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United States Government Accountability Office
Washington, DC 20548

April 20, 2011

The Honorable Susan Collins
United States Senate

The Honorable Olympia Snowe
United States Senate

Subject: Defense Infrastructure: DOD Used Available Guidance in Its Decision to Discontinue Commissary Operations at NAS Brunswick, but Criteria Needs Clarification

The Department of Defense (DOD) plans to cease commissary operations at Naval Air Station (NAS) Brunswick, Maine because of a 2005 base realignment and closure recommendation to close the installation and transfer the assigned active-duty personnel and equipment to NAS Jacksonville, Florida. DOD plans to close NAS Brunswick and its commissary by September 15, 2011. As of January 2009, NAS Brunswick commissary—located approximately 6 miles northwest of the air station in the town of Topsham—had more than 19,000 authorized patrons. About 10,000 authorized patrons are expected to remain after the installation closes.

Representatives from communities surrounding Brunswick and certain elected state officials expressed concern that the commissary's closure will limit shopping options and purchase prices will rise for reservists, military retirees, and dependents and the relatively small number of active-duty personnel remaining in the region after the installation closes.

Commissaries are intended to enhance the quality of life of active-duty personnel, military retirees, and their dependents, and support military readiness, recruitment, and retention goals. Commissaries are not expected to be self-supporting, and provide a noncash benefit for active-duty personnel by offering food and related household and health and beauty items that are similar to merchandise sold in commercial grocery stores. This merchandise is typically offered for sale at substantially reduced prices (including exemption from any sales taxes) when compared to retail prices at commercial grocery stores. DOD estimates that a family of four can save about \$4,400 annually (or approximately 30 percent) by shopping at a commissary instead of a commercial grocery store.

As directed by Senate Appropriations Report 111-40, the Under Secretary of Defense (Personnel and Readiness) submitted a report to Congress on March 30, 2010, which evaluated the economic feasibility of continuing commissary operations in the Brunswick area following the closure of NAS Brunswick. As you requested, we evaluated the extent to which DOD considered applicable guidance in deciding to

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discontinue commissary operations at NAS Brunswick upon the closure of the installation by September 2011.

To determine the extent to which DOD's decision considered its established guidance, we reviewed the DOD guidance for commissary operations, along with the Navy's study on continuing commissary operations at NAS Brunswick after the installation closes. We also reviewed the Defense Commissary Agency's actual and projected sales, surcharge revenues, and operating costs for fiscal year 2007 through fiscal year 2012 for the NAS Brunswick commissary. We met with officials from the Office of the Under Secretary of Defense (Personnel and Readiness), the Defense Commissary Agency, and the Department of the Navy. We also visited NAS Brunswick and met with installation officials responsible for managing the commissary, along with officials from the Marine Corps and Maine Army National Guard, which will have active-duty personnel remaining in the Brunswick area after NAS Brunswick closes. In addition, we met with representatives from the communities of Brunswick and Topsham, Maine, and the Midcoast Regional Redevelopment Authority to discuss their involvement in seeking to keep the NAS Brunswick commissary open. We also assessed the data that the Navy used in recommending to discontinue commissary operations at NAS Brunswick. To assess the reliability of the personnel, distance/time, and economic financial data and projections, we examined the information sources and relevant documentation that were used to calculate these data, and talked with knowledgeable agency officials about their quality control procedures documentation. Based on our examination and discussions with agency officials, we determined that the data were sufficiently reliable for the purposes of this report.

We conducted this performance audit from October 2010 through April 2011 in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Summary

The Navy considered the governing DOD instruction¹ for continuing commissary operations at NAS Brunswick after the installation closes. The Navy concluded that the NAS Brunswick commissary met some elements of the general criteria,² but did not meet the economic criteria, based on its interpretation of the DOD instruction. Under the general criteria, the Navy considered the mission and personnel factors and concluded that there will be an active-duty mission and at least 100 active-duty armed service personnel within a 20-mile radius of NAS Brunswick upon its closure. Additionally, regarding the geographic factor under the general criteria, the Navy

¹ Department of Defense Instruction 1330.17, Armed Services Commissary Operations (Oct. 8, 2008). The DOD instruction has two categories of criteria for evaluating the establishment, continuance, and discontinuance of commissaries: general criteria and economic criteria. Unless indicated otherwise, the term "DOD instruction" refers to DOD Instruction 1330.17.

² The general criteria include active-duty mission, personnel, and geographic factors.

determined that the nearest commissary to NAS Brunswick satisfied the distance and time criteria stipulated in the instruction. However, in considering the economic criteria, the Navy determined that continuing commissary operations would not be fiscally responsible because of projected one-time equipment replacement costs and annual recurring costs, along with a declining population of authorized patrons.

Some of the general and economic criteria in the DOD instruction are not clear and are open to interpretation on when to establish or continue a commissary versus when to discontinue commissary operations. The DOD instruction for commissary operations states that the primary consideration in assessing the need for a commissary store and selecting the location of the store—including whether to operate commissaries on closed installations—is the effect on active-duty personnel and their dependents. However, the instruction does not specify how this effect should be measured and used as decision criteria. Additionally, the instruction states that “as a general rule, commissary operations are discontinued when an installation is completely closed and no active-duty or reserve component personnel remain on the installation,” which will be the case when NAS Brunswick closes. However, it is unclear what conditions would warrant an exception to the general rule and how the general rule relates to the other criteria. According to Navy officials, they have not continued commissary operations at any domestic Navy installation closed under the base realignment and closure process.³ At the same time, however, the instruction gives flexibility to continue commissary operations based on other criteria. For example, the instruction states that DOD may continue to provide commissary support to active-duty personnel at or “in the immediate vicinity” of a closed installation when a “significant” active-duty or reserve population remain; however, “significant” and “the immediate vicinity” are not defined, giving the services and the Defense Commissary Agency Board of Directors discretion in recommending whether to continue or discontinue a commissary. Elsewhere, the instruction directs the Defense Commissary Agency to verify that a commissary’s operation is “economically supportable” by preparing a business case analysis, but it does not define “economically supportable” thus giving the board of directors (which ultimately makes a recommendation based on the Defense Commissary Agency’s analysis) additional discretion in making its recommendations. According to federal best practices, policies and procedures should exist and should be updated when needed to ensure that an agency’s planning and implementation activities are carried out as intended.⁴ Without clear guidance, there is an increased likelihood of

³ Navy officials stated there has been one instance in which the Navy kept a commissary open temporarily after a base closed through the base realignment and closure process—Barbers Point, Hawaii. The 1993 Defense Base Closure and Realignment Commission recommended that the Naval Air Station at Barbers Point be closed, but that family housing at Barbers Point be retained for multiservice use. However, the 1995 Defense Base Closure and Realignment Commission amended the 1993 Commission’s recommendation to require certain family housing support facilities at Barbers Point (including the commissary facility) to remain open as well. Section 2843 of the John Warner National Defense Authorization Act for Fiscal Year 2007 provided the Secretary of the Navy authority to dispose of certain real estate at the former Naval Air Station Barbers Point, including the facilities housing the commissary. Pub. L. No. 109-364 (2006). The Navy conveyed the facilities to a private developer, and discontinued commissary operations at Barbers Point in May 2010.

⁴ GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

inconsistent recommendations and decisions about whether to establish, continue, or discontinue commissary operations.

To help facilitate consistent decision making affecting DOD's commissary program, we are recommending that DOD revise and clarify its guidance by defining key terms and certain analytical procedures. DOD concurred with all of our recommendations and stated that the revisions and clarifications required to address each of the recommendations will be incorporated into the next version of the DOD instruction on commissary operations.

Background

Commissary Operations Are Funded by Appropriations

Commissary operations are centrally managed within DOD by the Defense Commissary Agency. The Defense Commissary Agency operates a worldwide chain of nearly 250 commissaries for almost 12 million authorized patrons including active-duty members of the Army, Air Force, Navy, Marine Corps, and Coast Guard, as well as reserve personnel, retired military personnel, and their dependents. Each military service enters into support and servicing agreements with the Defense Commissary Agency to provide facilities, physical security, maintenance, logistics, and administrative support as required for effective operation of the military commissary program.

Commissary operating costs (excluding recapitalization of store-related infrastructure) are paid by funds transferred from the military services' annual appropriations on a prorated basis based on their active duty and reserve component personnel levels to the Defense Commissary Agency. The Defense Commissary Agency reported receiving approximately \$1.3 billion in military service appropriation transfers during fiscal year 2010 to finance the operating costs of commissaries. By law, commissaries sell items at cost plus a 5 percent surcharge, which is used to pay for the recapitalization of store-related infrastructure,⁵ including replacement, expansion, and improvement of existing commissaries and central product processing facilities; maintenance and repair; and store-related information technology.

Commissary Operations Roles and Responsibilities

The Defense Commissary Agency is under the authority, direction, control, and overall supervision of the Under Secretary of Defense (Personnel and Readiness). The Principal Deputy Under Secretary of Defense (Personnel and Readiness) serves as the primary point of contact for all commissary matters within DOD. The director of the Defense Commissary Agency is responsible for the day-to-day operations of the commissary program, and reports to the Defense Commissary Agency Board of Directors, which is comprised of representatives from each of the military departments and services. The board of directors is the commissary system's

⁵ 10 U.S.C. § 2484.

governing body and, among other things, evaluates military department recommendations on whether to establish, continue, or discontinue commissary operations at specific locations. Under most circumstances, the board of directors forwards its evaluation and recommendations to the Principal Deputy Under Secretary of Defense (Personnel and Readiness) for approval.⁶ The Under Secretary of Defense (Personnel and Readiness) is required to notify Congress at least 90 days before a commissary's closure and to include an assessment of the impact the closure will have on the quality of life for the military patrons and the welfare and security of the local military community. The notification requirement does not apply to commissaries closing as part of implementing a base realignment and closure recommendation.

DOD Has a Policy to Combine Commissary-Exchange Stores in Certain Situations, but None Are Operating in the United States

A combined commissary and exchange store combines elements of both under the management of the exchange store.⁷ According to the DOD instruction for commissary operations, a combined store will be considered in cases where an independent commissary is not economically feasible and supportable due to base closure, military force structure changes, or where nearby stores produce overlapping or redundant delivery of the commissary benefit. In a combined store, edible commissary merchandise (e.g., meat, produce, dairy, and nonalcoholic beverages) continues to be sold at cost plus a 5 percent surcharge, and other merchandise continues to be sold at regular exchange prices—prices greater than cost to produce a profit. According to the DOD instruction, the combined store must be economically viable and not negatively impact morale, welfare, and recreation dividends after authorized funding is provided. A combined store will generate less profit than an independent exchange store because the commissary grocery items sold at cost do not contribute to profit. Combined stores may receive appropriated funds to defray operating expenses up to 25 percent of the appropriations used in the last full year of the independent commissary's operation.⁸ The appropriations provided, as well as the profits generated, are used to cover operating expenses. Any loss under this model that is not covered by appropriations is borne by the exchange program.

⁶ This approval process was followed for the decision to discontinue commissary operations at NAS Brunswick.

⁷ Exchange stores are nonappropriated fund entities, operating as profit and loss enterprises. Exchange stores price their merchandise above their cost to pay operating expenses and to generate a profit that pays dividends to the military services' morale, welfare, and recreation programs. Exchange stores sell items typically found in commercial department and discount stores (e.g., clothing, shoes, and vending machine items). The Navy Exchange Service Command oversees more than 1,200 worldwide exchange stores and service operations such as gas stations, food outlets, and barber and beauty salons, and provides authorized patrons with an average savings of 22 percent (not including sales tax) when compared to commercial retail prices.

⁸ 10 U.S.C. § 2488(e)(2).

By law, the number of combined stores in the United States shall not exceed 10 at any given time.⁹ As of April 2011, there were no combined stores operating in the United States.¹⁰ According to DOD and Navy officials, the combined store model has not proven to be economically viable.

DOD Used Available Guidance in Its Decision to Discontinue Commissary Operations at NAS Brunswick, but Criteria Are Not Always Clear and Are Open to Interpretation

The Navy considered the governing DOD instruction in determining whether to continue commissary operations at NAS Brunswick after the installation closes. The Navy concluded that the NAS Brunswick commissary met some elements of the general criteria, but did not meet the economic criteria, based on its interpretation of the DOD instruction. After considering the mission and personnel factors of the general criteria, the Navy concluded that there will be an active-duty mission and at least 100 active-duty armed service personnel not on the installation, but within a 20-mile radius of NAS Brunswick upon its closure. Additionally, regarding the geographic factor of the general criteria, the Navy determined that the nearest commissary to NAS Brunswick satisfied the distance and time thresholds stipulated in the instruction. In considering economic criteria, the Navy analyzed three options for continuing commissary operations and concluded that none of them was fiscally responsible. Thus, the Navy recommended to the Defense Commissary Agency Board of Directors that commissary operations at NAS Brunswick be discontinued after the installation closes.

Some Mission and Personnel Criteria for Commissaries Are Unclear and Can Result in Inconsistent Implementation of DOD Guidance

The Navy determined that NAS Brunswick met the mission and personnel factors under the general criteria; however, we found that some of the criteria are unclear and can result in inconsistent implementation of the DOD guidance. In deciding whether to discontinue commissary operations at NAS Brunswick, the Navy considered the following general criteria in the DOD instruction pertaining to mission and personnel:

- The presence of an active-duty mission.
- The effect on active-duty personnel and their dependents.
- The presence of at least 100 active-duty personnel assigned to the installation or stationed on and within a 20-mile radius of a closed installation.

⁹ 10 U.S.C. § 2488(b)(1).

¹⁰ According to DOD officials, four combined stores have been established in the continental United States in response to a base realignment and closure decision to close the host installation: a Navy combined store in Orlando, Florida that was operated by the Navy Exchange Service Command; and three combined stores operated by the Army and Air Force Exchange Service Command at Fort McClellan, Alabama; Naval Air Station Fort Worth, Joint Reserve Center, Carswell Field, Texas; and Homestead Air Reserve Base, Florida. All four combined stores have subsequently closed.

In accordance with the instruction, Navy officials told us that they gave primary consideration to the effect on active-duty personnel and their dependents when assessing whether to discontinue commissary operations at NAS Brunswick. However, the instruction does not specify how this effect should be measured and used as decision criteria. The Navy determined that there will be no active-duty mission and active-duty personnel stationed on the installation itself, but that there will be an active-duty mission and at least 100 active-duty armed service personnel within a 20-mile radius of NAS Brunswick upon its closure. Nevertheless, the Navy applied the 100 active-duty personnel threshold only to permanently assigned Navy active-duty personnel and projected only 16 personnel would remain after the installation is closed. Moreover, according to DOD's instruction, "as a general rule, commissary operations are discontinued when an installation is completely closed and no active-duty or reserve component personnel remain on the installation." However, it is unclear what conditions would constitute an exception to the general rule, and how the general rule relates to the other criteria. Navy officials told us that there currently are no commissary operations at any domestic Navy installations which were closed under the base realignment and closure process.

The instruction also gives DOD the flexibility to continue commissary operations based on other considerations relevant to the mission and personnel factors. Specifically, the instruction states that DOD may continue to provide commissary support to active-duty personnel at or "in the immediate vicinity" of a closed installation when a "significant" population of active-duty or reserve personnel remain. However, the DOD instruction does not define "significant" and "the immediate vicinity." The Navy reported that NAS Brunswick will no longer have an active-duty mission after September 2011. However, the Navy's Supervisor of Shipbuilding, Conversion and Repair in Bath, Maine is 7 miles away and will continue to have an active-duty mission. According to Navy officials, about 150 to 200 active-duty Navy personnel are assigned to this shipbuilding facility at any given time, but only 16 are permanently assigned active-duty personnel. The remaining 134 to 184 active-duty personnel are precommissioning unit personnel temporarily assigned for 4 to 18 months to the Navy shipbuilding facility in Bath, Maine, who prepare the newly constructed or renovated ships and eventually sail the ships to their homeports. According to Navy officials, these personnel are not accompanied by their family members and most are on temporary-duty orders. DOD personnel on such orders receive per diem while assigned to the Navy shipbuilding facility and consequently may obtain their meals using their travel-authorized meals allowance. Thus, according to Navy officials, the Navy concluded that the remaining 134 to 184 personnel do not need the commissary benefit. The DOD instruction is not clear about whether to include personnel temporarily assigned to an area when assessing the criterion that there are at least 100 active-duty personnel remaining within a 20-mile radius of a closed installation.

Another section of the DOD instruction states that the supporting Military Department should validate and document that at least 100 active-duty personnel shall be assigned to the installation or stationed within a 20-mile radius, when considering whether to continue commissary operations on a closed installation. As previously stated, the Navy, in its analysis, acknowledged that there will be at least 100 active-duty personnel within a 20-mile radius of NAS Brunswick after the

installation closes, and projected that 304 temporary and permanent active-duty armed service personnel will remain in the area. However, as shown in table 1, only 170 of the 304 personnel are permanently assigned and most are not Navy active-duty personnel.

Table 1: Number of Permanently Assigned Active-duty Personnel Projected to Remain Within a 20-mile Radius of NAS Brunswick after the Installation Closes in September 2011

Armed service	Permanently assigned active-duty personnel within 20-mile radius of NAS Brunswick
U.S. Army	26
U.S. Air Force	3
U.S. Navy	16 ^a
U.S. Marine Corps	26
U.S. Coast Guard	25
Maine National Guard (activated)	74
Total	170

Source: *Navy's Evaluation for Continuing Commissary Operations at NAS Brunswick*, July 2009.

^a These active-duty personnel will be assigned to the Supervisor of Shipbuilding, Conversion and Repair in Bath, Maine, which is about 7 miles from NAS Brunswick.

According to Navy officials, the criterion of “at least 100 active-duty armed service personnel shall be assigned to the installation or shall be stationed on and within a 20-mile radius of a closed installation” was applied to permanently assigned, active-duty Navy personnel, and not to active-duty personnel from other military services or the Coast Guard. Specifically, according to Navy officials, only 16 permanently assigned active-duty Navy personnel will remain within 20 miles of NAS Brunswick. Hence, according to Navy officials, after the closure of NAS Brunswick, the Navy will no longer meet the criterion of 100 active-duty personnel within 20 miles of a closed installation. However, DOD’s instruction does not specify whether the minimum of 100 active-duty personnel within a 20-mile radius must be of the service that hosted the commissary or whether all service personnel must be considered in this decision. According to federal best practices, policies and procedures should exist and should be updated when needed to ensure that an agency’s planning and implementation activities are carried out as intended.¹¹ Without clear criteria, the potential exists for inconsistent implementation of the guidance. Consequently, based on the guidance as it is currently written, a military service has broad discretion in recommending a commissary closure or a continuation decision.

¹¹ GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

In its analysis, the Navy projected that about 10,000 authorized commissary patrons would be within 20 miles of NAS Brunswick after its closure, including about 304 temporary and permanent active-duty armed service personnel, 8,500 retirees and their dependents, 150 Marine Corps reservists, and 1,000 Army reservists. Navy officials stated that while they validated and documented the number of authorized patrons expected to remain in the area after NAS Brunswick closes, its recommendation to discontinue commissary operations when an installation is completely closed and no active-duty or reserve component personnel remain on the installation—which will be the case when NAS Brunswick closes—is consistent with the instruction’s general rule.¹² However, it is unclear how the military services are supposed to use the reservists and retiree data in its decisions to establish, continue, or discontinue commissary operations. Navy and DOD officials told us that the other military services were consulted through the Defense Commissary Agency Board of Directors to determine their interest in continuing the commissary operations at NAS Brunswick, and that none expressed interest.

The Navy Considered DOD’s Geographic Criteria for Keeping the Commissary Open, but the Relevance Is Unclear for Decisions to Discontinue Commissary Operations

The Navy considered DOD’s geographic criteria for commissaries in its analysis, and determined that it met this factor under the general criteria because the nearest commissary at Portsmouth Naval Shipyard in Kittery, Maine is at least 20 miles or a 30 minute one-way drive. However, the relevance of the minimum required distance and travel time for discontinuing commissary operations at NAS Brunswick is unclear. The instruction states “while there may be some variance depending on population density, civilian shopping alternatives, and security of the military community in which the commissary is located; there should be at least 20 miles or 30 minutes one-way driving time to the nearest commissary.” DOD officials told us that these values were based on Defense Commissary Agency assumptions about the distance and time that authorized patrons would most likely travel to shop at a commissary—no more than 20 miles or 30 minutes each way.

The Navy calculated the distance and driving time between NAS Brunswick and the nearest commissary at the Portsmouth Naval Shipyard in Kittery, Maine, which is 89 miles or about 90 minutes one-way driving time, easily satisfying the distance/time criteria of 20 miles or 30 minutes one-way driving time.¹³ The Navy also identified several civilian shopping alternatives, including grocery stores and drug stores, within 2 miles of NAS Brunswick. According to Navy and Defense Commissary Agency officials the distance and travel time criteria are intended to create separation between commissaries and avoid clustering commissaries within close proximity of one another. However, it is unclear how a criterion intended to avoid establishing too many commissaries in one location is relevant to decisions to discontinue

¹² The number of family members for the active-duty and reservists was unknown, and therefore not factored into the 10,000 estimate the Navy used in its evaluation.

¹³ Other commissaries identified by the Navy are at Bangor Air National Guard Base, Maine, which is approximately 110 miles or a 2 hour one-way drive from NAS Brunswick; and at Hanscom Air Force Base, Massachusetts, which is approximately 139 miles or a 2.5 hour one-way drive from NAS Brunswick.

commissary operations. Without clear geographic criteria, the services may come to inconsistent conclusions in recommending the location of commissaries.

Table 2 describes our analysis of the general criteria in the DOD instruction governing commissary operations, including the Navy's interpretation of the criteria as it applies to NAS Brunswick.

Table 2: GAO's Analysis of the General Criteria in DOD's Commissary Instruction

Criteria in DOD Instruction 1330.17	Navy's interpretation of DOD criteria for NAS Brunswick commissary	GAO analysis of DOD criteria
The effect on active-duty personnel and their dependents shall be given primary consideration when assessing the need for a commissary and selecting its location.	Navy officials stated they gave primary consideration to active-duty personnel and their dependents when assessing whether to discontinue commissary operations at NAS Brunswick.	It is unclear how effect should be measured and used as decision criteria.
The military installation or location shall have either a full time active-duty mission, or active-duty armed service personnel who remain on a former installation and within a 20-mile radius of the installation.	The Navy determined that there will be no active-duty mission and active-duty personnel stationed on the installation itself, but that there will be an active-duty mission and at least 100 active-duty armed service personnel within a 20-mile radius of NAS Brunswick upon its closure. However, Navy officials stated that the 100 active-duty personnel threshold was applied to permanently assigned, active-duty Navy personnel, and not to temporarily assigned personnel, or active-duty armed service personnel from other military services or the Coast Guard.	It is clear that there will be an active-duty mission within a 20-mile radius of NAS Brunswick; however, it is unclear whether the active-duty armed service personnel should include active-duty personnel from all military services and temporarily assigned personnel.
At least 100 active-duty personnel shall be assigned to the installation; or shall be stationed on and within a 20-mile radius of a closed installation.	According to Navy officials, the 100 active-duty personnel threshold was applied to permanently assigned, active-duty Navy personnel stationed within a 20-mile radius of the installation, and projected only 16 personnel will remain after it closes.	It is unclear whether the 100 active-duty threshold should be applied to active-duty personnel from all military services and temporarily assigned personnel.
As a general rule, commissary operations are discontinued when an installation is completely closed and no active-duty or reserve component personnel remain on the installation.	Navy officials stated they have not continued commissary operations at any domestic Navy installation closed under the base realignment and closure process except NAS Barbers Point, Hawaii, which was continued in response to a later base realignment and closure recommendation.	It is unclear what conditions would warrant an exception to the general rule, and how the general rule relates to the other criteria.
Validate and document the number of families stationed on the installation and the number of patrons, to include reservists and retirees, who expect to use the commissary.	The Navy projected that approximately 10,000 authorized commissary patrons will be within a 20-mile radius of NAS Brunswick when it closes, including 8,505 retirees and their dependents, about 1,150 reservists, and 304 active-duty personnel. The number of family members for the active-duty and reservists was unknown, and therefore was not factored into the Navy's projection.	It is unclear how the reservist and retiree data should be considered in decisions to establish, continue, or discontinue commissaries.
DOD may continue to provide commissary support to active-duty personnel at or in the immediate vicinity of a closed installation when a significant active-duty or reserve component population remains.	The Navy determined that no active-duty personnel will be stationed on NAS Brunswick upon its closure, less than 100 permanently assigned Navy active-duty personnel will be stationed within a 20-mile radius, and projected that about 10,000 authorized commissary patrons, including about 1,150 reservists, will remain in the area.	The terms "significant" and "in the immediate vicinity" are not defined.
While there may be some variance depending on population density, civilian shopping alternatives, and security of the military community in which the commissary is located, there should be at least 20 miles or 30 minutes one-way travel time to the next nearest commissary.	The Navy determined that the nearest commissary to NAS Brunswick is 89 miles and 90 minutes one-way drive, satisfying the distance/ time criteria.	The next nearest commissary is more than 20 miles or 30 minutes one-way drive from NAS Brunswick; however, it is unclear how this criterion applies to decisions to close commissaries.

Source: GAO analysis of DOD information.

DOD Concluded that NAS Brunswick's Commissary Will Not Be Economically Supportable After the Installation Closes

The Navy considered DOD's economic criteria for commissaries in its analysis, and concluded that continuing operations of the NAS Brunswick commissary would not be economically supportable. However, the instruction does not define "economically supportable," thereby increasing the likelihood of inconsistent decisions about whether to establish, continue, or discontinue commissaries. This is significant because commissaries are not expected to be (and are not) self-supporting, but rather are designed to provide a noncash benefit for active-duty personnel and their dependents.

In evaluating the future of the NAS Brunswick commissary, the Defense Commissary Agency prepared a business case analysis to verify whether commissary operations are economically supportable, as directed by the instruction. As part of the business case analysis for the NAS Brunswick commissary, the Navy and the Defense Commissary Agency considered two of three options based on the following factors: annual cost of goods,¹⁴ total operating costs (as offset by appropriated funds), surcharge revenues, future requirements in the geographic area, and a 15-year market assessment of influences that may affect the number of authorized patrons.¹⁵ The Navy also considered a third option for continuing commissary operations at NAS Brunswick.

Three Options Were Part of DOD's Analysis of Economic Supportability

To determine if continuing commissary operations at NAS Brunswick after the installation closes were economically supportable, the Navy, with assistance from the Defense Commissary Agency, evaluated three options. Option 1 was for the commissary to remain at its current location, option 2 was for the commissary to relocate to a larger building currently occupied by the Navy exchange store on NAS Brunswick,¹⁶ and option 3 was to create a combined commissary and exchange store. All three options are discussed below.

Option 1: Remain in the Current Commissary

The Navy, with assistance from the Defense Commissary Agency, evaluated the option of continuing operations of the NAS Brunswick commissary at its current location in Topsham, Maine, and determined that it was not economically

¹⁴ The cost of goods includes the invoice cost of the items plus an additional 10 percent for theft, spoilage, or damage to goods, known as "shrinkage." DOD refers to the cost of goods as retail sales.

¹⁵ Influences considered in a 15-year market assessment include: (1) changes in the military community (such as changes in installation mission, active-duty presence, or family housing); (2) changes in adjacent civilian communities (such as the number of commercially available groceries); and (3) changes in adjacent communities affecting the number of authorized patrons expected to use the commissary.

¹⁶ The Navy exchange store on NAS Brunswick is scheduled to close by September 15, 2011, when the installation is closed.

supportable. Under this option, the Navy would transfer ownership of the facility and land to the local reuse authority when the installation closes and the local reuse authority would lease the space—based on the average rental rates for commercial retail space in the Brunswick area—back to the Navy to continue its commissary operations. The Defense Commissary Agency estimated that this option would cost nearly \$3.7 million more in its first year than for current operations. The bulk of the \$3.7 million increase would be from the one-time expense of \$3.1 million to upgrade the store’s refrigeration system, which has not been replaced since 1999 and was due for an upgrade or replacement. Also, there would be additional annual recurring costs of about \$608,000 related to leasing space (\$506,000); and building maintenance, roofing, refrigeration system, and heating and air-conditioning systems (\$102,000). Moreover, in addition to the \$3.7 million increase, retail sales are projected to drop about 12 percent (from about \$9.2 million to about \$8.1 million), and surcharge revenue is expected to decrease by 12 percent (from \$460,000 to \$406,000) for fiscal years 2010 and 2012, respectively. During the same time, the number of authorized patrons is projected to decrease by nearly 48 percent to approximately 10,000 authorized patrons, the majority of whom will be military retirees. For the same time period, the Navy also projected about a 3 percent increase in operating costs (from about \$2.1 million to about \$2.2 million) and a corresponding 3 percent increase in appropriated funds (from about \$2.1 million to about \$2.2 million) to cover operating costs.¹⁷ According to Navy and Defense Commissary Agency officials, the one-time and recurring costs to continue commissary operations at NAS Brunswick after the installation closes would be paid—depending on the specific costs—by the Navy, all of the military services, or with funds from the surcharge revenue account.

Option 2: Relocate Commissary to Existing Exchange Store Facility

The Navy, with assistance from the Defense Commissary Agency, determined that relocating the commissary from its current location to the larger exchange store facility¹⁸ at NAS Brunswick was not economically supportable. Like option 1, the Navy would transfer ownership of the facility and land to the local reuse authority when the installation closes and the local reuse authority would lease the space—based on the average rental rates for commercial retail space in the Brunswick area—back to the Navy to continue its commissary operations. The Defense Commissary Agency estimated that this option would cost about \$6.7 million more in its first year than current operations. The bulk of the \$6.7 million increase would be from the one-time expense of \$6 million to add a refrigeration system (including processing areas, storage coolers, and freezers) since the exchange facility currently does not have such equipment and the commissary’s current refrigeration system would not be used because it was due for an upgrade or replacement. Also, there would be additional annual recurring costs of about \$764,000 related to leasing space (\$629,000) and building maintenance, roofing, refrigeration system, and heating and air-conditioning

¹⁷ For fiscal year 2010, actual total value of appropriated funds was \$2.3 million to cover commissary operating costs. However, for reporting purposes we used projected figures because actual data were not available for all data elements.

¹⁸ The exchange store facility has 52,381 gross square feet compared to the current commissary facility, which has 33,724 gross square feet.

systems (\$136,000).¹⁹ Moreover, in addition to the \$6.7 million, retail sales are projected to drop about 12 percent (from about \$9.2 million to about \$8.1 million), and surcharge revenue is expected to decrease by 12 percent (from \$460,000 to \$406,000) for fiscal years 2010 and 2012, respectively. During the same time, the number of authorized patrons is projected to decrease by nearly 48 percent to approximately 10,000 authorized patrons, the majority of whom will be military retirees. For the same time period, the Navy also projected about a 3 percent increase in operating costs (from about \$2.1 million to about \$2.2 million) and a corresponding 3 percent increase in appropriated funds (from about \$2.1 million to about \$2.2 million) to cover operating costs.²⁰ According to Navy and Defense Commissary Agency officials, the one-time and recurring costs to continue commissary operations at NAS Brunswick after the installation closes would be paid—depending on the specific costs—by the Navy, all of the military services, or with funds from the surcharge revenue account.

Option 3: Combined Commissary and Exchange Store Operations

The DOD instruction states that a combined commissary and exchange store will be considered in cases where an independent commissary is not economically supportable due to, among other things, an installation's closure. The instruction provides specific guidance for assessing a combined store's operations. For example, the DOD instruction states that a combined store must be economically viable and not negatively impact morale, welfare, and recreation dividends after authorized funding is provided. Specifically, the instruction states that a combined store that has a financial loss in 2 consecutive years or 2 out of 3 years shall close. Furthermore, the instruction states that the cost for the combined grocery store operations must yield at least a 10 percent annual savings compared to the operating costs of an independent commissary. The Navy evaluated the combined store option at NAS Brunswick and determined that it was not economically viable because it would result in a net loss of about \$2.4 million after its first year of operation (with a projected source of funds of about \$13.5 million and a projected use of funds of about \$15.9 million). Some of the key assumptions in the analysis were a leasing cost of about \$629,000, general and overhead expenses of about \$2.2 million, personnel expenses of about \$1.4 million, and a partial offset of about \$618,000 in appropriated funds.²¹

The DOD instruction also requires that the combined store complement the local reuse authority plan and have written support from the local governments immediately surrounding the closed installation. The Navy considered the local reuse authority's plan that assessed the redevelopment of NAS Brunswick after closure.

¹⁹ Totals do not add due to rounding.

²⁰ For fiscal year 2010, actual total value of appropriated funds was \$2.3 million to cover commissary operating costs. However, for reporting purposes we used projected figures because actual data were not available for all data elements.

²¹ In accordance with 10 U.S.C. § 2488(e)(2), the appropriated funds provided for a combined store can not exceed 25 percent of the amount provided during the last full year that the Defense Commissary Agency operated the commissary.

Navy and local government officials stated that the plan includes a mixed land use area that allows the development of a retail facility that could house an independent commissary or a combined store, but acknowledged that the plan does not include funding that would defray the commissary's or combined store's operating costs. However, as described in the DOD instruction, the city managers for the local governments of Brunswick and Topsham submitted written support for keeping commissary operations in the Brunswick area.

Table 3 describes our analysis of the economic and combined commissary and exchange store criteria in the DOD instruction governing commissary operations, including the Navy's interpretation of the criteria for NAS Brunswick.

Table 3: GAO's Analysis of the Economic and Combined Store Criteria in DOD's Commissary Instruction

Criteria in DOD Instruction 1330.17	Navy's interpretation of DOD criteria for NAS Brunswick commissary	GAO analysis of DOD criteria
A business case analysis shall be prepared to verify that the commissary operation is economically supportable.	The Navy evaluated a business case analysis for two options: (1) continuing the commissary at its current location, (2) relocating the commissary to the existing exchange facility at the installation. For these two options, the Navy determined that continuing operations at NAS Brunswick would not be fiscally responsible because of the loss of an active-duty mission on the installation, a sharp decline in the population of authorized patrons, and projected one-time equipment replacement and recurring costs for each option totaling \$3.7 and \$6.7 million, respectively, more in its first year than for current operations.	The instruction provides a number of factors that should be included in the analysis, but the term "economically supportable" is not defined.
A combined commissary and exchange will be considered in cases where an independent commissary is not economically feasible and supportable due to base closure, military force structure changes, or where nearby stores produce overlapping or redundant delivery of the commissary benefit. Among other things, a combined store operation with a loss of two consecutive years or with a loss of two out of three years shall close.	As a third option, the Navy evaluated establishing a combined commissary and exchange store. The Navy determined that a combined store would not be economically viable because it would result in a net loss of about \$2.4 million after its first year of operation.	This criterion is clear because the DOD instruction provides specific circumstances for when a combined store should be considered and gives specific guidance for assessing the economic viability of a combined store's operations.

Source: GAO analysis of DOD information.

Conclusions

The commissary program is an integral element of the military pay and benefits package for active-duty personnel. DOD's decision to discontinue commissary operations at NAS Brunswick was based on criteria that are not always clear and are

open to interpretation. Specifically, the DOD instruction on commissary operations does not establish clear criteria for when to establish or continue a commissary versus when to discontinue a commissary. Additionally, the instruction does not clearly explain how the effect on active-duty personnel and their dependents should be measured and how it should be used as decision criteria when assessing whether to establish, continue, or discontinue a commissary. Also, the instruction does not explain what conditions would warrant an exception to the general rule to discontinue commissary operations when an installation closes and how the general rule relates to the other criteria. Furthermore, the instruction does not clearly define several key terms—such as “significant,” “in the immediate vicinity,” and “economically supportable”—that the military services and Defense Commissary Agency Board of Directors must consider as they recommend whether to establish, continue, or discontinue a commissary. Moreover, the instruction is not clear on whether the criterion of at least 100 active-duty service members at an installation is specific to one service or all military services in a geographic area and includes temporarily assigned personnel, and whether the minimum distance and travel time criteria are relevant to the decision to discontinue commissary operations. As a result, the military services and the Defense Commissary Agency Board of Directors may apply the same guidance differently and therefore incur a risk of making inconsistent recommendations and decisions on when to establish, continue, or discontinue commissaries. Our recommendations focus on enhancing clarity and consistency in the DOD guidance governing commissaries.

Recommendations for Executive Action

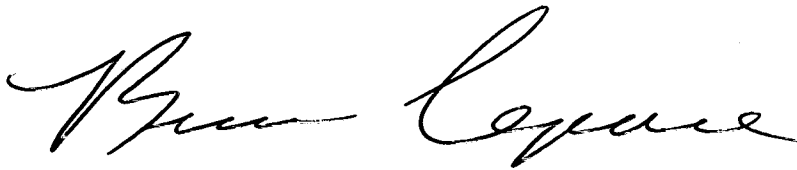
To facilitate consistent decision making for commissary operations, we recommend that the Secretary of Defense direct the Under Secretary of Defense (Personnel and Readiness) to revise its commissary guidance for the services. In revising the guidance, at a minimum, DOD should consider the following six recommendations:

- Clarify which guidance—if any—applies only to discontinuing commissary operations, and which guidance—if any—applies only to establishing or continuing commissary operations.
- Describe how effect on active-duty personnel and their dependents should be measured and used as decision criteria when assessing whether to establish, continue, or discontinue commissary operations.
- Describe what conditions would warrant an exception to the general rule to discontinue commissary operations when an installation closes and how the general rule relates to the other criteria.
- Define or clarify key terms, such as “significant,” “in the immediate vicinity,” and “economically supportable.”
- Specify whether the minimum of 100 active-duty personnel criterion is a service-specific or DOD-wide requirement and whether temporarily assigned active-duty personnel should be included.
- Explain the relevance of the distance and time measures to the nearest commissary in making decisions on whether to discontinue commissary operations.

Agency Comments and Our Evaluation

In written comments to a draft of this report, DOD concurred with all six of our recommendations and provided a plan of action for implementing each of the recommendations. Specifically, DOD stated that the revisions and clarifications required to address each of the recommendations will be included in the next version of the DOD Instruction 1330.17, Armed Services Commissary Operations; however, DOD did not specify a time frame for issuing the next version. Once the revisions are incorporated into the commissary guidance, we believe there will be less likelihood of making inconsistent recommendations and decisions on when to establish, continue, or discontinue commissaries. DOD also provided technical comments, which we incorporated as appropriate. DOD's comments are reprinted in enclosure I of this report.

As agreed, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to the appropriate congressional requesters and committees. We will also send copies to the Secretary of Defense; the Secretary of the Navy; the Director of the Defense Commissary Agency; and the Director, Office of Management and Budget. The report will be available at no charge on GAO's Web site at <http://www.gao.gov>. If you or your staff have any questions on this report, please contact me at (202) 512-4523 or leporeb@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made significant contributions to this report are listed in enclosure II.

A handwritten signature in black ink, reading "Brian Lepore". The signature is fluid and cursive, with the first name "Brian" and last name "Lepore" clearly distinguishable.

Brian J. Lepore
Director, Defense Capabilities and Management

Enclosure I

Comments from the Department of Defense



PERSONNEL AND
READINESS

UNDER SECRETARY OF DEFENSE

4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

Mr. Brian J. Lepore
Director, Defense Capabilities and Management
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

APR 11 2011

Dear Mr. Lepore:

This is the Department of Defense (DoD) response to the GAO Draft Report, GAO-11-266R, "Defense Infrastructure: DoD Used Available Guidance in Its Decision to Discontinue Commissary Operations at NAS Brunswick, but Criteria Needs Clarification," dated March 4, 2011 (GAO Code 351547). DoD concurs with the report and provides the enclosed comments.

Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in black ink, appearing to read "Clifford L. Stanley", is written over a horizontal line.

Clifford L. Stanley

Enclosure:
As stated

GAO Draft Report Dated MARCH 4, 2011
GAO-11-266R (GAO CODE 351547)

**"Defense Infrastructure: DoD Used Available Guidance in Its Decision to Discontinue
Commissary Operations at NAS Brunswick, but Criteria Needs Clarification"**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATIONS**

RECOMMENDATION 1: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to revise its commissary guidance for the services by clarifying which guidance-if any-applies only to discontinuing commissary operations, and which guidance-if any-applies only to establishing or continuing commissary operations.

DoD RESPONSE: CONCUR. The policy for establishing and disestablishing commissary operations will be clarified in the next revision of the DoD Instruction 1330.17, "Armed Services Commissary Operations."

RECOMMENDATION 2: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to revise its commissary guidance for the services by describing how the effect on active-duty personnel and their dependents should be measured and used as decision criteria when assessing whether to establish, continue, or discontinue commissary operations.

DoD RESPONSE: CONCUR. Criteria to measure the effect on active duty personnel and their dependents will be included in the next revision on the DoD Instruction 1330.17, "Armed Services Commissary Operations."

RECOMMENDATION 3: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to revise its commissary guidance for the services by describing what conditions would warrant an exception to the general rule to discontinue commissary operations when an installation closes and how the general rule relates to the other criteria.

DoD RESPONSE: CONCUR. The procedure and criteria under which commissary operations may continue after an installation closes will be clarified in the next revision of the DoD Instruction 1330.17, "Armed Services Commissary Operations."

RECOMMENDATION 4: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to revise its commissary guidance for the services by defining or clarifying key terms, such as "significant," "in the immediate vicinity," and "economically supportable."

Enclosure (1)

Enclosure I

DoD RESPONSE: CONCUR. Any key terms included in the next revision to DoD Instruction 1330.17, “Armed Services Commissary Operations,” will be clearly defined.

RECOMMENDATION 5: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to revise its commissary guidance for the services by specifying whether the minimum of 100 active-duty personnel criterion is a service-specific or DOD-wide requirement and whether temporarily assigned active-duty personnel should be included.

DoD RESPONSE: CONCUR. The minimum DoD-wide active-duty personnel criterion, and as to whether temporarily assigned personnel should be included, will be addressed in the next revision of the DoD Instruction 1330.17, “Armed Services Commissary Operations.”

RECOMMENDATION 6: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to revise its commissary guidance for the services by explaining the relevance of the distance and time measures to the nearest commissary in making decisions on whether to discontinue commissary operations.

DoD RESPONSE: CONCUR. DoD will review and validate the relevance of these criterions in the next revision of the DoD Instruction 1330.17, “Armed Services Commissary Operations.”

Enclosure II

GAO Contacts and Acknowledgments

GAO Contact

Brian J. Lepore, Director, (202) 512-4523 or leporeb@gao.gov.

Acknowledgments

In addition to the contact listed above, key contributors to this report include Marc J. Schwartz, Assistant Director; Jacqueline S. McColl; Charles W. Perdue; Richard S. Powelson; Hia Quach; and Michael Willems.

(351547)

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