

Prepared Statement
of
The Honorable Charles S. Abell
Principal Deputy Under Secretary of Defense
(Personnel and Readiness)
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Introduction

Mr. Chairman and members of this distinguished Subcommittee, thank you for the opportunity to be here today. I look forward to answering your questions about compensation, benefits, and quality of life programs for our Service members and their families.

We are committed to meeting the many different personnel needs of the military as it transforms for the 21st century. We are committed to providing the most useful benefits and best programs for the active and Reserve component members and the military families who support our troops. Recognizing the substantial commitment our military members make to their professions, we have an important responsibility to monitor and manage emerging issues so we can support our Total Force defense strategy.

In addition to providing an overview of programs that are familiar to you, I am happy to discuss the implementation efforts of new programs and modifications that you have authorized in the last year.

Quality of Life

Mobilization and Deployment Support

Our Service members are performing tough duty in austere locations, while their families cope with the stress and anxiety associated with extended separations. The American people have responded to Operating Enduring Freedom and Operation Iraqi Freedom with an outpouring of support for our troops and their families. Americans from every walk of life have extended a helping hand and generous spirit. Elementary school children are writing letters, Girl Scout troops are donating cookies, church groups are making quilts, and community service

organizations are donating telephone calling cards and frequent flier miles. Corporate America donations are growing and helping to sponsor family reunions, special televised tributes, and celebrity entertainment. This support has been key to the continuing upbeat morale of our troops.

The Military Services deserve credit and recognition for the fine job being done in quality of life support on the front. Exchange and Morale, Welfare and Recreation (MWR) personnel, including nearly 600 civilians, are serving with our troops at forward-deployed locations. These dedicated personnel are operating exchanges, ships stores, and recreational programs— often 24 hours a day, seven days a week -- in the Persian Gulf, the DMZ, the Gulf of Aden, Iraq, Tajikistan, to name a few. This endeavor is made possible thanks to the support of emergency supplemental funds, assistance from DeCA's distribution systems, strong support of our industry partners, and donations from the American people.

There are 52 Tactical Field Exchanges, 69 exchange supported/unit run field exchanges, and 15 ships' stores in the Operation Enduring Freedom and Operation Iraqi Freedom theaters providing quality goods at a savings, and quality services necessary for day-to day living. Goods and services offered include phone call centers, satellite phones, internet cafes, video films, laundry and tailoring, photo development, health and beauty products, barber and beauty shops, vending and amusement machines, food and beverages, and name brand fast food operations. Goods and services vary by location based on troop strength and unit mission requirements.

The Services continue to improve their capability to support troops in deployed locations, recognizing that recreation supports the military mission by sustaining morale and fostering unit cohesion. The Army has established 25 large and 17 small MWR sites in Iraq and 3 MWR support locations in Afghanistan. The MWR standard is now to provide fitness and sports

equipment, reading materials and continuing education support, movies, video and board games, special events generated by the deployed staff, entertainment through Armed Forces Entertainment and the USO. There are computers at free, MWR-operated Internet cafes, to support e-mail communication, which are operating at 124 locations in Iraq with another 53 locations to be added by this summer.

Armed Forces Entertainment, in cooperation with the United Services Organization, continues to provide much welcomed celebrity and professional entertainment to our forces engaged in the war on global terrorism. Robin Williams, Robert De Niro, Conan O'Brian, David Letterman, Drew Carey, Arnold Schwarzenegger, Gary Senise, Paul Rodriguez, George Gervin, Bruce Willis, Lee Ann Womack, Miss Universe, several NASCAR and WWF stars, and several NFL cheerleading squads are some of the many celebrities and entertainers who have generously donated their time to bring a taste of home to deployed forces.

It is a longstanding Department of Defense practice for Service members to be able to make subsidized or free telephone calls home. The frequency and duration of Health, Morale, and Welfare calling using official phones are determined by the commander so as not to interfere with the mission. The Fiscal Year 2004 NDAA requires that prepaid phone cards, or an equivalent telecommunications benefit, be provided without cost to Service members serving in Operation Enduring Freedom and Operation Iraqi Freedom. The telecommunications benefit may not exceed \$40 or 120 calling minutes per month. The Secretary of Defense may accept gifts and donations in order to defray the costs of the program. The program terminates September 30, 2004.

On the average, 50,000 Health, Morale, and Welfare calls are made each day using the Defense Switched Network (DSN). The Health, Morale and Welfare calls provided at no cost to

members serving in Operation Enduring Freedom and Operation Iraqi Freedom approximate \$9.36 per member per month. The Military Departments report the value of donated calling cards approaches \$1 million a month, or about \$5.19 per member. In addition, we will consider the value of email and Internet communications services provided at no cost to the deployed personnel.

An average of 315,000 minutes of daily calling is made over “unofficial lines” at exchange operated calling centers ashore and afloat where members pay for the calls. The unofficial calling rates have dropped from \$.375 to \$.32 per minute at calling centers and from \$.90 to \$.76 per minute on satellite phones used in remote areas. Shipboard, calling rates are still \$1.00 per minute. As we implement the Act, the exchanges continue efforts to reduce the cost of calls from the theater.

While theater conditions are not ideal to provide “calling anytime, anywhere,” we are committed to expanding available service as infrastructure becomes available. We have mounted an information campaign to insure that members choose the most economic calling method available and are looking at more convenient ways for the American public to purchase and donate the best value of calling minutes to Service members.

Family and Youth

Support to family members is important during times of high operational tempo, both for the families of active duty and reserve Service members. Military communities offer comprehensive family support systems. Reserve families who live across America present a particular challenge. An aggressive effort is underway to reach families with easy access to accurate and timely information. The Military OneSource provides individual information and referral services by professional consultants concerning support available on the installation or in

the community. The 24/7/365 toll-free telephone, e-mail and web site services include information and referrals on parenting and child care, education, deployment and reunion, military life, health, financial, relocation, everyday issues (i.e. pet care, plumber), work and career, to name a few. Military OneSource is an augmentation, not a replacement, for family centers. Military OneSource is a joint project: each of the Military Services will have fully implemented the service by the end of Fiscal Year 2004. The Marine Corps was first to stand-up the program and is enjoying positive feedback and results.

Family assistance centers have increased operations to unprecedented levels to meet family needs. Nearly 300 centers serve as the primary delivery system for military family support programs, including deployment support, return and reunion, and repatriation for active duty, Guard and Reserve members and their families. The Navy Exchange System Command has a well-established “pre-deployment” program partnership with the Navy and Marine family assistance centers to prepare members and their families for mobilization and deployments. The Army and Air Force Exchange Service recently launched a similar program designed to explain the exchange services, especially telecommunications, available to support deployed members and their families at home.

Reserve Family Readiness remains a critical issue for the Department as we continue to draw upon the skills and capabilities resident in the Guard and Reserve to support the Global War on Terrorism. To assist the unit commander to support the unit members and their families, approximately 400 National Guard family assistance centers have been established to augment the family support system. These centers are established in communities where large densities of Guard and Reserve members have been mobilized. A “Guide to Reserve Family Member Benefits” informs family members about military benefits and entitlements, including medical

and dental care, commissary and exchange privileges, military pay and allowances, and reemployment rights of the Service member.

We are working on a web-portal, the new Military Homefront, and envision that it will become the central, trusted, up-to-date source for Service members and families to obtain information about all the Department of Defense Quality of Life programs and services, whether they are planning a permanent change of station move, dealing with deployments and family separations, or looking for the specials at the commissary and exchange stores. The site will contain quick links to Military OneSource, to SITES4 (a comprehensive military community information database), and to and other sites supporting military families.

The military child development program continues to be a critical component in helping military parents fulfill their mission and focus on the job at hand and remains a high priority for the Department. Stabilizing a child care arrangement can present a major challenge for families of deployed troops. To support families during deployment, emergency supplemental funding of \$8 million in 2003 and \$13.5 million in 2004 has been used to provide child care for extended hours on nights and weekends; drop-in, respite, and mildly ill care; and extended services to the Guard and Reserve. Because deployment of a family member can adversely affect a child's behavior both academically and socially, the Department of Defense has developed several avenues to support children of military families, their parents, the staff who work with children, and the teachers who educate military children.

The Department of Defense has the largest employee-sponsored child care program in the country serving over 200,000 children (birth - 12 years of age) daily. Generally, military parents are young, often far from home, and without the support of families and neighbors. Child care for infants and toddlers is hard to find and expensive. Because 65 percent of military spouses are

in the work force, quality, affordable child care is an economic necessity and quality of life issue for military families. We currently have child development programs at over 300 locations with over 900 child development centers and 9,000 family child care homes. There are 174,410 spaces with a calculated need for an additional 41,000 spaces. Military child development programs are nationally recognized as models by early childhood advocates and professional organizations. Since two-thirds of our families live in civilian communities, we are sponsoring demonstrations to partner with child care providers outside the gate. This will expand our ability to provide more care especially during deployments.

Installation Youth Centers provide computer labs with Internet connectivity to encourage communication between deployed parents and their children. In addition, tutoring programs are offered at Youth Centers to help children with their homework. Military life imposes unique demands on families. Military assignments often require families to be relocated far from family support networks and frequently require remote or temporary assignments. Relocation impacts all aspects of family life, spouse employment, family finances, a sense of belonging and security. On average, military families move twice as often as civilian families. During the adolescent years, relocating requires youth to re-establish peer support systems and friends at a very difficult stage of development. Further, adolescents tend to believe they have little control over the circumstances surrounding a move. The Department's Internet website - "Military Teens on the Move" (MTOM), assists by providing relocation and outreach support to military adolescents ages 10 –18. The goal of MTOM is to help teens make positive connections in their new community. We worked hard to ensure it would be appealing to youth and included their perspective and reflection of their world as it relates to every aspect of relocation. MTOM was expanded to include a second site, designed for school-age children ages 6-10.

Education

The Department of Defense Education Activity (DoDEA) has been an active partner in supporting students and families during the war. All schools within DoDEA have Crisis Management Teams to assist students and teachers during stressful times. Working in collaboration with military and civilian communities, they provide support before, during and after each deployment. This group of professionals fully understands the challenges faced by military students.

The quality of DoD schools is measured in many ways, but most importantly, as in other school systems, by student performance. DoD students regularly score substantially above the national average in every subject area at every grade level on a nationally standardized test. On the last National Assessment of Educational Progress tests DoD fourth and eighth graders, domestically and overseas, scored significantly better than the national average. Eighth grade students overseas schools tied with Massachusetts for the highest score in the nation in reading. Eighth graders stateside ranked fourth. Fourth grade students overseas scored a third place national ranking in reading. On the mathematics assessment, DoD fourth and eighth graders also scored significantly better than the national average. Eighth grade students overseas achieved the third highest score. African American and Hispanic DoD students scored at the top of the charts when compared with their stateside public school counterparts in both reading and math.

We have spent three years creating and implementing programs to improve the educational opportunities of 1.5 million school-aged children of active duty, reserve and National Guard families attending the nation's public schools. To gather data on issues affecting the mobile military child, DoD-sponsored Roundtables across the country in areas selected for their high degree of military presence (Texas, Georgia, California and Washington State).

Stakeholders included: military installation commanders, military parents and students, school superintendents and school board members, state legislators, state education department leaders, DoD leadership, and Service representatives. Together they discovered educational transition issues, discussed solutions, and promoted partnerships between military installations and surrounding school districts. Our advancements are showcased on the website, **www.MilitaryStudent.org**. It provides children, parents and educators with important information, articles, videos, guidebooks, and resources.

We have initiated partnerships with the Military Impacted Schools Association to sponsor the National Conference for the Military Child to highlight national best practices for public school and military leaders. In association with Department of Education's Safe and Drug Free Schools and the National Child Traumatic Stress Network (sponsored by UCLA, Duke University and the Department of Health and Human Services) we produced guidebook resources.

While enjoying great academic success, we continue to examine the most appropriate way to provide educational opportunities, recognizing that 1.5 million school-aged children of active duty, reserve and National Guard families attend the nation's public schools. As responsible stewards of the Department of Defense resources, we began a study of the Department of Defense stateside schools two years ago. The DoD Elementary and Secondary Schools Transfer Study addresses the question "Should the Department of Defense operate schools in the continental United States?" The study had no foregone conclusions and addressed each school and installation independently. Independent contractors performed the data collection phases of the study (facility evaluation and cost benefit analysis). DoDEA conducted the Quality of Life Assessment of the study. A panel of three nationally recognized experts in school finance made

recommendations for each school. We are undertaking a deliberate, thorough review of the study and recommendations. Once that is complete, the Military Services will be consulted for their input before any final decisions are reached.

Financial Stability

The financial stability of military families is an important, particularly in light of large troop deployments and mobilization. To help families achieve financial stability, the Department has embarked on an initiative that combines educating Service members and their families on using their finances wisely, with expanding employment opportunities for military spouses. We have gained the cooperation of 26 prestigious Federal agencies and non-profit organizations and launched a Financial Readiness Campaign to enhance education and understanding of financial planning. We have already begun to see positive changes in the self-reported assessment of financial condition of Service members.

The Armed Services Exchange Military Star Card credit program helps members establish and maintain a good credit history at a favorable interest rate (currently 9 percent). During deployment, members have two options. Charging privileges may be suspended and no interest is charged or payments made to the account. Alternatively, charging privileges may be maintained and a 6 percent interest rate is accrued (the normal interest rate is 9 percent).

We are partnering with federal, state and local governments and non-profit and private sector organizations to improve spouse employment and career opportunities and to address legislative and regulatory barriers that may inhibit financial stability and portability of jobs. Within our own family support structure, the commissary and exchange systems are the largest employers of family members – in fact, family members represent nearly a third

of resale employees. The DoD schools and the child development program are also big employers of spouses. Through these initiatives the Department seeks to enhance financial stability by promoting consistently reliable sources of income and the ability to save wisely to attain future life goals.

Resale and Morale, Welfare and Recreation Programs

The commissary benefit is an essential component of the non-pay compensation for members. In Fiscal Year 2003, the commissaries sold over \$5 billion in groceries, a 1.5% increase over Fiscal Year 2002. Since last year, the DeCA increased customer savings from 31.6% to 32.1%. Customers are responding favorably to operating changes geared to improving merchandise selection and customer service. Results of the latest Commissary Customer Service Survey (CCSS) confirm that DeCA continues to provide both low prices and improved customer service. On a scale of 1 (very poor) to 5 (very good), commissary patrons ranked service at 4.42.

I'd like to thank the Congress for enacting legislation to carry out our Social Compact promise to provide unlimited commissary benefits for Reserve and Guard members. The Department implemented the new authority the same day the President signed it into law.

The Under Secretary of Defense for Personnel and Readiness seeks the regular advice of the senior military and civilian leadership to monitor the commissary operations and to work together to guarantee a viable commissary benefit well into the future. This role has been formalized through the establishment of the Commissary Operating Board (COB). Dr. Chu, USD(P&R), recently appointed Vice Admiral Charles W. Moore, Jr., Deputy Chief of Naval Operations, Fleet Readiness and Logistics, as Chairman, COB for a two-year term. We are meeting regularly with Vice Admiral Moore to obtain his counsel on the commissary benefit and DeCA operations.

Dr. Chu, Vice Admiral Moore, the senior military and civilian members of the COB, Major General Weidemer, Director, DeCA, and I, are working together to provide the commissary benefit in the most efficient and cost-effective manner to be able to guarantee that each dollar the Congress provides from the American taxpayer is well spent. To do so, means that commissaries that are no longer justified by their customer bases may close or be scaled back, while new stores may open where warranted and existing stores expand hours and stock assortment. In August 2003, I asked the Military Departments to more closely review 33 commissary operations. Based on their reports, there are no current plans to close those commissary stores. While this scrutiny may make some uncomfortable, this annual review of the commissary system will be increasingly important in view of the Global Posture Review and the Base Realignment and Closure (BRAC) Commission round scheduled for 2005.

DeCA is fully funded in the Fiscal Year 2005 budget. DeCA has made significant progress by doubling the surcharge capital investment in stores, improving customer service ratings, and increasing the savings for commissary customers. While the DeCA budget has increased moderately each year since Fiscal Year 2000, sales increases have not kept pace. Thus, the taxpayer cost of each unit sold continues to rise – from \$.2198 in Fiscal Year 2000 to \$.2253 in Fiscal Year 2005. We believe that controlling the taxpayer subsidy while sustaining customer savings and improving customer service are mutually compatible. Through comparison to commercial industry best practices and performance indicators, we believe we can deliver the benefit in the most efficient and effective manner possible.

In Fiscal Year 2003, DeCA realized \$6 million in savings from produce acquisition efficiencies of the Defense Supply Center Philadelphia. Other areas of opportunity continue to be pursued in personnel management and case ready meat. Under competitive sourcing

provisions, DeCA has competed 3,572 positions from Fiscal Year 2000 – Fiscal Year 2003, out of a Business Initiatives Council target of 6,392 to be competed by Fiscal Year 2009.

Fiscal Year 2003 commissary customer savings of 32.1 percent continue to exceed the 30 percent target. I stress that this level of savings is an average – in some locations savings approach 50 percent, while in other locales savings fall below 20 percent. Under the current pricing structure of “cost plus 5 percent,” DeCA has limited management tools to more consistently deliver the desired level of savings at each commissary location. Dr. Chu asked DeCA to conduct a study to determine the feasibility of adopting variable pricing while sustaining an average 30 percent savings on all products. Research on industry best practice suggest that DeCA could possibly deliver the desired 30 percent savings more consistently to commissary customers by using variable pricing. In response to the General Accounting Office recommendations to consider a private label program, the study is also examining the potential for expanding DeCA’s best value item program. A commercial study is underway and the results are expected in mid-March.

In response to reduced tobacco sales, increased customer savings resulting in lower prices, and more accurate projections of the long-term effect of September 11th, DeCA does not expect sales growth to track with the grocery industry. With sluggish commissary sales forecast, DeCA expects surcharge collections to continue around \$260 million. Although several planned surcharge projects will be deferred this year, DeCA is maintaining a robust capital investment program with 11 major construction projects totaling \$106 million.

Exchanges

The three exchange systems, the Army and Air Force Exchange Service (AAFES), the Navy Exchange Service Command (NEXCOM), and the Marine Corps Exchange, continue to operate

independently. Each Exchange Service provides two important non-pay compensation benefits for authorized patrons: selling quality goods and services at low prices and distributing earnings as dividends to support the Services MWR programs. Typically, the MWR programs use the exchange dividends to support their nonappropriated fund construction programs. The Armed Services oversee the operations under broad Department policy.

The exchanges and ships stores ended Fiscal Year 2003 with estimated sales of \$10.5 billion and profits of \$539.8 million. Sales increased \$653 million (6.7 percent) over Fiscal Year 2002, but profits increased only \$4.3 million (.8 percent) – falling from 5.46 to 5.16 percent of sales. The decline in operating efficiency is principally attributed to Operation Iraqi Freedom expenses that were not fully funded by appropriations, pension accounting, and charges for early retirement incentives. Fortunately, last year's projections by the exchanges of collapsing dividends and capital programs did not materialize due to hard work by each of the organizations.

The exchanges have identified \$63 million in Fiscal Year 2004 appropriated fund requirements in support of Operation Enduring Freedom and Operation Iraqi Freedom. The Congress provided \$55 million in response to the Department of Defense Fiscal Year 2004 supplemental wartime request. Even with this strong taxpayer support, we are experiencing stress on the resale systems, both in terms of supporting contingency operations and producing a steady flow of funding for capitalization and MWR dividends.

On a combined basis, the projected Fiscal Year 2003 MWR dividends of \$312.4 million represent 58 percent of exchange and ships stores profits. MWR dividends increased \$2.3 million over last year. However, MWR dividends have not recovered to Fiscal Year 2001 levels

of \$342.7 million. In the meantime, the MWR programs are becoming increasingly dependent on exchange dividends and are reducing their MWR capitalization programs as appropriated funding is reduced, especially in the Army and Navy.

In order to recover the previous levels of MWR dividends and capitalization, without adversely affecting Exchange customer savings, customer satisfaction and capitalization programs, the exchanges must find ways to manage more efficiently. The three exchanges continue to work independently to reduce costs, especially at headquarters, and to raise customer satisfaction through improved business practices and information technology, often duplicating investments in systems and infrastructure.

As a means to rectify this situation, I formed the Unified Exchange Task Force in response to the decision by the Deputy Secretary of Defense to unify the three military exchanges into a single business entity. The task is to deliver an actionable plan within two years based on the principles of the President's Management Agenda and the Defense Transformation Plan. The integration process must sustain and enhance the current exchange benefit so that Service members, their families, and retirees continue to have access to quality goods at fair prices. Integration should help reduce costs by the elimination of redundancies and streamlining of processes. We should also realize greater economies of scale as the military and the retail environment continue to change.

The Task Force has developed a number of tools and processes to guide implementation planning. Two governance groups were established. The first, an intermediate level, comprised of current exchange commanders and the exchange chief operating officers and chaired by the Task Force Director, will monitor, review and approve various components of the

implementation planning process itself. The second senior level of governance, composed of Joint Staff and Service three star leaders with exchange cognizance and Assistant Secretaries of the Military Departments for Manpower and Reserve Affairs and chaired by me, will resolve any contentious issues that may surface during planning and approve the draft implementation plan. Eight work teams, comprised of current exchange employees who are experts in their respective functional disciplines, have been chartered to develop the implementation plan. Two crosscutting work teams, also comprised of current exchange experts, will focus on end-to-end process integration and operating strategy development. The Task Force is collaborating with all teams providing analytic support, facilitators, and subject matter experts from the commercial retail community to assist in developing the plan.

The exchange commanders and their chief operating officers, and the exchange experts involved on the teams are working hard to meet deadlines and deliver a plan on schedule. I expect to deliver a detailed draft implementation plan to Deputy Secretary of Defense Wolfowitz and Congress in early 2005. The Department is keeping the Subcommittee members and staff apprised of our progress and look forward to responding to your questions as we move further down the planning path.

Each of the Service MWR programs is in sound financial condition, although nonappropriated fund operating results declined dramatically this year. The MWR programs attribute the decreased nonappropriated (NAF) operating performance to reduced exchange dividends, deployment, currency fluctuation, and higher NAF expenses to compensate for lower appropriated fund (APF) support. The continued vitality of the MWR program depends on sound management, a predictable stream of nonappropriated fund revenues, and also solid APF support of Category A and B activities.

Category A activities (fitness, libraries, recreation centers, single Service member programs, intramural sports, and unit activities) should be supported 100 percent by APF. The Department sets a minimum standard requiring at least 85 percent of total expenses being supported with APF. Since 1995, DoD has improved APF support to Category A from 83 percent to 91 percent in FY 2003. Category B activities (childcare, youth programs, outdoor recreation, crafts and hobby shops, and small bowling centers) should be supported with a minimum APF of 65 percent of total expense. Again since 1995, DoD has improved APF support to Category B from 57 percent to 67 percent in FY 2003. All of the Services, with the exception of the Marine Corps, have met minimum percentages of APF support for Categories A and B for FY 2003. The Marine Corps has made a commitment to meet these minimum percentages in FY 2004.

Preliminary estimates indicate FY 2005 APF budgets for Army and Navy MWR programs are expected to decline \$140 million from FY 2003 levels. We are working with the Army and Navy to determine the impact of these reductions on troops and families.

Fitness is vital to force readiness. However, sixty percent of DoD fitness centers currently do not meet DoD fitness center program standards for facilities, staffing, programs or equipment. In an effort to quickly improve DoD fitness program delivery, the Department has initiated a Fitness Business Initiative Council to seek public-private partnerships. We have accomplished contracted site surveys at four installations and have two more installations scheduled for study. These site visits will produce business case analyses and identify public-private venture strategies. Our goal is to test promising strategies at these six installations by June 2005. Public-private venture strategies that prove successful will be conveyed to the

Services for their consideration to implement at other installations having a need to improve their fitness programs.

Overall, capital investment in support of commissary, exchange, MWR and lodging programs is being maintained at about \$1.1 billion each year, including the major construction programs. We appreciate the congressional approval to raise the minor construction threshold from \$500,000 to \$750,000 to coincide with the appropriated fund threshold.

The nonappropriated fund capitalization program, for both MWR and exchanges, is largely dependent on exchange profits. Last August we submitted and you have approved a Fiscal Year 2004 major construction program that included 66 nonappropriated fund projects for exchange, MWR and lodging activities totaling \$307 million. Reductions in exchange dividends and appropriated fund support of MWR activities have resulted in a 21 percent decline in average nonappropriated fund capital investment for MWR programs, primarily in the Army and Navy. Military Construction appropriations for MWR, including child care, are also declining.

Transformation

The Department has started work on a new global rebasing strategy to better meet future national security strategy requirements. Although the operational dimensions are paramount, improving the quality of life of relocated forces and their families is also important. Therefore, the Department intends to consider quality of life in its rebasing strategy recommendations. These considerations will include schools, health care, housing, childcare, spouse employment, crime and safety. Overseas installations produce significant commissary surcharge funding and exchange profits. We will be closely evaluating the base restructuring initiatives to assess the impact on surcharge and nonappropriated capital investment programs.

At this juncture, we are not contemplating a moratorium on nonappropriated fund and commissary surcharge construction programs. Concerns have been raised regarding the degree to which the Department can continue to provide the MWR and resale benefits to authorized patrons. In preparation for BRAC 2005, we are evaluating the current policy and statute governing commissary and exchange operations on closed installations, to include combined store operations, to determine if modifications to statute or policy are needed.

The concept of combined commissary and exchange store operations as a mechanism to continue commissary and exchange support at closed and realigned installations has not been successful. The Army and Air Force Exchange Service and Navy Exchange Service Command have operated combined stores at four locations for several years: Homestead ARB, FL; Fort McClellan, AL; NAS, Fort Worth, TX; and Orlando, FL. As required by statute, edible groceries are sold at cost plus five percent and the operations may receive appropriated funding up to 25 percent of the amount used by DeCA in the last year it operated the commissary. In our experience, the operating model results in losing grocery operations that require both appropriated funding from DeCA and nonappropriated funding from the exchanges, which effectively reduces the MWR dividend.

In two cases, Homestead ARB, FL and Fort McClellan, AL, insufficient usage by authorized patrons and operating losses resulted in the decision to close the stores by December 31, 2003. After providing the required ninety-day advance notification to the Congress, we delayed the closure date in order to respond to congressional concerns. Because of the limited number of Active duty personnel in the Orlando area, we propose to convert the combined store to an independent exchange operation and cease appropriated funding on July 1, 2004. Grocery items would continue to be available, but will be sold at exchange prices.

With over two-thirds of active duty families living off-base, more single parents, working spouses, deployments and operational tempo, there are special challenges in making sure that military families can and do take advantage of these important non-pay compensation benefits.

To this end, we need to begin to identify and evaluate a variety of operating formats and ways to deliver the benefits in those locations and situations where the traditional store format is not effective. Rather than viewing these options as a death knell for the benefits, we aim to encourage DeCA, the Armed Services Exchanges, and our industry partners to design new approaches that may better meet the demand for these important benefits.

We have reconfirmed the Department's commitment to the commissary and exchange benefits as core elements of family support that provide valuable non-pay compensation to the military. Our aim is for all eligible customers to know the value of these benefits and to recognize them as measurable elements of compensation. We have set performance goals that should more consistently and effectively define, measure and communicate the commissary and exchange benefits.

For the second year, the Department contracted with CFI Group to measure commissary and exchange customer satisfaction and provide comparison to industry using the American Customer Satisfaction Index (ACSI). The commissary and exchange goals are to meet the ACSI average customer satisfaction scores for the grocery and department/discount store industries. Although each of the resale activities routinely measures their own customer satisfaction, the ACSI survey provides an objective assessment that is benchmarked to industry. During the first three years of their participation in the ACSI survey, we agreed to keep the DeCA, NEXCOM, and MCX results confidential so a baseline could be created. I think it is appropriate to recognize that, after receiving their first scores last year, NEXCOM and the MCX developed

special emphasis programs, using the ACSI survey results to tailor to the areas of greatest importance to their customers. I am told that their customers responded to these efforts with higher ratings during the most recent survey.

Work continues to define and measure commissary and exchange market basket savings and to benchmark capital investment and MWR dividends. The Military Exchanges are developing a uniform market basket and methodology for measuring savings and will use the NEXCOM contract to conduct the surveys. At this time, NEXCOM and AAFES have completed their surveys and report average savings of 15.8 – 16.7% (excluding sales tax, alcohol and tobacco products). The MCX results should be available mid-year.

Improving Military Personnel Management

Recruiting

The success of our All-Volunteer Force starts with recruiting. During FY 2003, the military Services recruited 178,350 first-term enlistees and an additional 6,528 individuals with previous military service into their active duty components, for a total of 184,878 active duty recruits, attaining over 100 percent of the DoD goal of 184,366 accessions.

The quality of new active duty recruits remained high in FY 2003. DoD-wide, 95 percent of new active duty recruits were high school diploma graduates (against a goal of 90 percent) and 72 percent scored above average on the Armed Forces Qualification Test (versus a desired minimum of 60 percent).

In the Reserve Components, during FY 2003, the Military Services recruited 259,290 first-term enlistees and an additional 84,312 individuals with previous military service for a total of 343,602 recruits, attaining 104 percent of the DoD goal of 331,622 accessions. All Active and Reserve Components, except the Army National Guard, achieved their accession goals

We are closely monitoring the effects of mobilization on recruiting and retention, especially for the Reserve components. The Reserve endstrength objective for FY 2003 was achieved. Despite a recruiting shortfall, the Army National Guard did achieve its endstrength, thanks to low attrition. The recruiting picture for the Army National Guard is much better through the first quarter of FY 2004—achieving 102 percent of mission thus far.

We are optimistic that all Services will achieve their active duty recruiting goals this fiscal year. All Services entered FY 2004 with a sizable delayed entry program, and all Services are ahead of their year-to-date goals for active duty recruiting. Unlike the Active Component, the Reserve Components do not routinely contract recruits for accession into a future period. So, while the Active Components entered FY 2003 with healthy delayed entry programs, the Reserve Components must recruit their entire goal in this current fiscal year.

The trend of an increasing percentage of Reserve Component recruits without prior military service continues. Approximately 50 percent are now expected to come directly from civilian life. This is a result of high Active Component retention contributing to lower Individual Ready Reserve populations.

For 2004, all Reserve components are continuing to focus their efforts on maintaining aggressive enlistment programs by using both enlistment and re-enlistment incentives in critical skill areas. Emphasis will be placed on the prior service market for both officers and enlisted personnel. The Reserve components will expand their efforts to contact personnel who are planning to separate from the Active component long before their scheduled separation and educate them on the opportunities available in the Guard and Reserve. In addition, the Reserve components will increase their efforts to manage departures. All Reserve components are achieving success in retention, with year-to-date attrition well below previous years.

The Services accessed 17,909 commissioned officers to active duty in FY 2003. The Marine Corps met its numerical commissioning requirement, with the Army and Navy finishing the year within 1.5% of their requirement. The Air Force finished with a shortfall of 4%, almost exclusively in medical specialty direct appointments. In FY 2004, active duty officer accessions are on track in all Services for numerical success this year. In FY 2003, the Reserve components reduced the shortfall of junior grade officers by adding an additional 1,455 officers to the force.

Retention

In FY 2003, retention was good. Services met virtually all of their retention goals. The Marine Corps barely missed its goal for retaining first-term personnel and the Air Force fell slightly short of its goal for retaining individuals in their second term of service. Despite extended deployments, long separations, and dangers of combat, soldiers are staying with the Army. This year's FY outlook remains optimistic as evidenced by our 1st quarter achievements.

Active Duty Enlisted Retention, 1QTR FY04	Reenlisted	1st QTR Goal	% of Goal	FY04 Goal	FY 05 Goal
<u>Army</u>					
- <i>Initial</i>	6121	6,141	99.7%	23,000	19,949
- <i>Mid Career</i>	5046	5,276	95.6%	20,292	23,528
- <i>Career</i>	3411	3,330	102.4%	12,808	11,881
<u>Navy</u>					
- <i>Zone A</i>	63.1%	56%	Exceeded	56%	Not available
- <i>Zone B</i>	76.3%	70%	Exceeded	70%	Not available
- <i>Zone C</i>	88.5%	85%	Exceeded	85%	Not available

<u>Air Force</u>					
- <i>1st Term</i>	67%	55%	Exceeded	55%	55%
- <i>2nd Term</i>	75.5%	75%	Exceeded	75%	75%
- <i>Career</i>	97.5%	95%	Exceeded	95%	95%
<u>Marine Corps</u>					
- <i>1st term</i>	4,351	3,813	114%	5,958	5,850
- <i>Subsequent</i>	2,299	1,407	164%	5,628	5,900

The Services are adequately resourced to meet their retention goals provided the tempo and economic conditions remain at the same level as the last fiscal year. We will be monitoring retention carefully should the tempo increase further, or if economic developments require us to consider implementing additional incentives.

Joint Officer Management (JOM)

The mission requirements of the military are more focused on joint tasks; in fact, Joint Task Forces now define the way in which we array our forces for war and that has filtered down into our training methods. Military organizational structures have evolved to meet these new joint warfighting requirements. The Department's management processes for joint duty assignments, education and training are governed by the 1986 Goldwater-Nichols Act.

Although we have experienced profound success, the operating environment we face has changed since the early days of the Goldwater Nichols Act. In response, the Department is refining our strategic plan for joint officer management, education and training, and is using the ongoing, Congressionally-mandated, Independent Study of Joint Management and Education to help evaluate and validate how we best meet the challenges of the early 21st century.

We look forward to working with Congress in strengthening joint management and training. As a modest start, we are proposing several administrative reforms to simplify and streamline processes and program requirements: modifying the definition of a “tour of duty” to count multiple consecutive joint tours as one continuous tour; modifying annual reporting requirements by adding more meaningful metrics for measuring joint compliance; allowing the accomplishment of Phase II Joint Professional Military Education (JPME) in less than 3 months; and making permanent the joint promotions policy objective for the “other joint” category, which includes Joint Staff Officers, to greater than or equal to the Service board average.

The Department is assessing the entire career continuum of officer education and training, including joint requirements, with the goal of reducing the amount of in-residence time required, maximizing viable advanced distributed learning (ADL) opportunities, and integrating joint requirements. We want to train and develop our leaders like we fight—in a joint environment, and we are moving quickly to match policy to today’s operational environment. We seek the Congress’ assistance in making these changes in law that might be necessary to support those common objectives.

Personnel Management Support

Today, management of our military personnel is hindered by numerous redundant and disconnected systems that do not support streamlined business processes. The Department has taken on the task of developing a single, fully integrated military personnel and pay management system. The Defense Integrated Military Human Resources System (DIMHRS) will provide an end-to-end, integrated personnel and pay system for all military Services, including their active, reserve and National Guard components. As the cornerstone for military personnel transformation, DIMHRS is the vehicle for enabling reengineered business processes, replacing

inefficient and failing systems, reducing data collection burdens, and, most importantly, ensuring timely and accurate access to compensation and benefits for all soldiers, sailors, airmen and Marines. We view this system as critical to providing quality of life support to our Service members and their families as well as streamlining personnel and pay management for the Services and providing essential management data to all levels of the Department.

DIMHRS is being built on a COTS (Commercial-Off-The-Shelf) platform with full support and participation from all military components and the Defense Finance and Accounting and Service. We are managing requirements and ensuring that the system will implement common business rules and common data across the Department. This system is an investment in our infrastructure that will enable us to track personnel as they mobilize, deploy and redeploy and ensure that all Service members have a complete record of service that ensures that they will receive all benefits to which they are entitled. We appreciate your support for this effort.

Building a Foreign Language Capability

Lessons from current operations and the Global War on Terrorism have demonstrated the need for increased language ability and accompanying area knowledge within our Armed Forces, and an increased emphasis on languages reflective of the post Cold War threat.

We need to change the way foreign language expertise is valued, developed and employed within the Department, and language needs to be viewed as a military readiness capability. For present and future operations, we need members of the Armed Forces who can understand and communicate in languages other than English. This includes service members with language ability more sophisticated than that routinely achieved through our current language training and public and private education systems. We need a way to equip deploying forces with a sufficient ability to communicate in the language of the land. We also need a plan

for surging capability beyond that of the military forces, when required. We need service members and leaders who understand the complexities of languages and cultures in a global society.

Much work needs to be done in this area, and we have engaged a number of studies to inform our decisions. We have already initiated the development and employment of crash courses for troops deploying to Iraq. The Army is executing a pilot Individual Ready Reserve program that targets the enlistment of Arabic speakers for support as linguists.

With over 1,300 faculty and 3,800 students, the Defense Foreign Language Institute's Foreign Language Center (DLIFLC) is the world's largest foreign language school – and our primary source of language instruction. An oft-quoted statistic is that DLIFLC has more faculty teaching DoD's five highest enrollment languages than all U.S. students graduating in those languages nationwide. It is an institution whose product – a language qualified graduate—is critical to global U.S. military operations. Our first area of emphasis is to ensure that this school house can support our language capability requirements.

Our FY 2005 goal is to ensure the center can meet critical requirements by teaching basic language to troops prior to deployment, to improving training development, and to improving the capability to produce linguists with an advanced degree of language competence.

Rest and Recuperation Leave (R&R)

Over 50,000 Service members and DoD civilians have participated in the R&R Leave Program in support of OIF and OEF. The R&R Leave Program is vital to maintaining combat readiness when units are deployed and engaged in intense operations. Feedback from Service members participating in the R&R Leave Program indicates it is a successful program offering Service members a respite from hostile conditions, an opportunity to leave the AOR, release

stress, spend time with their family/friends and return reenergized. R&R Leave will continue to be offered to military members and DoD Civilians deployed in CENTCOM AOR in support of the Global War on Terror at the discretion of the theater commander.

Citizenship

The Department is working closely with the Department of Homeland Security's Citizenship and Immigration Service to expedite citizenship applications for immigrants who serve honorably as members of our Armed Forces. Approximately 37,000 active duty and reserve personnel are non-US citizens and approximately 7,000 of these personnel have applied for US citizenship. The Citizenship and Immigration Service (CIS) established a special office in their Nebraska Processing Center to expedite military member citizenship applications. Section 329 of 8 USC provided an exception where the President can authorize immigrants serving in the US Armed Forces during times of conflict to apply for citizenship after three years of honorable service. Public Law 108-87 reduced this waiting period to one year. The average time for processing expedited citizenship applications has been reduced from 9 months to approximately 90 days. The Military Services are informing non-US citizen military members of the opportunity for expedited citizenship through radio and television, press releases and periodic messages through command, personnel, legal and public affairs channels. However, finalizing citizenship requirements for military members overseas has been problematic. We are working with the Citizenship and Immigration Service to expand authority for conducting naturalization interviews and swearing-in ceremonies overseas. In the meantime, the Department of Defense authorizes emergency leave for Service members who need to complete citizenship processing, and seeks to identify members with pending citizenship applications in order to ensure they are processed and finalized before they deploy.

Sexual Assault

Sexual assault will not be tolerated in the Department of Defense – that message is clear throughout the chain of command. It is a crime that is punishable under the Uniform Code of

Military Justice. Commanders at every level have a duty to take appropriate steps to prevent it, to protect victims, and hold those who commit such offenses accountable.

Each of the Services has sexual assault policies for the health care support of victims. This support is available to service members both in the United States, at overseas duty stations, and in the current deployment theater.

Last summer the Fowler Panel, an independent panel, investigated allegations of sexual misconduct at the Air Force Academy. Their report made recommendations with a single priority in mind: the safety and well-being of the women at the Air Force Academy. Air Force senior leaders are implementing those recommendations now. In addition, the Defense Task Force on Sexual Harassment and Military Service Academies will assess and make recommendations, including any recommended changes in law, relating to sexual harassment and violence at the United States Military and Naval Academies.

However, prevention through education, review and reinforcement of what constitutes sexual assault and related crimes, and their consequences is key. Development and sustainment of working environments that instill trust among all members must begin at the lowest level of leadership and continue to the top of the Department. My Deputy Assistant Secretary of Defense for Force Health Protection and Readiness, Ms. Ellen Embrey, now leads a Secretary of Defense appointed task force to ensure proper command climate and infrastructure support is in place to safeguard the victims of sexual assault.

Domestic Violence/Victims Advocacy

As with sexual assault, domestic violence will not be tolerated in the Department of Defense. It is an offense against our institutional values and commanders at every level have a

duty to take appropriate steps to prevent it, protect victims, and hold those who commit them accountable.

The Department continues to make significant progress in addressing the issue of domestic violence within military families. We remain committed to implementing the recommendations made by the Defense Task Force on Domestic Violence and have made major strides toward that goal. Our efforts encompass a range of activities including legislative and policy change, training for key players in our efforts to prevent and effectively respond to domestic violence, and collaboration with civilian organizations.

We worked closely with Congress last spring and summer to create or change legislation pertaining to transitional compensation for victims of abuse, shipment of household goods for abused family members, and a fatality review in each fatality known or suspected to have resulted from domestic violence or child abuse. These changes are reflected in the FY 2004 National Defense Authorization Act (NDAA).

The Department has partnered with the Office on Violence Against Women of the Department of Justice for several joint initiatives that include training for law enforcement personnel, victim advocates, chaplains, and fatality review team members. As a part of our collaboration with the Department of Justice, we are conducting demonstration projects in two communities near large military installations. The goal of the projects is to develop a coordinated community response to domestic violence focusing on enhancing victim services and developing special law enforcement and prosecution units. We know that military and civilian collaboration is critical to an effective response to domestic violence since the majority of military members and their families live off the installations.

The Department partnered with the Battered Women’s Justice Project and the National Domestic Violence Hotline to conduct training for the Hotline staff to provide information about the military to enhance Hotline staffs’ ability to assist military related victims who contact the Hotline. We are also working with the Family Violence Prevention Fund to develop a comprehensive domestic violence public awareness campaign that will be disseminated throughout the Department of Defense.

We have initiated implementation of 45 of the nearly 200 Task Force recommendations, focusing on recommendations pertaining to victim safety and advocacy, command education, and training key players who prevent and respond to domestic violence such as law enforcement personnel, health care personnel, victim advocates, and chaplains.

We are pleased with the progress we have made but realize there is more work to be done. We are working to ensure that the policies we implement are viable across all Services both in the continental United States and overseas, and minimize the possibility of unintended consequences that compromise the safety of domestic violence victims and their children. We collaborate closely with those who will be responsible for implementing the policies we write to maximize their effectiveness across the Department.

Entitlements Growth

Military Compensation

Sound compensation practices are essential to attracting and retaining the caliber of individuals needed for a robust All Volunteer Force. With the support of Congress, we have made great progress over the last few years in improving our members’ basic pay. Since Fiscal

Year 2000, basic pay has increased 29 percent. Particularly noteworthy, mid-grade noncommissioned officers, who represent the core of experience and talent in our military services, have seen their pay increase an average of 35 percent.

Likewise, we applaud the Congress' continued support for reducing military members' out-of-pocket housing costs, which stood at nearly 18 percent in Fiscal Year 2000. Through Basic Allowance for Housing increases during each of the past few fiscal years, we will achieve our goal of totally eliminating average out-of-pocket housing costs with this year's President's budget.

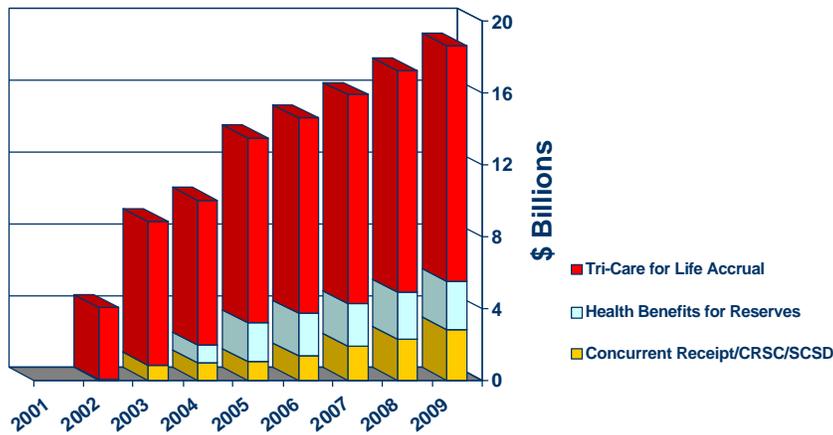
To capitalize on our successes in recruiting and retention and sustain that momentum, we must continue to invest in items that leverage readiness. Authorities for flexible compensation tools enable the Department to tailor incentives to respond to specific readiness demands and provide the capacity to efficiently start and stop them. For example, we are seeking an increase in the ceiling for Hardship Duty Pay, which will furnish the Department with the ability to compensate appropriately members who are repeatedly deployed away from their families and placed in harm's way in support of contingency operations. Additionally, increased use of the recent Assignment Incentive Pay authority will provide a viable means of incentivizing hard-to-fill duty stations, such as Korea and other remote locations, which directly impacts unit readiness in a positive way.

Conversely, we discourage the expansion of entitlements and the creation of new ones that do not leverage readiness. For example, TRICARE for non-active reservists and their families could have a long-term fixed cost of \$1 billion annually with little payoff in readiness. The phase-in of concurrent receipt for retirees with at least a 50 percent disability and expansion of the Combat-Related Special Compensation program, while not directly reflected in the

Department's budget, will cost \$6.1 billion a year within 10 years (\$4.1 billion from the DoD retirement fund and \$1.5 billion from VA entitlements) , funds that could potentially be applied to areas that better address national security needs. The chart below illustrates the growth in the cost of recent new entitlements since 2000, projected out to 2010.



Entitlements Growth



FY 2004 Data

OUSD(P&R) / Military Personnel Policy

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This year, we understand the Congress may be considering additional expansions of entitlements programs, such as lowering the age Reserve retirees receive their annuity from 60 to 55. Preliminary, rough estimates indicate that this could cost \$6.6 billion in payments, nearly \$4 billion in added health care costs, and \$14 billion in Treasury outlays over the next 10 years. Yet, we have no evidence this would help shape the force or improve readiness; most Reservists who would immediately benefit are already retired. Proposals to eliminate the reduction in survivor benefits that takes place at age 62, from 55 percent to 35 percent of military retired pay,

when social security provides the difference, could cost \$800 million the first year and exceed \$1 billion per year within five years. A five-year phase-in has been scored by CBO to cost \$7 billion over 10 years. The phase-in of concurrent receipt, if expanded to full concurrent receipt, would equal \$8.4 billion a year within 10 years (almost 40 percent greater than the newly-passed benefits).

More long-term entitlements are not the answer to our readiness issues. We need flexible compensation and benefit authorities that can focus benefits to support members deployed to a theater of hostilities, as well as their families, and can be terminated when no longer necessary. We firmly believe authorities of the type that leverage readiness best serve the national defense.

The recent temporary increases in the rates of Imminent Danger Pay (IDP) and Family Separation Allowance (FSA) have certainly been beneficial to our deployed forces, but cost us over \$200 million annually in payments to members not in Iraq or Afghanistan – especially the increase in FSA. We would prefer to use more flexible compensation tools that allow us tailor incentives to respond to specific readiness demands and provide the capacity to efficiently start and stop them. But, we also do not want to propose anything that would cut the pay of members serving in harms way. While we do not yet have a specific proposal for you pertaining to IDP and FSA, we do believe the increase in IDP is probably not unreasonable. But the 150 percent increase in FSA is excessive, especially considering it is payable worldwide, including in the United States. We would probably prefer to see a smaller increase, with some form of grandfather at the current rate for anyone already receiving that rate. We plan to have a specific proposal ready in the near future.

Payments to Disabled Retirees

While the Department does not favor further expansion of the concurrent receipt related entitlements, we do take very seriously our obligation to fully implement the programs Congress recently established for our disabled retirees. In November 2003, the Fiscal Year 2004 National Defense Authorization Act provided for a 10-year phase-in of concurrent receipt for retirees with at least a 50 percent VA disability rating, effective January 1, 2004. Those rated 100 percent disabled would receive \$750 a month in the first year. On February 2nd, we made initial payments to over 144,000 eligible retirees, representing over 90 percent of all those eligible. Those who were not paid have records that require manual computations due to exclusions for part of their military disability retired pay, garnishments, or divisions of retired pay with former spouses. Nonetheless, when determined, all their payments will be retroactive to the 1st of the year.

Much more complicated is the one-year-old Combat-Related Special Compensation (CRSC) program. To comply with the law in this program, the Department must make what are often complex determinations of the source of a disability using decades old, often incomplete, paper records provided by the retiree or the Department of Veterans Affairs. We have been continually adding resources to accomplish this mission and now **have about 100 people** working full-time reviewing records and managing the CRSC program. To date, we have received nearly 42,700 applications for CRSC, reviewed over 44 percent of them, and approved 10,400. We anticipate tens of thousands of new applications following the November expansion of the program, but will soon be ready to accept and process them. Again, no matter when received or approved, CRSC payments will be retroactive to applicable program effective date, with back payments made in the first check or payment.

Conclusion

In conclusion, Mr. Chairman, let me emphasize that everywhere I go on my visits to military communities, and to visit troops who are deployed, I hear of the tremendous value for these programs and benefits. In today's world, when we ask so much of our Service members and their families, it is of paramount importance to provide the support they require. I thank you and the members of this Subcommittee for your own outstanding and continuing support of the military personnel community.