

January 31, 2019

Defense Primer: Military Commissaries and Exchanges

The Department of Defense (DOD) offers certain *quality-of-life* benefits to military members, their families, and retirees. The general purpose of these benefits is to attract, retain, and support morale and readiness for military servicemembers. One of these benefits is world-wide access to grocery and retail stores – called *commissaries* and *exchanges* – typically located on military installations. Commissaries provide subsidized groceries and household goods to eligible patrons. Exchanges sell goods for profit, similar to a department or specialty store, but use the some of these profits to fund various Morale, Welfare and Recreation (MWR) activities (See Table 1.).

Organization and Management

Defense Commissaries

The modern commissary system began in 1867. Each of the services operated its own commissaries and exchanges until 1991 when the commissary system was consolidated under the Defense Commissary Agency (DeCA). Currently, DeCA operates 237 stores worldwide including 178 stateside, with the remainder in 13 countries and 2 U.S. territories. In addition, DeCA Operations include five joint Commissary and Exchange operations (NEXMARTS) located overseas, nine distribution centers, and a meat processing plant located in Germany.

As a defense *agency*, DeCA reports to the Office of the Secretary of Defense and has a board of directors composed of members from each of the military services. DeCA provides subsidized groceries and household goods at cost plus a 5% surcharge. This surcharge is used to fund new commissary construction, and store-level refurbishment, maintenance, and equipment.

Military Exchanges

DOD maintains an exchange system that includes the Army and Air Force Exchange System (AAFES), the Navy Exchange (NEX), and the Marine Corps Exchange (MCX). Each service has its own board of directors to align operations and services. These exchanges provide military installations with goods and services similar to department stores and are often located near commissaries. Additionally, some exchanges operate gas stations, mini-marts, food courts, barber and beauty shops, and liquor stores, some of which are operated by outside or contract vendors.

According to AAFES, “20% to 30% of its foot traffic, representing \$1 billion in sales, is attributable to proximity to commissaries.” DOD regulates what items may be sold at commissaries and exchanges to comply with statutory requirements (10 U.S.C. §2483) and to avoid direct competition with one another.

Table 1. Breakdown of Commissaries vs. Exchanges

	Commissaries	Exchanges
Funding	Appropriated Funds (APF)	Sales of goods, non-appropriated (NAF)
Management	DeCA Board of Directors	Board of Directors for each Service exchange system
Products	Grocery and household goods	Clothing, shoes, furniture, alcohol, cigarettes, jewelry, uniforms, computers, etc.
Online Sales and Delivery	Limited*	Yes**

Sources: “About DeCA” and “FAQs” at <https://www.commissaries.com/>; and “Exchange Quick Facts,” at <https://www.aafes.com/about-exchange/exchange-quick-facts/>.

Notes: *Since 2013, DeCA has a pilot program offering online ordering with curbside pickup, known as Click2Go, at three locations: Fort Lee, Virginia, Offutt Air Force Base, Nebraska, and Travis Air Force Base, California. Future locations are expected, however, it is unknown whether DeCA will offer delivery of online orders. **Online delivery excludes cigarettes, alcohol, and military uniforms.

Authorized Patrons

Authorized patrons of military commissaries and exchanges include active duty, Guard and Reserve members, military retirees, Medal of Honor recipients, 100 percent disabled veterans, and authorized family members. DOD regulations also allow limited access to overseas commissaries to DOD and non-DOD federal civilian employees and contractors.

Since November 11, 2017, DOD has allowed limited online exchange shopping privileges to all honorably discharged veterans. Purchases of uniforms, alcohol and tobacco products are excluded. Veterans may verify eligibility at <https://www.shopmyexchange.com/veterans>

The John S. McCain National Defense Authorization Act for FY2019 (P.L. 115-232) includes a provision that is to extend eligibility for commissary and morale, welfare, and recreation (MWR) privileges to certain veterans and veterans' caregivers by January 1, 2020, subject to regulations prescribed by DOD.

Funding

Commissaries: Appropriated Funds

DeCA is an appropriated fund activity (APF). Congress funds commissary operations with an annual appropriation to the DeCA Working Capital Fund (WCF). According to DeCA's *FY2017 Annual Financial Report*, its operation costs were \$1.3 billion. By law (10 U.S.C §2483), appropriated funds may be used to cover employee salaries and wages, utilities, communications, operating supplies and services, food shipment to overseas destinations, and other management, equipment, and/or information technology costs.

Table 2. DeCA Appropriations FY2014-FY2019

Fiscal Year	Amount in Billions
FY2014	\$1.3
FY2015	\$1.3
FY2016	\$1.3
FY2017	\$1.4
FY2018	\$1.4
FY2019	\$1.3

Source: Overview - FY2019 Defense Budget, Figure 5.1 Pay and Benefits Funding (Commissary Subsidy), on p. 5-3 at <https://comptroller.defense.gov/Budget-Materials/Budget2019/>; and earlier Budgets at <https://comptroller.defense.gov/Budget-Materials/>.

Exchanges: Non-Appropriated Funds

Unlike commissaries, exchanges sell merchandise for profit similar to retail or department stores. In 2018, AAFES reported that it generated over \$8.6 billion in annual revenue and earnings of \$376 million. These earnings are used to cover operating expenses, maintain facilities, and, additionally, fund MWR programs and services such as leisure travel, fitness centers, Child Development Centers, youth programs, outdoor recreation, and movie theaters.

Commissary and Exchange Reform Proposals

Over the past few years, Congress has been concerned with improving the Defense Commissary Agency (DeCA) system. Recent reform efforts by the Congress generally have sought to explore ways to reduce DeCA's reliance on appropriated funds without reducing patrons' commissary benefits and/or revenues generated by military exchanges. Some of the past proposals from military commissions, think tanks, or legislative agencies have included one or more of the following:

- Reducing or cancelling the commissary subsidy;
- Consolidating the commissary and three exchange systems into one entity, to be called the Defense Resale Activity (DeRA);
- Expanding commissary and exchange eligibility to additional veteran groups; and/or,
- Charging user fees for certain categories of patrons (e.g., DOD civilian employees).

Military, retiree, and veteran service groups have generally opposed any reduction to the commissary subsidy and

advocate for maintaining the current system. They are concerned that changes could dilute the perceived or actual benefit for eligible patrons (particularly military retirees who may be on a fixed income), could harm recruitment and retention, and could reduce the revenues generated for MWR activities. Advocates for the commissary and exchange systems also note that they provide job opportunities for military spouses and other dependents.

Those who have proposed a reduction or cancellation of the commissary subsidy argue that the current benefit is not efficient or equitably distributed among eligible patrons and that running a chain of grocery stores is not a core function of DOD. Some military personnel are assigned to locations without convenient access to a commissary. In particular, military retirees and Reservists may be less likely to live in close proximity to an installation with commissary services. Further, with the expansion of discount grocery stores and grocery delivery services, the commissary benefit may not be as attractive as it once was. One alternate proposal is for DOD use the savings generated from a reduction in the subsidy towards an annual "grocery allowance" for active duty military families that could be better targeted to specific pay grades with higher need (i.e., junior enlisted).

Proponents for consolidation contend that merging all systems into a single Defense Resale Activity could save money by streamlining functions such as accounting, administration and support; allowing for greater flexibility of products sold; and aligning incentives for commissaries and exchanges.

Section 627 of the FY2019 NDAA requires DOD to study the feasibility of consolidating commissaries and exchanges into a single defense resale system. Section 627 requires DOD to submit the report by January 1, 2019.

Relevant Statute

Title 10, U.S. Code Chapter 54

Title 10, U.S. Code, Chapter 147

CRS Products

CRS Report R45343, *FY2019 National Defense Authorization Act: Selected Military Personnel Issues* (and prior-year reports), section on "Defense Commissary System."

Other Resources

DODI 1330.17, *DOD Commissary Program*

DODI 1330.21, *Armed Services Exchange Regulation*

DODI 1015.10, *Authorized Patronage of Military MWR Programs*

Government Accountability Office, *DOD Needs to Improve Business Processes to Ensure Patron Benefits and Achieve Operational Efficiencies*, GAO-17-80: Mar 23, 2017.

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