

## **Commissary Surcharge**

Commissary customers would no longer be paying that 5 percent surcharge at the checkout, according to a draft Pentagon proposal. But that doesn't mean the extra cost would disappear. Commissary officials would build the extra 5 percent — or some other amount — into the shelf prices, and advocates are questioning how this could affect customers and ultimately, the commissary benefit. The proposal is part of draft legislation being considered to submit to Congress, because the law would have to be changed.

Under current law, the commissary surcharge money paid by customers must be used for construction, renovation, maintenance and equipment such as coolers and refrigerators for meat and milk and other perishables. This draft legislative proposal would put that into a pot of money used to operate the stores. Defense officials have for years been trying to decrease the amount of taxpayer dollars, currently around \$1.1 billion annually, used to operate 236 10 commissaries around the world. Depending on the amount of sales, between \$200 million and \$300 million go into the Defense Commissary Agency's surcharge fund each year.

The commissary's discounted groceries are designed to be a benefit for service members, retirees, service-connected disabled veterans, and certain others and their families. Advocates are questioning how this proposal will affect the benefit for commissary customers. "I have a lot of questions. I still don't understand how the variable pricing will be adjusted to make up for loss of surcharge," said Kelly Hruska, director of government relations for the National Military Family Association. "I'd like to understand where the proposal came from, and the purpose of the proposal," she said. "I don't know how this would help the customer," she said. "You'll be raising shelf prices that won't benefit customers. Since customers compare prices — if the commissary price is higher, they'll shop elsewhere."

She's also concerned about the future of the commissary facilities — facility improvements are funded by the surcharge. "What happens if there's a problem with a commissary? Will they allow it to crumble? Where is [the commissary agency] going to find the funds to remodel and build new commissaries?"

Information was not immediately available from defense officials about the origin of the proposal, or how much is currently in the surcharge fund. The proposal would also move all the money currently in that surcharge fund into the pot of money used to operate the stores.

According to an analysis of the proposal included with the internal DoD document, all of the costs currently paid for by surcharge money would be paid for out of the commissary agency's operating funds. It wouldn't affect the customer's baseline of savings, according to the analysis, nor would it require additional taxpayer funding. The Defense Commissary Agency takes into account the 5 percent surcharge at the cash register when doing price comparisons with items at commercial grocery stores outside the gate, to determine how much customers are saving at commissaries. The sales tax at those commercial grocery stores is also factored into the comparison. The proposal doesn't specify that exactly 5 percent would be added to each item; the DoD analysis states that the commissary agency would be allowed to continue to include "an additional cost in the price of goods."

Some sources interpreted the DoD analysis to mean the addition to the price could be more or less than 5 percent, and factored into the commissary agency's whole pricing process. For about three years, the agency has had the flexibility to raise or lower prices on items. Previously, commissary goods were priced at whatever the cost was from the vendor. This "variable pricing," more like what commercial grocery stores use, has allowed them to generate profit from customers' purchases, in an attempt to reduce operating costs paid for by taxpayers. It also allows them to be more competitive by lowering prices on some popular items. But commissaries must maintain a baseline of average savings for commissary customers that was measured before this variable pricing started.

One thought is that rolling the 5 percent surcharge (or some percentage) into the shelf price could be more transparent to the customer, because that would be the final price of the item. But Hruska and others contend that the proposal would bring less transparency, because customers currently know that that 5 percent surcharge is used solely for the commissary facilities. Now it could be used for operational costs. "The facility costs aren't going away. How is DoD going to pay for them? Do all those costs become operational? With this proposal, [the customer] doesn't know where the money is going," said Tom Gordy, president of the Armed Forces Marketing Council, a trade association of manufacturers and distributors who do business with commissaries and other military resale entities. He's also a Navy reservist and commissary shopper.

One source said there needs to be "guard rails" on funds to ensure the commissary stores are adequately maintained and modernized, for the protection of the customers' benefit. "This seems to be a solution in search of a problem, with no

real explanation of how this is supposed to benefit military families,” Gordy said. “At the end of the day, it doesn’t strengthen the benefit in terms of savings on grocery products. “Nor does it end up protecting the quality of the benefit in terms of the facilities, the equipment, the things that are used to help deliver the benefit.”