personnel, and DeCA commissaries processed over 94 million customer transactions in FY 2005.

By statute, Title 10, United States Code - Armed Forces, directs a five percent surcharge on purchases at the point of sale. By paying the surcharge, commissary patrons share in the responsibility of the overall costs of the commissary system. The surcharge is used to finance categories of commissary store infrastructure, such as information technology and equipment, and construction and maintenance costs. These funds as well as revenue from prompt payment discounts, the sale of used cardboard and equipment, and proceeds from the transfer or disposal of commissary facilities on Base Realignment and Closure installations are managed through the Surcharge Collections Trust fund.

BUDGET HIGHLIGHTS

In FY 2005, DeCA experienced increased sales growth for the third consecutive fiscal year. Sales increased by 2.5 percent over the previous fiscal year, while daily patron transactions increased .1 percent. DeCA successfully maintained operating costs within budget while increasing sales.

Revenue from the sale of commissary products of approximately \$5.3 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. DeCA also sells products to dining facilities, exchange operations, National Guard activities, and other appropriated and non-appropriated entities.

During FY 2006 DeCA Resale Stocks will receive supplemental funding to replenish inventory losses sustained as a result of hurricanes in the Gulf of Mexico in calendar year 2005.

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

In the October 2004 DeCA Commissary Customer Service Survey (CCSS), 55.1 percent of patrons selected the commissary as their number one benefit. Additionally, the General Accounting Office service member survey results, dated August 16, 1999, indicate that the commissary benefit is a major determinant in the recruitment and retention of military members in retention critical specialties. The commissary benefit fosters a sense of community and is a core military family support element in quality of life enhancements. Thus, military members embrace this valuable contribution and consider it to be one of the most important non-pay compensations they receive.

CHANGES IN OPERATIONS

Department of Defense right-sizing efforts and efficiency reviews from FY 1992 through FY 2007 resulted in the net closure of 144 commissaries, a reduction of approximately 35 percent, however, commissary sales projections only declined by about 12 percent over the same period. DeCA sales projections for FY 2006 and FY 2007 reflect the President's Budget level for this

submission and will be changed, as necessary, during the next budget submission.

DeCA strives to continuously 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. Buying Process. The Sales Process Area of DeCA is one of the key players in the success of the Agency's efforts to keep customer prices at commissaries significantly below those in the commercial sector. This process area performs centralized category management reviews for new, national brands, and regional/local products. Category reviews are conducted 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 cost 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 is available for commissary patrons.

b. Inventory Management. Through the deployment of information technology, computer assisted ordering, DeCA has effectively reduced its inventory for operating and safety levels. The inventory levels are expressed in days of supply based on average daily sales. Projected average daily sales are \$14.5 million for FY 2007, with 22 days of supply. In comparison, average daily sales for FY 1991 were \$16.5 million with 27 days of supply. This represents a 19 percent reduction in terms of days of supply through FY 2007. On-hand inventory has declined 29 percent from the FY 1991 inventory level maintained by the Military Departments.

c. Sustain Customer Savings. DeCA provides our authorized patron's additional product savings through Manager's Specials and the new Savings You've Earned Program. Manager's Specials are generally top-selling, recognizable brands at deeply discounted prices for a short period of time. Manager's Specials provide our patrons' greater savings than the already low prices offered in the commissary. DeCA Commissaries rolled out the new red, white, and blue Savings You've Earned program in May 2004. Three new "signs of savings" are red, white and blue starbursts framing product prices. 'Every Day Savings' indicates an item is on sale at an everyday low price; 'Value Savings' indicate the lowest prices when compared to like items at the commissary or at commercial grocery stores and 'Extra Savings' means the price is so low, the product is only on sale for a limited time, in limited

quantities. Through Manager's Specials and the Savings You've Earned Program, DeCA is responding to our patrons needs with quality products and greater savings. Through our savings program, DeCA makes a concerted effort to encourage single shoppers, military families, and retirees to take advantage of their benefit and realize an increase in their personal disposable income.

d. Patron Outreach. DeCA continues its patron outreach initiative through case lot sales, single service member tours, special Guard and Reserve events, the launch of the Commissary Connection customer newsletter, and the Savings You've Earned Program. Semiannual worldwide case lot sales events are held in May and September, which have proven successful in highlighting the yearlong commissary benefit. Case lot sale events allow patrons to purchase products in bulk quantities at substantial savings and customers can save up to 50 percent or more off regular prices during case lot sales. Selected products include paper products, laundry detergent, soups, juices, canned vegetables, pet food, etc. The May 2005 worldwide sale set a new record with more than \$11.4 million in sales and 1.4 million cases of product sold. During Commissary Awareness Month, conducted annually in May each year, commissaries make a concerted effort to reach new customers through "show and tell" tours for single service members, new service members and Guard and Reserve families. The Commissary Connection newsletter is a customer newsletter delivered via e-mail to proactively communicate with customers and keep them informed of "what's happening" in commissaries. Commissary Connection keeps customers abreast of news about promotions and sales and even offers links to manufacturer and vendor sites where patrons can enter shopping sprees and contests, or sign up for commercial newsletters. The Savings You've Earned Program was accompanied by an awareness campaign that included banners, posters and employee buttons as well as "shelf talkers" - Savings You've Earned images that were posted in all commissaries worldwide. This new program has been well received by patrons and helps to acknowledge that commissary savings of 30 percent or more is not only savings they deserve, but also savings they have earned.

e. Virtual Commissary. Commissary shoppers looking for a different kind of gift for friends or family at home or abroad let their "fingers do the clicking" at the new Virtual Commissary in FY 2005. Located under a web based shopping link, Virtual Commissary opened up a whole new world of Internet shopping for authorized users of the commissary benefit. Initially, one of DeCA's business partners, Kraft Foods, Inc., kicked off Internet shopping with a selection of gift baskets, but the number of

vendors and manufacturers participating will continue to increase, along with the variety of products. All of the products in the gift baskets at Virtual Commissary can be found on the shelves of "brick and mortar" commissaries, but the unique packaging of products into gift and special occasion baskets adds a new twist. Virtual Commissary customers can make selections and fill in their payment and shipping information in one easy and secure step, before being transferred to the manufacturer's site where they can get total cost for the product (including the shipping) and finalize their purchase. Shipping and handling charges are paid by the customer, just as at most other Internet shopping sites, and charges will vary depending on the method of shipping selected, location, and the speed of delivery requested. Customers can check for availability of delivery to APO and FPO addresses as well as get more information on what's in the gift baskets by clicking on the image of the gift basket on their screen. Payment for orders can be made with any credit card accepted in commissaries; customer information is not archived by DeCA. In the future, Virtual Commissary expansion may include a wider variety of commissary products available, a feature that would allow deployed military service members, retirees, and other authorized shoppers to order items they want and need at commissary savings - no matter where they live.

f. Computer Assisted Ordering (CAO). CAO is providing the mechanism necessary to maintain sufficient in-stock rates that enables DeCA to provide the right product at the right time throughout the shopping day, which improves our patrons' satisfaction.

g. Improve Convenience and Shopping Time of Customers. DeCA is aware that many of our patrons are struggling to balance work and personal responsibilities and respond to convenience shopping and ways to save time. In response, DeCA continues to identify frequently purchased convenience products and Home Meal Replacement items by locating these products at the front of the store for quick shopping access. DeCA provides popular and nutritious grab and go meals, as well as introducing new products to patrons before or at the same time as commercial retailers. We are designing our commissaries to allow quicker access for customers to shop and checkout, with the goal of enticing more of our authorized patrons to use their commissary benefit. Product stock assortment is constantly reviewed in an effort to make the service even better. DeCA has received many positive responses for this service. Where possible, express commissary parking is available for the quick stop-and-shop patron. DeCA is effectively designing the layout of the commissary facility to

allow easier access for grab and go products with the goal of twenty minutes or less to shop and checkout.

g. 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 opens earlier with minimum staff supporting express purchases of fifteen items or less. Implementation of early bird shopping hours provides additional access and greater convenience for our customers. In support of Operation Enduring Freedom (OEF) and Operation Iraqi Freedom (OIF), DeCA is operating with expanded hours/days for specific commissaries where large and extended deployments has left families with a sole parent who needs access to the commissary after work day hours.

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 is Supermarket Facts Industry Overview 2004 - Weekly Sales per store for Commercial Supermarkets reflects 2003 data)

<u>WORKLOAD DATA - AVERAGES</u>	<u>DeCA COMMISSARIES</u>	<u>COMMERCIAL SUPERMARKETS</u>
Weekly Sales per Store	\$ 495,777	\$ 348,130
Weekly Sales Per Square Foot	\$ 15.86	\$11.40
Sales Per Customer Transaction	\$ 59.66	\$ 24.64

(Calendar year 2004 commissary data for stateside locations)

<u>Workload Indicators</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Number of Commissaries (begin year)	273	268	268
Resale Stocks Sales (\$ Millions)	5,368.6	5,265.0	5,291.3
Ending Inventory (\$ Millions)	329.4	333.5	335.1

Performance Measures

Inventory Turns (Average # of Days)	17.7	15.9	16.0
Customer Savings	32%	30%	30%
Commissary Customer Satisfaction Survey (CCSS)	4.55	4.47	4.48
American Customer Satisfaction Index (ACSI)	TBD	76	76

Financial Recap

Revenue (\$ Millions)	5,367.4	5,261.3	5,285.1
Cost of Goods Sold (\$ Millions)	5,377.0	5,272.3	5,295.2
Net Operating Results (\$ Millions)	(9.6)	(11.0)	(10.1)
Accumulated Operating Results (AOR) ⁽¹⁾	21.1	10.1	0.0
Unit Cost (Per \$ of Sales)	1.00	1.00	1.00

⁽¹⁾ AOR includes an accounting adjustment included in the FY 2005 Financial Statement footnotes to reflect transfers in/out between stores and Central Distribution Center's for FY92 through FY96 that adjusted the nonrecoverable AOR.

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

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
1. New Orders			
a. Orders from DoD Components:			
Army		0.1	0.1
Navy	0.3	0.4	0.4
Air Force		0.1	0.1
Marine Corps			
Other	0.2	0.2	0.2
b. Orders from Other Fund Activity Groups			
c. Total DoD	0.5	0.8	0.8
d. Other Orders:			
Other Federal Agencies	0.9	1.0	1.0
Trust Fund			
Non Federal Agencies	5,371.2	5,259.5	5,283.3
Foreign Military Sales			
Total New Orders	5,372.6	5,261.3	5,285.1
2. Carry-in Orders			
3. Total Gross Orders	5,372.6	5,261.3	5,285.1
4. Revenue	5,367.4	5,261.3	5,285.1
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 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Revenue:			
Gross Sales	5,368.6	5,265.0	5,291.3
Operations	5,368.6	5,265.0	5,291.3
Capital Surcharge			
Depreciation excluding Major Construction			
Other Income	4.7	2.5	0.0
Refunds/Discounts	(5.8)	(6.2)	(6.2)
Total Income:	5,367.4	5,261.3	5,285.1
Expenses:			
Cost of Material Sold from Inventory	5,377.0	5,272.3	5,295.2
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	5,377.0	5,272.3	5,295.2
Operating Result	(9.6)	(11.0)	(10.1)
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	(9.6)	(11.0)	(10.1)
Other Changes Affecting AOR	0.0	0.0	0.0
Accumulated Operating Result	33.7	10.1	0.0
Non Recoverable Adjustment Impacting AOR ⁽¹⁾	(12.6)	0.0	0.0
Accumulated Operating Result for Budget Purposes	21.1	10.1	0.0

⁽¹⁾ Accounting adjustment to reflect transfers in/out between stores and CDC's for FY92 through FY96. Footnoted in Accounting Report (M) 1307 - Line 15 Cumulative Results of Operations

Footnote:
FY 2006 reflects supplemental funding for Hurricane Recovery costs identified in P.L. 109-148.

FY 2005 BUDGET				DIVISION		February 2006	
				Commissary Resale Stocks			
DEFENSE COMMISSARY AGENCY SUPPLY MANAGEMENT							
INVENTORY STATUS				TOTAL	MOBILIZATION	PEACETIME OPERATING	PEACETIME OTHER
1.	INVENTORY BOP			338.8		338.8	
2.	BOP INVENTORY ADJUSTMENTS						
	a. RECLASSIFICATION CHANGE (Memo)						
	b. PRICE CHANGE AMOUNT (Memo)						
	c. INVENTORY RECLASSIFIED AND REPRICED						
3.	RECEIPTS AT STANDARD			5,367.5		5,367.5	
4.	SALES AT STANDARD			5,368.6		5,368.6	
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)			(8.3)		(8.3)	
	h. TOTAL ADJUSTMENTS						
6.	INVENTORY EOP			329.4		329.4	
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)			7.9		7.9	
9.	NARRATIVE (Explanation of unusual changes)						
5g. Net loss from inventory gains and loss adjustments - includes inventory loss due to hurricane Katrina.							

FY 2006 BUDGET				DIVISION		February 2006	
				Commissary Resale Stocks			
DEFENSE COMMISSARY AGENCY SUPPLY MANAGEMENT							
INVENTORY STATUS				TOTAL	MOBILIZATION	PEACETIME OPERATING	PEACETIME OTHER
1.	INVENTORY BOP			329.4		329.4	
2.	BOP INVENTORY ADJUSTMENTS						
	a. RECLASSIFICATION CHANGE (Memo)						
	b. PRICE CHANGE AMOUNT (Memo)						
	c. INVENTORY RECLASSIFIED AND REPRICED						
3.	RECEIPTS AT STANDARD			5,265.0		5,265.0	
4.	SALES AT STANDARD			5,265.0		5,265.0	
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)			4.1		4.1	
	h. TOTAL ADJUSTMENTS						
6.	INVENTORY EOP			333.5		333.5	
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)			7.9		7.9	
9.	NARRATIVE (Explanation of unusual changes)						
5g. Increased inventory in support of sales plus supplemental increase of 2.5M for hurricane Katrina losses.							

FY 2007 BUDGET				DIVISION		February 2006	
				Commissary Resale Stocks			
DEFENSE COMMISSARY AGENCY SUPPLY MANAGEMENT							
INVENTORY STATUS				TOTAL	MOBILIZATION	PEACETIME OPERATING	PEACETIME OTHER
1.	INVENTORY BOP			333.5		333.5	
2.	BOP INVENTORY ADJUSTMENTS						
	a. RECLASSIFICATION CHANGE (Memo)						
	b. PRICE CHANGE AMOUNT (Memo)						
	c. INVENTORY RECLASSIFIED AND REPRICED						
3.	RECEIPTS AT STANDARD			5,291.3		5,291.3	
4.	SALES AT STANDARD			5,291.3		5,291.3	
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)			1.6		1.6	
	h. TOTAL ADJUSTMENTS						
6.	INVENTORY EOP			335.1		335.1	
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)			7.9		7.9	
9.	NARRATIVE (Explanation of unusual changes)						
5g. Increased inventory in support of sales.							

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

FUNCTIONAL DESCRIPTION

Commissary Operations finances 268 commissaries, 10 central distribution centers, 11 Navy Exchange Marts (NEXMARTS), and 1 meat processing plant. Areas of significant cost include U.S. and foreign national civilian labor, A-76 and other support contracts, operating supplies, utilities, transportation of commissary goods overseas and in-theater, DoD service providers such as the Defense Finance and Accounting Service (DFAS), the Defense Information Systems Agency (DISA), the U.S. Transportation Command (USTRANSCOM), and base operations support.

Items sold in the commissaries are priced to only recover product cost and, as a result, provide the commissary patron direct savings while maintaining high standards for products, service, quality, and operating facilities. A direct appropriation received from Congress, based upon funding provided by the Services, is the foundation that allows military members and their families to receive direct savings of approximately 30 percent below the typical commercial market basket purchase. The commissary is an integral part of the non-pay compensation package used in recruiting and retaining military members and in a recent Commissary Customer Service Survey (CCSS), approximately 55 percent of patrons selected the commissary benefit as their number one benefit.

BUDGET HIGHLIGHTS

Appropriated fund requests represent approximately 98 percent of required revenue to operate the commissaries. The 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 from the Governments of Korea and Japan as part of their burden sharing agreement to share costs for commissaries located in these countries.

The Services, who 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 President's Budget submission reflects the following:

	\$ Millions					
	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Sales	5,265.0	5,291.3	5,317.7	5,344.3	5,371.1	5,397.9
Expenses	1,198.6	1,186.4	1,249.8	1,275.9	1,305.5	1,336.0
Unit Cost	.2277	.2242	.2350	.2387	.2431	.2475
Full Time Equivalents (civilian)	14,912	14,839	14,839	14,839	14,839	14,839
Full Time Equivalents (military)	5	5	5	5	5	5
Service Reimbursement	1,152.2	1,206.8	1,219.9	1,246.1	1,275.6	1,306.3
Army	396.4	415.1	419.6	428.6	438.8	449.4
Navy	300.7	315.0	318.4	325.2	332.9	340.9
Marines	101.4	106.2	107.4	109.7	112.3	115.0
Air Force	353.7	370.5	374.5	382.5	391.6	301.0

Note: Rounding causes a .1 differences

The changes reflected in the President's Budget submission include adjustments and the effects of the Gulf Coast hurricanes. For Commissary Operations, our FY 2007 budget reflects the revenue of \$22 million from the FY 2006 expense for foreign currency fluctuation in Europe and the Far East, a \$25.5 million reduction for Defense-wide offsets, a \$5.5 million reduction in revenue for efficiencies, and over \$4 million in unfunded pay raises. For FY 2008 through FY 2011, the Army has reflected a decrease in reimbursement each year (-\$28.6M in FY 2008, -\$29.7M in FY 2009, -\$30.9M in FY 2010, and -\$31.4M in FY 2011). This was not coordinated through the Commissary Operating Board (COB).

The hurricane damage sustained in the Commissaries is mostly from the Surcharge Collections Account. Our supplemental requests included \$4.2M in Commissary Operations.

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

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
1. New Orders			
a. Orders from DoD Components:			
OSD Burdensharing Contribution, Defense	7.7	6.9	7.0
Other Reimbursements (Non-Appropriated Funds and Trust Funds) and Trust Funds)	6.0	5.5	5.4
b. Orders from other Fund Activity Group	0.0	0.0	0.0
c. Total DoD	13.7	12.5	12.5
d. Other Orders:			
Other Federal Agencies	1.9	2.1	2.1
Non Federal Agencies	10.0	14.5	12.4
Total New Orders	25.6	29.0	27.0
2. Carry-In Orders	0.0	0.0	0.0
3. Total Gross Orders	25.6	29.0	27.0
4. Revenue	25.6	29.0	27.0
5. End of year Work-in-Process	0.0	0.0	0.0
6. FMS, BRAC, Other Federal, and Non-Federal Orders	0.0	0.0	0.0
7. Funded Carry-over	0.0	0.0	0.0

Note: Rounding causes .1 differences

DeCA WORKING CAPITAL FUND
 COMPONENT: DEFENSE COMMISSARY AGENCY
 ACTIVITY GROUP: COMMISSARY OPERATIONS
 REVENUE AND EXPENSES
 (DOLLARS IN MILLIONS)

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Revenue:			
Operations			
Other Income	25.6	29.0	27.0
Total Income:	25.6	29.0	27.0
Expenses:			
Salaries and Wages:			
Military Personnel Compensation & Benefits	0.5	0.5	0.5
Civilian Personnel Compensation & Benefits	684.4	716.0	714.4
Travel & Transportation of Personnel	9.1	10.7	12.2
Materials & Supplies (For Internal Operations)	50.9	50.8	49.9
Other Purchases from Revolving Funds	28.3	27.6	27.1
Transportation of Things	103.6	101.7	99.5
Depreciation - Capital	5.9	7.0	7.8
Printing & Reproduction	0.5	0.8	0.9
Advisory & Assistance Services	0.0	0.6	0.6
Rent, Communication & Misc. Charges	53.1	58.2	59.3
Other Purchased Services	229.1	224.7	214.2
Total Expenses	1,165.4	1,198.6	1,186.4
Operating Result	(1,139.8)	(1,169.6)	(1,159.4)
Plus Appropriations Affecting NOR/AOR	1,174.0	1,147.1	1,184.0
Net Operating Result	34.2	(22.5)	24.6
Accumulated Operating Result	(2.1)	(24.6)	(0.0)

Footnote:

FY 2006 reflects supplemental funding for Hurricane Recovery costs identified in P.L. 109-61 and P.L. 109-148.

**Changes in the Costs of Operation
 Defense Commissary Agency/Commissary Operations
 February 2006
 (Dollars in Millions)**

	<u>Expenses</u>
1. FY 2005 Actual	1,165.4
2. FY 2006 President's Budget	1,181.8
3. Program Changes:	
Store Closure	(0.5)
VSIP/VERA	0.5
Other Efficiencies	(11.5)
Foreign Currency Fluctuations	24.6
Hurricane Recovery (P.L. 109-62; P.L. 109-148)	3.7
4. FY 2006 Current Estimate:	1,198.6
5. Pricing Adjustments	
Annualization of Prior Year Pay Raise	5.0
FY 2007 Civilian Pay Raises	13.8
General Purchase Inflation	2.0
Department of Labor Wage Rate	1.0
Transportation Fuel Rate Increase	8.5
6.0 Productivity Initiatives and Other Efficiencies:	
Process Reengineering	(2.2)
Operating Efficiencies	(42.3)
7. Program Changes:	
Store Closure	(0.3)
Store Opening	1.5
8. Other Changes:	
Depreciation	0.8
9. FY 2007 Current Estimate:	1,186.4

Footnote:

FY 2006 reflects supplemental funding for Hurricane Recovery costs identified in P.L. 109-61 and P.L. 109-148.

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**DEFENSE COMMISSARY AGENCY
(DeCA)**

**FISCAL YEAR (FY) 2007
BUDGET ESTIMATES
FEBRUARY 2006**

CAPITAL BUDGET

Activity Group Capital Investment Summary

Component: Defense Commissary Agency

Activity Group: Commissary Operations

Date: February 2006

(\$ in Millions)

Line Number	Item Description	FY 2005		FY 2006		FY 2007	
		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)						
2002	ADP Equipment (\$500K-999K) - Located at DeCA HQ			14	1.3		
	ADP Equipment \$1,000K and Over						
2003	Enterprise Data Warehouse	1	3.8	1	2.0	1	3.0
2004	Corporate Server III	1	1.0	1	1.0	1	2.2
2005	DeCA Electronic Records Management & Archive	1	0.8	1	0.6	1	0.7
2006	Telephone Modernization			1	4.0		
3000	Software Development/Modernization						
4000	Minor Construction						
4001	New Roof - DeCA HQ Building			1	0.4	1	0.7
4002	Command Conference Room Renovation			1	0.3		
4003	Refurbish HQ's Computer Room			1	1.4		
	TOTAL CAPITAL PURCHASE PROGRAM	3	5.6	21	11.0	4	6.6
	Total Capital Outlays		6.5		7.7		8.6
	Total Depreciation Expense		5.9		7.0		7.8

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ACTIVITY GROUP CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)				A. FISCAL YEAR (FY) 2007 BUDGET ESTIMATES						
B. DeCA WCF/ Commissary Operations February 2006		C. Line No. & Item Description 2001. Various ADP Equipment \$500- \$999K		D. Activity Identification						
		FY 2005			FY 2006			FY 2007		
Element of Cost		Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
HP Replacement (5-year life cycle)					1	316	316			
Dell Farm Replacement (5-year life cycle)					1	295	295			
Web Server (PD2-V4.2.2)					1	40	40			
HP Unix servers for DCPDS					2	255	510			
Microsoft Windows servers for CHRIS					9	20	184			
<p>Narrative Justification:</p> <p>Procurement Desktop - Defense (PD2) which is a DoD mandated system provides automated strategic and streamlined contract management support for the procurement professional within a complete workflow management solution. PD2 is an integral part of the Department of Defense's (DoD) Standard Procurement System (SPS) which is integrating acquisition, logistics, and financial management within one end-to-end enterprise business system. As SPS has been deployed throughout DoD contracting communities, it is providing the technology and business process foundation necessary for DoD to achieve its procurement business goals by eliminating multiple outdated legacy systems and automating manual business processes. Facilitating the standardization of efficient business processes to improve management across the enterprise; and expanding the software functionality necessary to effectively award and manage contracts in the rapidly evolving eCommerce environment.</p> <p>DCPDS - The hard disk space, RAM, memory, number of processors and speed specifications of the current hardware will not be adequate to meet system growth and requirements in FY06. DCPDS is DoD's personnel database system of record. The number of database records grows by 2-5% every day. Growth of the database; processor and memory intensive application processing and database queries; changes to the DCPDS software applications and system architecture; hardware limitations for expansion; DoD guidance to consolidate HW; and costs for hardware/software and operating system maintenance require this hardware to be refreshed. FY06 CHRIS Server Refresh: The hard disk space, RAM, memory, number of processors and speed specifications of the current hardware will not be adequate to meet system growth and requirements in FY06. The number of users doubled from 110 to 220 by 2005. These users will be competing for processors, memory and space with running processor intensive database queries. The Business Objects server software has been re-engineered with a different architecture and provides new features that use more server resources. Currently space to store required EEO statistical documents is limited. More hard disk space or fiber connection to a storage unit will be required in this refresh.</p>										

ACTIVITY GROUP CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)				A. FISCAL YEAR (FY) 2007 BUDGET ESTIMATES								
B. DeCA WCF/ Commissary Operations February 2006		C. Line No. & Item Description 2002. Corporate Decision Support System		D. Activity Identification								
				FY 2005			FY 2006			FY 2007		
Element of Cost				Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
ADP Equipment (Productivity) > \$1M				1	3,800	3,800	1	2,000	2,000	1	3,000	3,000
<p>Narrative Justification: The Enterprise Data Warehouse (EDW) provides a single, logical view of product and sales data across DeCA allowing end users to make informed business decisions, accomplish a competitive advantage and achieve parity with industry. EDW obtains data from DeCA business systems and transforms the data into an appropriate data warehouse format using business rules defined by functional experts. The transformed data is maintained in a Teradata database in a format that provides quick access to required raw data, summary data and reports. The EDW currently receives data from the DeCA Point of Sale - Technology Refresh (POS-TR) and the DeCA Interactive Business System (DIBS) but will soon be receiving, storing, transmitting and transforming Commissary Advanced Resale Transaction System (CARTS) data. The EDW will serve as the translator for CARTS data requiring an interface with legacy systems. DeCA is mandated and committed to becoming a net-centric environment and is utilizing a Teradata platform to support that effort. For this reason \$2.0M in FY06 is needed to fund the final Lease-To-Purchase (LTOP) payment on the current configuration. In FY07, \$3M is required to initiate a hardware/software refresh to allow continued growth in the net-centric environment.</p> <p>Economic Analysis Summary: The recommendation is based on a comparison of current hardware maintenance and operating costs versus a technology refresh with maintenance. DeCA requires EDW hardware, software and support services to upgrade its obsolete and aging production, test, and development environments that become cost prohibitive to support. This will facilitate DeCA's objectives for business continuance, legacy migration, and net-centric data storage while providing additional capacity for testing and production. This equipment will be located at the Agency's headquarters.</p> <p>Impact of Project Disapproval: Disapproval of the final LTOP payment and technology refresh of the EDW hardware, software and support services and Teradata COOP solution would result in an increased risk to operations and maintenance of critical DeCA systems. As the equipment reaches the end of its life cycle, maintenance costs will increase annually and spare parts will become difficult to acquire. Aging systems and outdated technology will severely limit our ability to adopt to changes in DoD and the net-centric environment. Our ability to continue to perform mission critical functions such as sales, bill paying, inventory management and electronic commerce could be imperiled. Additionally, the Agency will be unable to provide disaster recovery or COOP capability for additional applications to address new business requirements within the net-centric environment. Not approving FY 2006 and FY 2007 funding will greatly compromise DeCA's ability to comply with the DoD mandate to become net-centric and maintain the architecture for disaster recovery and continuity of operations of the Commissary benefit in the event of a disaster. Our ability to leverage technology to provide the cost saving benefit to our Armed Services Patrons would be at significant risk.</p>												

ACTIVITY GROUP CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)					A. FISCAL YEAR (FY) 2007 BUDGET ESTIMATES					
B. DeCA WCF/ Commissary Operations February 2006		C. Line No. & Item Description 2003. Corporate Server III			D. Activity Identification					
		FY 2005			FY 2006			FY 2007		
Element of Cost		Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
ADP Equipment (Productivity) > \$1M		1	1,000	1,000	1	1,000	1,000	1	2,200	2,200
<p>Narrative Justification: DeCA is planning enterprise hardware and software upgrades to enable compliance with the DoD Enterprise Architecture Framework, the DeCA Enterprise Architecture Plan and the DeCA Strategic Plan. We have embarked on a program to provide continual technical refresh and seamless Continuity of Operations (COOP) capability. With the migration and consolidation of enterprise servers completed in FY 2005, we increased the processing throughput of current applications while providing COOP capability, migrating legacy systems, and adhering to a net centric data management strategy. We completed the planned migration of applications to the new enterprise 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 mission essential systems include DeCA's Interactive Business System (DIBS), Computer Assisted Ordering, bill paying, electronic data interchange, data warehousing, and item movement. The corporate servers are the backbone of DeCA's enterprise computing initiative. Efficient upgrades and a four year refresh cycle will allow us to continue to adopt and utilize the most efficient technological enhancements while maintaining low maintenance costs. During FY 2005, we began and will complete in FY2007 a technology refresh of the corporate servers, and the tape backup archiving system. The refresh of the backup and archiving system will use state of the art technology to enhance disaster recovery preparedness, provide 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 a comparison of current hardware maintenance and operating costs versus a technology refresh with maintenance. DeCA requires corporate server hardware and software to upgrade its obsolete production, test, and development environments that can no longer be supported. During FY 2005 through FY 2007, DeCA intends to acquire data replication hardware, replace the backup and archiving system, and refresh corporate servers. This will accomplish DeCA's objectives for business continuance, legacy migration, and net centric data storage while providing additional capacity for testing and production. This equipment will be located at the Agency's headquarters and Western Pacific processing centers. DeCA will also enhance the backup capabilities at the alternate processing center in the event of a disaster. During FY 2007 through FY 2010, DeCA will be repeating the technology refresh cycle initiated in 2003 and 2004 replacing the Corporate / Enterprise Server environment with state of the art technology.</p> <p>Impact of Project Disapproval: Disapproval of the technology refresh of the corporate servers, COOP solutions, and storage and archiving systems, would result in an increased risk to operations and maintenance of critical DeCA systems. As the equipment reaches the end of its life cycle, maintenance costs will increase annually and spare parts will become difficult to acquire. Aging systems and outdated technology will severely limit our ability to adopt to changes in DoD and the net-centric environment. Our ability to continue to perform mission critical functions such as bill paying, inventory management and electronic commerce could be imperiled. Additionally, the Agency will be unable to provide disaster recovery or COOP capability for additional applications to address new business requirements. Not approving FY 2005 through FY 2007 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. Our ability to leverage technology to provide the cost saving benefit to our Armed Services Patrons would be at significant risk.</p>										

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ACTIVITY GROUP CAPITAL INVESTMENT JUSTIFICATION
(\$ in Thousands)

A. FISCAL YEAR (FY) 2007 BUDGET ESTIMATES

B. DeCA WCF/ Commissary Operations
February 2006

C. Line No. & Item Description 2004.
DeCA Electronic Records Management &
Archive

D. Activity Identification

Element of Cost	FY2005			FY2006			FY2007		
	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
ADP Equipment (Productivity) > \$1M	1	849	849	1	622	622	1	664	664

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.

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 software and \$1.919M for hardware to implement this project. In FY05 there is an additional requirement of \$294K for hardware and \$555K for software.

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 was realized in 2004. Implementation of the remaining portion of the electronic records system will greatly eliminate storage problems that are anticipated.

ACTIVITY GROUP CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)				A. FISCAL YEAR (FY) 2007 BUDGET ESTIMATES								
B. DeCA WCF/ Commissary Operations February 2006		C. Line No. & Item Description 2005. Telephone Modernization		D. Activity Identification								
				FY 2005			FY 2006			FY 2007		
Element of Cost				Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
ADP Equipment (Productivity) > \$1M							1	4,000	4,000			
<p>Narrative Justification: The HQ and Region HQ Telephone System Replacement Project will provide the following for HQ (3 buildings), the East, West and Europe Region Headquarters, and possibly the Midwest and Far East Support Centers.</p> <ol style="list-style-type: none"> 1) replacement of core telephone system switches 2) replacement of all telephone sets 3) an integrated call director to allow trouble calls to be distributed between the HQ, West & EU support centers 4) an integrated voice mail system that is part of the telephone system <p>Economic Analysis Summary: We have done a preliminary market analysis of possible solutions from several vendors. The DeCA HQ phone system is 12 years old and utilizes a standalone voice mail system. Replacement of this system is in keeping with the 10 year life cycle management (LCM) program for Agency telephone systems and is estimated to cost \$2,500,000. The DeCA West phone system is 5-6 years old with 4-5 years of useful life left. The DeCA East phone system is 3-4 years old with 6-7 years of useful life left. The DeCA Europe phone system is 4-5 years old with 5-6 years of useful life left. Replacement of these 3 phone systems is estimated to cost \$500,000 each, for a total of \$1,500,000. The monetary cost for replacing these 3 phone systems prior to the end of their 10 year life-cycle will be offset by two factors: 1) money received for the trade-in and/or auction value of the old phone systems, and more significantly, 2) the money saved by migrating the Agency to voice-over-IP (VOIP) technology. Current costs for replacing commissary telephone systems run from \$35,000 to \$45,000 per store, depending on the store size. With a VOIP implementation, the Agency will realize a reduced operations cost by maintaining a primary cable plant and perhaps a very limited scope contingency cable plant. Further costs savings will be realized by eliminating the need to maintain both a telephone system and network hardware at all locations. For example, the FY05 telephone system replacement budget, using traditional replacement technology, will replace approximately 30 telephone systems at an average cost of \$39,000 each. If a VOIP implementation were in place, the FY05 budget would allow the replacement of approximately 45 phone systems at an average cost of \$25,000 each. The Agency would realize a conservative savings estimate of approximately 10,000 per phone system replaced. Replacement of the remaining 190 phone systems with VOIP would result in a conservative estimated program savings of \$190,000. Numerous other operational efficiencies will be realized by the Agency that cannot be easily quantified. For instance, all internal Agency telephone calls will be carried on the existing network infrastructure; consequently, there will be no long distance charges for this traffic. Commercial long distance calls outside the Agency will be centrally managed through the server and support centers; only local and possibly DSN calls will be permitted from the local commissaries. VOIP will permit voicemail to be incorporated on desktop PCs along with email. Part of this implementation will include an automatic call director (ACD) to support "follow the sun" help desk support that will allow calls to be passed on to other support centers. If this technology were implemented by itself, it would cost \$350,000 to \$450,000. It is important to note, however, that none of these operational efficiencies can be realized without the replacement of the core phone systems at HQ, DeCA East, DeCA West, and DeCA Europe, as requested by this project.</p> <p>Impact of Project Disapproval: Failure to comply w/ public law 107-314. All DSN connected telephone systems must operate on certified switches. DeCA uses DSN to communicate with all commissary stores. If we do not migrate to certified switches, DeCA will lose the ability to use DSN for voice communications with all commissaries, worldwide.</p>												

ACTIVITY GROUP CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)				A. FISCAL YEAR (FY) 2007 BUDGET ESTIMATES								
B. DeCA WCF/ Commissary Operations February 2006		C. Line No. & Item Description 4001. New Roof		D. Activity Identification								
				FY 2005			FY 2006			FY 2007		
Element of Cost				Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
							1	350	350	1	750	750
<p>Narrative Justification: The flat rubber roof at the DeCA Headquarters building has developed significant leaks over the past several years. Patching and sealing of the roof have stemmed some of the leaks but new leaks materialize with each rainfall. The leaks have caused personnel movements and damage to office equipment and furniture.</p> <p>Economic Analysis Summary: The present roof continues to develop leaks with each rainfall. Additionally, the leaks cause damage to the office furniture, equipment, carpets, and wall systems. These areas are continually requiring remodeling and replacement due to the water damage.</p> <p>Impact of Project Disapproval: Funds to remodel, replace and repair equipment will continue to be spent to return the office space to condition whereas the employees can continue their mission.</p>												

ACTIVITY GROUP CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)				A. FISCAL YEAR (FY) 2007 BUDGET ESTIMATES								
B. DeCA WCF/ Commissary Operations February 2006		C. Line No. & Item Description 4002. Remodel the Command Conference Room		D. Activity Identification								
				FY 2005			FY 2006			FY 2007		
Element of Cost				Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
							1	275	275			
<p>Narrative Justification: The present command conference room was constructed in 1990 and has not undergone any renovation since its construction. Besides having virtually no technological upgrades since its construction, the conference room is too small to meet the needs of the command group at the Headquarters. With the reengineering of the Headquarters, the size of groups that meet in the command conference room have increased. To remedy the room size problem we will be moving one wall which will make the conference room 25% larger. Additionally, the upgrade will install video teleconferencing capability linked to our Regions and Zones and install state of the art video capabilities for Directorate level briefings and presentations.</p> <p>Economic Analysis Summary: The installation of the video teleconferencing capability will serve to tie in the Regions and Zones with the Headquarters. Meetings that would require travel will now be conducted over the VTC.</p> <p>Impact of Project Disapproval: Meetings can be conducted through the VTC instead of traveling to the site. This will allow our senior leadership to remain at the Headquarters instead of being on the road. Additionally, presentations and briefings conducted in the Headquarters will be made in areas less conducive for presentations.</p>												

ACTIVITY GROUP CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)				A. FISCAL YEAR (FY) 2007 BUDGET ESTIMATES						
B. DeCA WCF/ Commissary Operations February 2006		C. Line No. & Item Description 4003. Computer Room Refurbishment, 2nd Floor, Nichols Bldg.		D. Activity Identification						
		FY 2005			FY 2006			FY 2007		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	
Refurbish Computer Facility				1	1,375	1,375				
<p>Narrative Justification: Computer facility has exceeded original designed capability and must be upgraded to accommodate new and existing systems requirements.</p> <p>Economic Analysis Summary: Continued costly piecemeal repairs and modifications to computer facility have resulted in an inefficient system that can no longer meet requirements. Cooling capacity of the facility has been exceeded and will not meet the requirements of new equipment. Accommodation of equipment in the existing facility has resulted in a disorganized and inefficient layout. Failure to refurbish the facility will result in limited ability to support replacement of more efficient systems. Upgrade of HVAC is necessary and has been completed in FY2005 to ensure proper operating environment and preclude premature system failures.</p> <p>Impact of Project Disapproval: Premature system failures due to insufficient HVAC. Inability to support system upgrades or replacement components due to power constraints. Negative impact on daily business operations.</p>										

Defense Commissary Agency
 Activity Group: Commissary Operations
 FY 2005
 FISCAL YEAR (FY) 2007 BUDGET ESTIMATES

PROJECTS ON THE FY 2006/2007 BUDGET ESTIMATES

(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>
2005	Equipment except ADPE and TELCOM	0.000	0.000	0.000	0.000	
2005	Equipment - ADPE and TELCOM	0.000	5.649	5.649	0.000	
2005	Software Development	0.000	0.000	0.000	0.000	
2005	Minor Construction	0.000	0.000	0.000	0.000	
	Total FY 2005	0.000	5.649	5.649	0.000	

Defense Commissary Agency
 Activity Group: Commissary Operations
 FY 2006
 FISCAL YEAR (FY) 2007 BUDGET ESTIMATES

PROJECTS ON THE FY 2006/2007 BUDGET ESTIMATES

(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>
2006	Equipment except ADPE and TELCOM	0.000	0.000	0.000	0.000	
2006	Equipment - ADPE and TELCOM	0.000	8.967	8.967	0.000	
2006	Software Development	0.000	0.000	0.000	0.000	
2006	Minor Construction	0.000	2.000	2.000	0.000	
	Total FY 2006	0.000	10.967	10.967	0.000	

Defense Commissary Agency
 Activity Group: Commissary Operations
 FY 2007
 FISCAL YEAR (FY) 2007 BUDGET ESTIMATES

PROJECTS ON THE FY 2006/2007 BUDGET ESTIMATES

(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>
2007	Equipment except ADPE and TELCOM	0.000	0.000	0.000	0.000	
2007	Equipment - ADPE and TELCOM	0.000	5.864	5.864	0.000	
2007	Software Development	0.000	0.000	0.000	0.000	
2007	Minor Construction	0.000	0.750	0.750	0.000	
	Total FY 2007	0.000	6.614	6.614	0.000	