



DEPARTMENT OF THE NAVY
THE ASSISTANT SECRETARY OF THE NAVY
(INSTALLATIONS AND ENVIRONMENT)
1000 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

JUN 16 2004

RECEIVED

JUN 21 2004

HON. COX DC OFFICE

The Honorable Christopher Cox
United States House of Representatives
Washington, D.C. 20515

Dear Congressman Cox:

Thank you for your letter of April 16, 2004 regarding commissary services for active duty and retired personnel living in Orange County, California. I have enclosed our responses to the questions you asked in that letter.

Commissary operations are discontinued when an installation is completely closed, as is the case with the former Marine Corps Air Station (MCAS), El Toro, and there are no commissaries remaining at any Department of Defense (DoD) installation that has been completely closed. Because there are no remaining active duty or reserve personnel assigned at the former MCAS, it does not meet DoD criteria for establishment or continuation of independent commissary operations.

In cases of installation closures, DoD policy does allow for consideration of establishing a combined commissary/exchange store. There is no combined store at an installation where there is no active duty or reserve military presence. At the beginning of Fiscal Year 2004, there were four combined stores at base closure locations. Of these, two have since closed for financial reasons. The two remaining combined stores are both located at former active bases that now have considerable reserve force activity and in some cases continued active duty activity, Naval Air Station Joint Reserve Base Fort Worth, TX, and Homestead Air Force Base, FL.

The Department of the Navy, along with the Defense Commissary Agency and the Commissary Operating Board, has looked very carefully at the feasibility of establishing a combined commissary and exchange store at the former MCAS. The assessment determined that a combined store at the former MCAS would not be viable economically. This conclusion is based on a number of factors including a sharp decline in customer counts and sales revenue at the MCAS El Toro commissary during its last three years of operation, the capital investment required to open such a facility, and projected operating losses.

After considering these factors collectively, establishing a commissary or combined store at the former MCAS El Toro would not be a prudent use of taxpayer resources.

As always, if I can be of further assistance, please let me know.

Sincerely,

A handwritten signature in cursive script that reads "H T Johnson". The letters are dark and fluidly connected.

H. T. Johnson

Enclosure

**FORMER MCAS EL TORO COMMISSARY
RESPONSES TO QUESTIONS**

1. How many commissary-eligible active, reserve, and guard personnel currently live in Orange County, California? Of these, how many live closer to El Toro than to any other commissary? Does the Department of Defense have any future plans to relocate any additional commissary-eligible patrons to Orange County? In your response, please take into account the 2004 National Defense Authorization Act, which expanded commissary privileges to National Guard and Reserve members. And please indicate the date and source of the data.

According to Defense Manpower Data Center information as of 11 May 2004, there are a total of 7,253 commissary-eligible active, reserve, and guard personnel living in Orange County, California. This includes active and retired members as well as guard and reserve personnel. This number does not include dependents. Of the total number cited above, 695 are active duty personnel. While all are eligible for use of the commissary benefit, criteria for the establishment or continuation of a commissary focuses on active duty members.

Of the total number living in Orange County, 3,256 live within 20 miles of the former Marine Corps Air Station, El Toro. The use of 20 miles is consistent with OSD criteria for determining commissary requirements. This number excludes those who live within 20 miles of the former MCAS El Toro but live even closer to another commissary.

Notwithstanding the 20-mile radius criterion, 3,829 members or over half of those in Orange County, live closer to other commissaries.

A breakout of the information is provided below:

	Orange County	Within 20 miles of Former MCAS	Closer to Other Commissaries
Active	695	439	224
Active Guard	272	68	226
Active Reserve	823	334	493
Guard	1,393	283	1,109
Individual Ready Reserve	865	413	432
Reserve Retired Under Age 60	825	639	83
Retired Military (including retired Reserve/ National Guard over the age of 60)	261	192	24
Select Reserve	2,119	888	1,238
Total	7,253	3,256	3,829

2. Of commissary-eligible personnel, how many would use the El Toro Commissary, if it were reopened? Of the estimated number of El Toro Commissary patrons, how much money would the average patron spend annually at the Commissary? How much does the average commissary patron spend at March AFB and Camp Pendleton? Between the years of 1997 and 2000, how much did the average patron spend at the El Toro Commissary? Please describe the assumptions used to arrive at these estimates.

Because the former MCAS has completely closed, it does not meet the criteria for the establishment or continuation of a commissary. There is no way of knowing with any degree of certainty how many commissary-eligible personnel would use a commissary at the former MCAS El Toro. A business case analysis conducted in 2001 by the Department of the Navy, in conjunction with the Defense Commissary Agency, documented that in Fiscal Year (FY) 1998 the annual customer count for the former MCAS El Toro commissary was 330,548 and that in FY 2000 the customer count had decreased to 142,987.

If the El Toro Commissary were reopened, we estimate the average patron would spend \$195.02 per month (based upon last survey data and inflated to current dollars).

During the period October 2003 through April 2004, the average patron spent \$82.51 per transaction at March Air Force Base and \$61.82 per transaction at Marine Corps Base, Camp Pendleton.

Based on in-store surveys, average expenditures per patron of the El Toro Commissary, for the period of period 1997 through 1999, were as follows:

FY 1997	FY 1998	FY 1999
\$ 254.57	\$ 257.54	\$ 180.46

3. If a Commissary facility were reopened at El Toro, how much annual revenue would the store generate? How much revenue did the El Toro Commissary generate in 1997 through 2000? How did this annual revenue compare to the annual revenue for combined stores authorized under 10 USC 2490a, and commissaries operating at the site of a closed military base? How much in expenses would be required to operate and maintain a commissary at El Toro? How much in revenues and expenses would be expected if the Commissary were reopened as a more limited combined store, as authorized under 10 USC 2490a? Please describe the source of your data, and the assumptions used to arrive at these estimates.

Because the former MCAS has completely closed and does not maintain a Reserve/government function, it does not meet the criteria for the establishment or continuation of a commissary. Although DoD operates commissaries at a few installations impacted by BRAC, mission realignment, and Service downsizing initiatives, each of these installations has residual Reserve/governmental functions in place.

The estimated annual revenue, if the El Toro Commissary were reopened, is \$12.2 million. This estimate is based on data reflecting FY 2000 El Toro sales and population within 20 miles at that time, as well as population for FY 2004.

According to the 2001 business case analysis, total El Toro Commissary sales revenue for the period from 1997 to 2000 is shown below:

	1997	1998	1999	2000
Total Sales	\$ 20,045,000	\$ 18,817,000	\$ 13,062,000	\$ 10,894,000

For comparison purposes, the total revenue for combined commissary/exchange stores for the period 2000-2003 is shown below:

COMBINED STORE SALES (\$000*)

Location	FY 2001	FY 2002	FY 2003
Orlando, FL	\$ 30,371	\$ 29,323	\$ 28,463
NAS JRB Fort Worth, TX	\$ 45,224	\$ 45,503	\$ 42,377
Homestead AFB, FL	\$ 13,396	\$ 12,911	\$ 10,655
Fort McClellan, AL	\$ 13,904	\$ 13,219	\$ 12,035

Does not include concession sales.

FY 2000 costs to operate the El Toro Commissary were \$2.6 million. The projected cost for operating a commissary at El Toro, if reopened, is approximately \$2.7 - \$2.8 million.

The Navy's 2001 business case analysis looked at the feasibility of a combined commissary and exchange store at the former MCAS (under the authority of 10 U.S.C. 2490a). It estimated total sales, under a combined store operation, of \$19.8 million. The estimated total expenses are \$20.8 million. This includes operating expenses as well as cost of goods sold. The 2001 analysis projected an annual \$1M loss (prior to any appropriated fund subsidy) if a combined commissary/exchange operation were established at the former MCAS

4. It is my understanding that commissaries have been retained at a number of closed military facilities. Can you provide me with a list of such facilities, and a brief summary of the basis for keeping open the commissary at each location? Can you also provide me with the average annual revenue at each commissary, the estimated number of annual patrons, the estimated annual expenses of each patron, and indicate whether any of these commissaries has run an operating deficit in any year since the closure of such facilities?

As indicated in the above response, there are no commissaries located at bases that have totally closed.

5. It is my understanding that the Army and Air Force Exchanges Service (AAFES) has estimated that it would cost approximately \$3-\$5 million to renovate and reopen the El Toro Commissary before it could be reopened. Is this an accurate estimate? Please provide any other estimates of the costs of reopening the El Toro Commissary.

The AAFES estimate to renovate and reopen the El Toro Commissary is still valid. Other than the projected operating cost stated in the answer to question #3 above,

there are no additional costs to reopen the facility as a commissary.

6. Has the Department of Defense examined whether the El Toro Commissary facility might be reopened in a more limited capacity as an annex to the commissary facilities at Camp Pendleton?

As indicated previously, in 2001 the Department of the Navy, in concert with the Defense Commissary Agency, conducted a business case analysis of a potential combined commissary and exchange store at the former MCAS El Toro. This review was guided by the "Department of Defense Criteria and Procedures for Commissary and Combined Commissary and Exchange Stores" issued June 8, 2001. MCAS El Toro failed to meet the criteria for a combined store operation. As such, DoD policy precludes the use of any commissary appropriated funding for this location.

7. Can you please provide me with a copy of the response from the Defense Commissary Agency to the July 12, 2002 memo from Maj. Gen. Robert Ostenberg, Commanding General, 63rd Regional Readiness Command, requesting the reopening of the El Toro Commissary?

A response was never sent to Maj. Gen. Ostenberg, apparently due to an oversight, and is being looked into.