Audit Report

OFFICE OF THE INSPECTOR GENERAL

QUICK REACTION REPORT ON THE COMMISSARY CONSTRUCTION PROJECT AT THE NAVAL STATION, GUAM

Report No. 94-031 January 18, 1994

Department of Defense

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

January 18, 1994

MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY

SUBJECT: Quick-Reaction Report on the Commissary Construction Project at the Naval Station, Guam (Report No. 94-031)

We are providing this report for reconsideration of your position and additional comments. The report addresses the need for building a $17 million replacement commissary at the Naval Station, Guam. We are issuing this as a quick-reaction report because the contract to build the replacement commissary has already been awarded.

Your November 17, 1993, comments on the draft report were considered in preparing this final report. We have revised the finding based on your comments; however, because the Navy has not finalized its force structure plan for Guam, you are requested to reassess your position on the proposed replacement commissary project.

DoD Directive 7650.3 requires that all audit recommendations be promptly resolved. Therefore, we are requesting that you provide detailed comments in response to this final report that specifically address each recommendation and the potential monetary benefits by February 4, 1994.

The courtesies and cooperation extended to the staff are appreciated. If you have any questions on this audit please contact Mr. Robert J. Ryan, Program Director, at (703) 692-3457, or Mr. Timothy J. Tonkovic, Project Manager, at (804) 766-3319. Copies of the final report will be distributed to the activities in Appendix C.

Robert J. Lieberman

Robert J. Lieberman
Assistant Inspector General for Auditing

Office of the Inspector General, DoD

Report No. 94-031 January 18, 1994
(Project No. 3LA-0069.01)

QUICK-REACTION REPORT ON THE COMMISSARY CONSTRUCTION PROJECT AT THE NAVAL STATION, GUAM

EXECUTIVE SUMMARY

Introduction. During our Audit of Defense Commissary Construction Projects, we reviewed the planned construction of a $17 million replacement commissary at the Naval Station, Guam. The new commissary will replace a 30,000-square foot commissary built in 1959. The Defense Commissary Agency (DeCA) awarded a construction contract on September 24, 1993, for the 60,000-square foot project and issued the notice to proceed on October 27, 1993.

Objective. The overall audit objective was to determine if new construction of DoD commissaries were justified and cost-effective. This quick-reaction report addresses the requirement for the replacement commissary at Naval Station, Guam.

Audit Results. DeCA planned construction of a replacement commissary at Naval Station, Guam, that exceeded customer requirements. Basing the size of the replacement commissary on accurate sales data would result in a potential monetary benefit of at least $1.5 million. Deferring this project until the Navy determines its force structure plan for Guam and DeCA fully considers alternatives to new construction could result in additional monetary benefits. Additional benefits could be realized if DeCA decides to further downsize the replacement commissary or renovates the existing commissary.

Internal Controls. We did not include a review of internal controls as related to the objective because of the time sensitivity of the data reviewed. Procedural weaknesses in the construction approval process within DeCA will be addressed in a planned audit report on the overall Audit of Defense Commissary Construction Projects.

Potential Benefits of Audit. We identified potential monetary benefits of between $1.5 million and $17 million, less offsetting redesign or contractual termination costs, if the replacement commissary is downsized or not built. The exact amount of potential monetary benefits will be determined when DeCA obtains the approved force structure plans for Guam, reviews alternatives to new construction, and reassesses the need for and the size of the replacement commissary. Appendix A summarizes the potential monetary benefits resulting from the audit.

Summary of Recommendations. We recommended that DeCA place the commissary project on hold until the Navy provides accurate, complete, and up-to-date planned force realignment and personnel reduction information; until DeCA revalidates the need for the project; and until an economic analysis is completed.

Management Comments. The Director, DeCA, concurred with the first two recommendations but nonconcurred with the third recommendation, stating that an economic analysis served no useful purpose. Although the Director concurred with the first two recommendations, the project was not placed on hold based on additional data

provided by the Navy. The Director agreed to downsize the project to 50,000 square feet. A discussion of the DeCA comments is in Part II and the complete text of the comments is in Part IV.

Audit Response. We consider the DeCA's comments to be partially responsive to the draft report. The project was not placed on hold and we consider the additional Navy justification data provided to DeCA as questionable. The agreed-upon downsizing may not be sufficient to ensure that excess capacity is not built. We request reconsideration of that decision, additional comments on all recommendations and the reported potential monetary benefits from the Director, DeCA by February 4, 1994.

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This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate at (703) 614-6303 (DSN 224-6303).

Part I - Introduction

Background

The Defense Commissary Agency (DeCA) plans to build a 60,000-square foot replacement commissary at Naval Station, Guam. The $17 million project is planned to replace an existing 30,000-square foot commissary built in 1959.

DeCA has established 10 standard design commissary sizes, based on average monthly sales, as adjusted to 1982 dollars. The sizes of the standard design commissaries range from 12,000 to 100,000 square feet. Current sales at the Naval Station, Guam, commissary average $1.3 million per month, as adjusted to 1982 dollars; therefore, the criteria support a 50,000-square foot commissary if continued sales at that level are likely.

Commissary construction and renovation costs are paid by the Surcharge Collections Fund, a revolving fund maintained by charging commissary patrons a 5 percent surcharge on their purchases. Approval to obligate the funds has been granted by the Morale, Welfare and Recreation Panel of the House Committee on Armed Services.

Objectives

The overall objective of the audit was to determine if new construction of DoD commissaries was justified and cost-effective. This quick-reaction report addresses the requirement for the replacement commissary at Naval Station, Guam.

Scope

Recognizing the ongoing or potential impact of DoD force restructuring on the deployment of U.S. personnel and dependents at overseas locations, this segment of our overall audit of the commissary construction program focused on the proposed construction of a 60,000-square foot commissary at Naval Station, Guam. We visited DeCA Headquarters, the DeCA Northwest Region, and other DeCA offices responsible for the construction process and obtained actual and projected sales information for the Naval Station, Guam, commissary. We also contacted various Navy offices responsible for actual and planned active duty personnel authorizations on the island of Guam. Additionally, we reviewed procedures for developing commissary requirements and obtained available project documentation dated from 1984 through 1993.

This economy and efficiency audit was made from September through November 1993. We did not review internal controls related to our objective because of the time sensitivity of the data reviewed. Procedural weaknesses in DeCA's construction requirements and approval process will be addressed in an overall report on the Audit of Defense Commissary Construction Projects.

Except as noted, the review was made in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Appendix B lists the organizations visited or contacted during the audit.

Prior Audits and Other Reviews

Inspector General, DoD, Report No. 92-034, "Quick-Reaction Report on the Audit of Family Housing at Naval Station New York," January 9, 1992, challenged the need for 1,183 build-to-lease family housing units at Naval Station New York. The Inspector General, DoD, calculation of the family housing requirement was based on data for personnel assigned to the Naval Station New York, and current voluntary separation rates and dependency factors rather than assumptions and historical data, which the Navy used.

The Naval Station New York, area could realize a surplus of 937 housing units, because the Navy changed the mix of ships homeported at the Naval Station and did not consider other variables affecting housing demand. Implementing the recommendation to negotiate a bilateral change order reducing the number of units required to 400 would have prevented unnecessary housing costs of up to $244 million. The Navy disagreed with the recommendation and stated that the requirements were firm enough to justify continuing the housing projects.

In September 1993 the Congress approved the Base Realignment and Closure Commission's recommendation to close Naval Station New York, bearing out our concerns about the volatility of the Navy's housing requirements.

Part II - Finding and Recommendation

Construction of a Replacement Commissary

The Defense Commissary Agency is constructing a replacement commissary at Naval Station, Guam, that may not be needed to satisfy customer requirements. The condition occurred because the Defense Commissary Agency did not have current information on planned Navy personnel reductions, based the size of the commissary on sales projections that may not materialize, did not consider other initiatives affecting the Navy infrastructure on the island of Guam, and did not complete a detailed economic analysis considering alternatives to construction. Basing the size of the replacement commissary on valid sales projections could result in potential monetary benefits of at least $1.5 million. Deferral of the project, until the Navy force structure plan for Guam is finalized and alternatives to new construction are considered, could result in further monetary benefits from downsizing the new commissary or renovating the existing facility.

Background

In the late 1980s the Navy considered whether to improve the facilities at Naval Station, Guam. The Naval Resale System Support Office planned to expand and renovate the size of its existing commissary from about 30,000 square feet to about 45,000 square feet, at a cost of $3.3 million. In September 1991, DeCA proposed the 60,000-square foot replacement commissary instead of expanding and renovating the existing 30,000-square foot store.

In 1991, DeCA stated that without the new 60,000-square foot replacement commissary, it would be forced to operate from a more than 30-year old, maintenance intensive, inefficient facility having a significant negative impact on the morale of assigned personnel. In July 1993, the Congressional Morale, Welfare and Recreation Panel approved the $17 million project and in September 1993, DeCA awarded a $13.4 million construction contract.

The recently approved 1993 Base Realignment and Closure Commission recommended that the Naval Air Station, Agana, Guam, be closed, and that its mission, personnel, aircraft, and support equipment be consolidated at nearby Andersen Air Force Base. The consolidation was feasible because Air Force active duty personnel authorizations for Guam have declined 32 percent since 1988. Housing at Naval Air Station, Agana, is to be retained because it is only 12.4 miles from Andersen Air Force Base.

Navy officials stated that approximately half the Navy personnel on Guam patronize the Andersen Air Force Base commissary. To serve the Navy and Air Force patrons of the commissary, a $9.4 million renovation project, which is nearing completion, will add about 14,000 square feet of sales, storage, and administrative support space. The renovation will alter an additional

18,000 square feet of existing sales, storage, and support space, resulting in a 110,000-square foot commissary (including the warehouse) at Andersen Air Force Base.

Construction Plans

Project NW91MP15 at Naval Station, Guam, includes a permanent reinforced concrete building with a gross floor area of 60,000 square feet. In addition to the commissary sales floor, the 60,000 square feet includes a refrigeration support system; an administrative area; a produce, meat, and dairy department; a delicatessen, bakery, and frozen food area; and other operational support, staging, and receiving areas. The project also includes contractor-furnished and contractor-installed equipment, as well as paved access roads, parking spaces, and a truck loading dock.

Criteria

DoD Instruction 7041.3, "Economic Analysis and Program Evaluation for Resource Management," October 18, 1972, states that an economic analysis is required for proposals involving a choice between two or more options, even when one option is to maintain the status quo. Additionally, an economic analysis should be updated reflecting significant developments invalidating or altering the cost-benefit relationships upon which previous decisions were made.

Planned Personnel Reductions

A 60,000-square foot replacement commissary is not needed at Guam to satisfy customer requirements. DeCA was unaware of planned personnel reductions when determining the scope of the Naval Station, Guam, commissary project. We obtained Navy ship-based and shore-based personnel authorizations at Guam from the Chief of Naval Operations; the Commander in Chief, Pacific Fleet; the Naval Facilities Engineering Command; and the Bureau of Naval Personnel. The documentation showed that Navy active duty authorizations for Guam are scheduled to be reduced about 43 percent from FY 1993 to FY 1997. The total actual and projected Navy active duty authorizations from FY 1990 to FY 1997 are in Table 1. Note the fluctuations that have occurred in personnel authorizations and the considerable reduction that is planned for the future.

Table 1. Navy Active Duty Personnel Authorizations
(by fiscal year)

1990	1991	1992	1993	1994	1995	1996	1997
5,886	6,963	8,133	7,809	6,966	5,763	4,496	4,481

Sales Projections

DeCA based the 60,000-square foot commissary replacement project on unrealistic projections showing increased sales. According to DeCA design criteria and project justification, average monthly sales should be at least $1.55 million, as adjusted to 1982 dollars, to justify a 60,000-square foot commissary.

DeCA projected that the average monthly sales would increase by 5.23 percent annually, from FY 1993 through FY 1997. The 5.23 percent figure was arrived at by averaging the percentage change in monthly sales for FYs 1983 through 1992 to determine the 5.23 percent growth factor. Details of the sales for the Naval Station commissary during that period are in Table 2.

Table 2. Naval Station, Guam Commissary Sales

Fiscal Year	Average Monthly Sales (Adjusted to 1982 Dollars)	Percent Change
1983	$ 897,012	
1984	1,318,171	47
1985	1,483,036	12
1986	1,322,488	-11
1987	1,306,612	-1
1988	1,292,499	-1
1989	1,232,972	-5
1990	1,246,589	1
1991	1,368,866	10
1992	1,292,396	-6

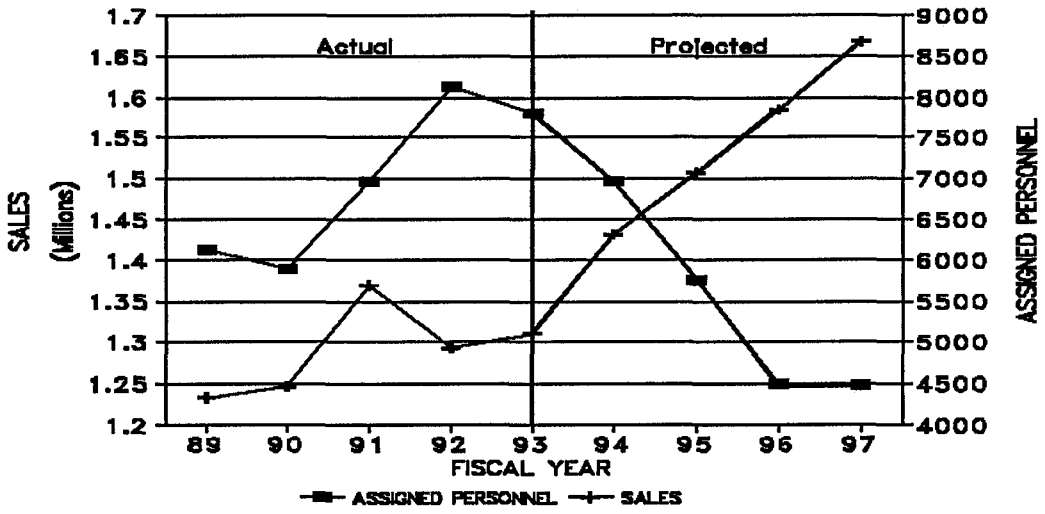
From FY 1983 through FY 1984, the Naval Station, Guam, commissary experienced a 47 percent increase in sales. That increase was responsible for the average percentage change in sales increase of 5.23 percent for the past 10 fiscal years. If the 47 percent 1-year increase in sales had not been included, the average percentage change in sales would be approximately zero.

The average monthly sales of at least $1.55 million required to support a 60,000-square foot commissary at Naval Station, Guam, will not materialize

based on the past 9 years of sales data and pending reductions in authorized naval personnel. The patronage base will decrease significantly, leading to further loss of sales.

Table 3. shows the historical relationship from FY 1989 through FY 1993 for sales increases and decreases, as adjusted to 1982 dollars, and the number of authorized naval personnel. The projected sales for FYs 1994 through 1997, based on DeCA's calculations used to justify the project, are shown in relation to the planned 43 percent reduction in naval personnel authorizations for the same period.

Table 3. FY 1989 through FY 1997 Average Monthly Sales and Assigned Naval Personnel



Because Navy personnel authorizations are scheduled to decrease by 43 percent, we believe that average monthly sales will fall below the current level of $1.3 million. For example, if average monthly sales decline to $741,000 (a 43 percent reduction) only a 40,000-square foot commissary would be justified.

Navy Infrastructure

DeCA did not obtain or consider a detailed study of the Navy infrastructure in its plans to replace the Naval Station, Guam, commissary. During the audit, we learned that the Navy was evaluating the transfer of units from Guam to other Navy locations. At the time of audit, the Navy was coordinating a study of the Navy infrastructure at all naval activities. If the Chief of Naval Operations

approves changes in the Navy infrastructure, it could affect personnel authorizations on Guam and the projected sales data used to justify the Naval Station commissary.

Economic Analysis

DeCA did not perform an economic analysis in compliance with DoD Instruction 7041.3, therefore, a comparison of the costs for additions or renovations to the existing commissary, to the costs for new construction, was not available. For every commissary construction project, various alternatives to new construction may exist. Alternatives to new construction include maintaining the status quo; renovating the current commissary; or adding space for delicatessens, bakeries, or other concessions. In considering alternatives, a comprehensive economic analysis that reflects valid costs and benefits should be performed.

DeCA Actions

During our staffing of the draft quick-reaction report, DeCA officials agreed that the scope of the replacement commissary project was based on erroneous sales projections. As a result, DeCA agreed to downsize the replacement project from 60,000 square feet to 50,000 square feet. DeCA estimated that such action will result in potential monetary benefits of from $1.5 million to $2 million. While we recognize the intended responsiveness of that action, another reevaluation of the requirement is needed. We believe that DeCA should reconsider the requirement for the commissary project after the Navy ship homeporting plan is approved in January 1994, and after the Navy finalizes its force structure plan for Guam.

Conclusion

While we recognize that the Naval Station commissary is in need of renovation and possible replacement, we do not believe that the project, as planned, is justified. The current average monthly sales support a 50,000-square foot commissary. However, it is highly unlikely that the current level of sales will continue based on the planned reduction in active duty personnel authorizations. Commissary construction projects should be supported by an economic analysis and rationale that justifies replacement. The documentation that DeCA and the Navy provided does not fully support replacement of the existing commissary.

Recommendation, Management Comments, and Audit Response

1. We recommend that the Director, Defense Commissary Agency place commissary construction project NW91MP15 on hold until the Navy provides accurate, complete, and up-to-date planned force realignment and personnel reduction information.

Management Comments. The Director, DeCA, concurred with the recommendation, however, he stated that the project would not be placed on hold. He stated that the Navy verified the staffing levels at Guam in a November 9, 1993, memorandum.

Audit Response. We consider DeCA's comments to be partially responsive to the intent of the recommendation, which was for DeCA to defer the replacement construction project until the Navy determines its force structure for Guam.

The Navy's planned actions on Guam, as presented to DeCA, have not been approved by higher level Navy management. We have reviewed the November 9, 1993, memorandum provided to DeCA and held discussions with appropriate Navy personnel to reconcile differences. The Navy authorizations provided to us by the Bureau of Personnel and reflected in this report include personnel assigned to the *USS Holland*, based in Guam, and reflect its decommissioning or reassignment in FY 1996. Our figures do not include personnel assigned to the *USS Mackee*, the designated replacement ship for the *USS Holland*. On November 18, 1993, we were informed by the Shore Activities Division of the Deputy Chief of Naval Operations (Logistics) that the Navy's proposed plan is for the *USS Mackee* to replace the *USS Holland* in FY 1996. However, the Navy's ship homeporting plans are still in the review stage and a decision is not expected until January 1994.

In FY 1992 (the same base year used by the Navy), 8,133 active duty naval personnel were assigned to Guam. If the proposed Navy ship homeporting forecast is approved, it will result in Navy authorizations of 5,831 (a 28 percent reduction) by FY 1996. If the replacement ship is not assigned to Guam, a 45 percent reduction in Navy authorizations will take place. A corresponding reduction in dependents will also affect commissary sales.

Considering the trend towards reduction of forces and the unapproved ship homeporting plan, we request that DeCA reevaluate its position to proceed with the replacement construction project. The evaluation should consider the decision on the Navy ship homeporting plan expected in January 1994.

2. We recommend that the Director, Defense Commissary Agency place commissary construction project NW91MP15 on hold until the need for the project is revalidated based on accurate, complete, and up-to-date sales projections and future personnel authorizations.

Management Comments. The Director, DeCA, concurred with the recommendation, however, he stated that the project would not be placed on

hold. He stated that sales of about $1.3 million per month are highly probable. Based on the latest sales data, DeCA agreed to reduce the size of the replacement commissary from 60,00 square feet to 50,000 square feet.

Audit Response. We recognize DeCA's initiative to downsize the replacement commissary from 60,000 square feet to 50,000 square feet. However, as discussed in our response to Recommendation 1., authorizations will decrease from 28 percent to 45 percent by FY 1996. As a result, we do not agree that sales of $1.3 million per month likely will continue at the Guam commissary. With the present uncertainties in the Navy force structure at Guam, further downsizing or complete cancellation of the replacement commissary may be justified. Therefore, DeCA is requested to reconsider the recommendation.

3. We recommend that the Director, Defense Commissary Agency place commissary construction project NW91MP15 on hold until an economic analysis is completed in accordance with DoD Instruction 7041.3.

Management Comments. The Director, DeCA, nonconcurred with the recommendation, stating that he did not believe it to be economically feasible to expand and upgrade the existing commissary to meet customer requirements. Additionally, he did not believe that an economic analysis would serve a useful purpose. DeCA's position was based on wetlands intrusion, complex building permit requirements, and damages caused by a recent earthquake. Further, current estimates are $2.9 million ($100 per square foot) to return the existing commissary to preearthquake conditions and another $9.5 million to renovate the commissary to DeCA standards.

Audit Response. DeCA's nonconcurrence with the recommendation is considered to be nonresponsive. The Director, DeCA, stated that an economic analysis would serve no useful purpose, yet provided estimates to support replacement of the existing commissary. The longstanding DoD requirement for a formal economic analysis before investment decisions are made is predicated on experience that such an analysis serves a useful purpose; that is, ensuring a systematic, documented consideration of all alternatives to new construction, including status quo operations, alteration, and renovation of the existing facility. To fully evaluate the estimates used to support replacement of the commissary, DeCA should have detailed supporting documentation demonstrating that new construction is the most economical alternative.

Part III - Additional Information

Appendix A. Summary of Potential Benefits Resulting from Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.	Economy and Efficiency. Determine requirements.	Nonmonetary
2.	Economy and Efficiency. Revise commissary construction requirements to reflect validated requirements.	Undetermined
3.	Economy and Efficiency. Performance of an economic analysis will evaluate alternatives to new construction, consider use of existing facilities, and determine required renovation costs.	Funds put to better use. From $1.5 million to $17 million, less offsetting redesign or contractual termination costs, in FY 1993 Surcharge Collection funds (97X8164.6400). The exact amount is undeterminable pending approval of the Navy force structure plan for Guam and revalidation of project requirements.

Appendix B. Organizations Visited or Contacted

Office of the Secretary of Defense

Assistant Secretary of Defense (Personnel and Readiness), Defense Manpower Data Center, Arlington, VA, and Monterey, CA

Department of the Navy

Commander in Chief, U.S. Pacific Fleet, Pearl Harbor, HI
Deputy Chief of Naval Operations (Manpower and Personnel), Washington, DC
Deputy Chief of Naval Operations (Plans, Policy and Operations), Washington, DC
Deputy Chief of Naval Operations (Logistics), Washington, DC
Headquarters, Naval Facilities Engineering Command, Alexandria, VA

Department of the Air Force

Deputy Chief of Staff Plans and Operations, Washington, DC

Defense Agencies

Defense Commissary Agency, Headquarters, Ft. Lee, VA
Defense Commissary Agency, Northwest Pacific Region, Fort Lewis , WA
Defense Commissary Agency, Design and Construction Division, Lackland Air Force Base, TX
Washington Headquarters Services, Washington, DC

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Under Secretary of Defense for Legislative Affairs
Assistant Secretary of Defense (Personnel and Readiness)
Assistant to the Secretary of Defense for Public Affairs
Comptroller of the Department of Defense

Department of the Navy

Secretary of the Navy
Comptroller of the Navy
Assistant Secretary of the Navy (Financial Management)
Auditor General, Naval Audit Service

Department of the Air Force

Auditor General, Air Force Audit Agency

Defense Agencies

Director, Defense Commissary Agency
Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Inspector General, Defense Intelligence Agency
Inspector General, National Security Agency
Director, Defense Logistics Studies Information Exchange

Other Defense Organizations

Comptroller, Commander in Chief, U.S. Pacific Command

Non-Defense Federal Organizations

Office of Management and Budget
- National Security Division Special Projects Branch
- Office of Federal Procurement Policy

U.S. General Accounting Office
- National Security and International Affairs Division, Technical Information Center
- National Security and International Affairs Division, Defense and National Aeronautics and Space Administration Management Issues
- National Security and International Affairs Division, Military Operations and Capabilities Issues

Chairman and Ranking Minority Member of each of the following Congressional Committees and Subcommittees:

- Senate Committee on Appropriations
- Senate Subcommittee on Defense, Committee on Appropriations
- Senate Committee on Armed Services
- Senate Committee on Governmental Affairs
- House Committee on Appropriations
- House Subcommittee on Defense, Committee on Appropriations
- House Committee on Armed Services
- House Committee on Government Operations
- House Subcommittee on Legislation and National Security, Committee on Government Operations
- House Subcommittee on Military Construction, Committee on Appropriations
- House Subcommittee on Installations and Facilities, Committee on Armed Services

Part IV - Management Comments

Defense Commissary Agency Comments

DEFENSE COMMISSARY AGENCY
HEADQUARTERS
FORT LEE, VIRGINIA 23801-6300

REPLY TO ATTENTION OF

NOV 17 1993

IR

MEMORANDUM FOR INSPECTOR GENERAL, LOGISTICS SUPPORT DIRECTORATE, 400 ARMY NAVY DRIVE, ARLINGTON, VA 22202-2884

SUBJECT: Quick-Reaction Report on the Commissary Construction Project at the Naval Station, Guam (Project No. 3LA-0069.01)

Reference: DoDIG Memorandum, dtd November 12, 1993, SAB.

In response to referenced memorandum, we do not intend to place the project on hold; however, the facts you presented, as validated by the Navy and Air Force, allow a reduction in scope from a 60,000 to a 50,000 square foot store, modified for the unique conditions on Guam. We estimate this will result in a monetary savings of from $1.5 to $2.0 million. We are now proceeding with the necessary coordination to revise the project scope to a 50,000 square foot project.

The attached provides our responses to your recommendations. If you have any questions, please contact Mr. Ben Mikell at (804) 734-8103.

Richard E. Beale Jr.
RICHARD E. BEALE, JR.
Major General, USA
Director

Attachments:
As Stated

DEFENSE COMMISSARY AGENCY REPLY

SUBJECT: Quick-Reaction Report on the Commissary Construction Project at the Naval Station, Guam (Project No. 3LA-0069.01)

Recommendation We recommend that the Director, Defense Commissary Agency place commissary construction NW91MP15 on hold, until:

1. The Navy provides accurate, complete, and up-to-date planned force realignment and personnel reduction information.

2. The need for the project is revalidated based on accurate, complete, and up-to-date sales projections and future personnel authorizations.

3. An economic analysis is completed in accordance with DoD Instruction 7041.3.

Action Taken. We concur with the first two parts of the recommendation but nonconcur with the third part.

1. The Navy verified staffing levels at NS Guam in their November 9, 1993 memo (attachment 1). On November 12, 1993, Mr. Tonkovic of DoDIG contacted the Navy Bureau of Personnel (BURPERS) and the Submarine Manpower Section confirming that earlier numbers from BURPERS did not include personnel assigned to a Guam based tender. Based on this additional information, we believe we have accurate, complete, and up-to-date planned force realignment and personnel reduction information.

2. The Navy's position (October 13, 1993 memo signed by Admiral Sareeram) that personnel levels will not decrease more than 10% used 1992 as the baseline. The DoDIG figure of a 38% decrease, discussed at the November 1 meeting, was arrived at using 1993 as a baseline. The base loading spike in FY93 is not reflected in the sales data (i.e. the sales did not increase in proportion to the increase in assigned personnel) and was not a factor in sizing of the store. Based on the situation as we now know it, flat sales of around $1.3 million per month are highly probable. This corresponds to a 50,000 square foot DeCA standard layout. The revised sales projection is at attachment 2.

3. Under the circumstances we do not agree that an economic analysis would serve a useful purpose. We do not believe it is economically feasible to expand and upgrade the existing commissary to meet the need. Expansion would cause wetlands intrusion and complex permitting requirements which may never be met. Damage caused by the recent earthquake is sufficient to require almost a complete rebuild to insure long term structural integrity. NS Guam

support personnel have indicated that they can keep the facility operational until it is replaced by the new store, but the long term use of the current store is questionable. Current estimates are $2.9 million (@$100 per square foot) to return the building to pre-earthquake conditions, then an additional $9.5 million would be required to attempt to bring the store up to DeCA standards, for a total cost of $12.4 million. However, due to the layout of the existing store, not all DeCA standards would be met.

DEPARTMENT OF THE NAVY
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
WASHINGTON DC 20350-2000

IN REPLY REFER TO

9 November 1993

MEMORANDUM FOR CHIEF OF STAFF, DEFENSE COMMISSARY AGENCY

Subj: CONSTRUCTION OF NEW COMMISSARY AT NS GUAM

Tab A requested resolution of two issues raised by the DOD Inspector General (IG) concerning construction of a new commissary at NS Guam. The following comments are provided:

a. The numbers provided to the DOD-IG by the Bureau of Personnel (BUPERS-522) do not include 1,335 personnel currently assigned to the Guam based tender. Current planning calls for a replacement tender to be based at Guam in conjunction with the FY-95 departure of the present tender. This was validated with the Head of the Submarine Manpower Section (CNO N-879D). Thus, Navy end strength should be increased by 1,335.

b. Commander, Naval Forces Marianas (COMNAVMAR) has reassessed the current Guam commissary patron base and determined it to be 39,273. Tab B reflects the breakdown of the patron base and commissary sales data as verified by COMNAVMAR. Recognize the patron base will be reduced as active duty drawdown, previously addressed, occurs.

Any discussions on downsizing possibilities for Guam have included a Navy active duty population of over 4,300, a population which greatly exceeds that which the present store can adequately accommodate. Consequently, the commissary must be replaced. Tab C addresses significant inadequacies in the current store which negatively impact quality of life as well as increase operating costs, thereby causing appropriated funding support to be higher than necessary.

D. HENDARVIS
Captain, SC, USN
Head, Supply Operations, Transportation
and Petroleum Branch

Tab A - Your memo of 5 Nov 93
Tab B - COMNAVMAR Commissary Patronage
Tab C - COMNAVMAR memo of 3 Nov 93

DeCA-CB November 5, 1993

MEMORANDUM FOR N413R, ATTN: CDR HORRES

SUBJECT: New Commissary, NS Guam

Please thank your staff for the quick responses provided over the past several days as we attempted to reconcile data to support this project.

Attachment 1 is a copy of the draft memorandum I provided the DoDIG November 4, 1993. Mid afternoon November 5, I spoke with Mr. Ryan and Mr. Tonkovic seeking their concurrence to proceed with the project. They informed me (and followed up with supporting documentation) that there are two major unresolved issues.

- Navy PERS-522 documented (attachment 2) that the active duty Navy strength on Guam will decrease to 4306 by FY 99 versus strengths of 5370 and 5565 provided by CINCPACFLT and OPNAV N120, respectively.

- COMNAVMAR estimates the NAVSTA Commissary's patronage base at 50-55,000 and the Navy active duty and dependant portion to comprise less than 50% of that total. An Office of the Actuary report (attachment 3) shows a total of 1,430 DoD retirees on Guam. This leaves a large number of "patrons" unaccounted for.

We are very close to formally delaying the design phase of the project unless you resolve these two issues soonest.

MICHAEL E. KOCH
Colonel, USA
Chief of Staff

CINCPACFLT TASKER IRT COMMISSARY PRIVILEGES

1. CATEGORIES OF PERSONNEL ENTITLED TO COMMISSARY PRIVILEGES/POPULATION PER CATEGORY:

Active/Service	Population	
USN	7,588	
USA	142	
Air Force	2,646	
USMC	60	
Coast Guard	56	
Total Active Personnel	10,492	
Retirees/Service		
USN	374	
USA	178	
Air Force	360	
USMC	27	
Coast Guard	12	
Total	951	
Reserves/Service		
USN	23	
USA	350	
Air Force	137	
Air National Guard	188	
Army National Guard	638	
Total	1,336	
Dependents (All Services)		
Active Duty Dependants	18,109	
Retired Dependants	1,773	
DOD Stateside Hires (USN/AF)	366	
Reserves Dependents	5,344	(estimated)
Total	25,591	
State-side Hire		
USN	168	
Air Force	38	
NON-DOD GOVT AGENCIES (i.e., State Dept.; Dept of Justice; PHS; USO; Peace Corp. Dept of I&N)	697	
Total	903	
Overall Total	39,273	

2. Monthly customer count and how are they counted: Counted strictly by CASH SALES. (i.e. one count per paying customer at the cash register).

COMMISSARY SALES

	FY 92			FY 93		
	MONTHLY		DAILY	MONTHLY		DAILY
OCT	1,618,405.81	(27)	59,941	1,671,391.47	(25)	66,856
NOV	1,564,792.19	(24)	65,200	1,451,147.00	(21)	69,102
DEC	1,766,507.81	(25)	70,660	1,929,807.73	(26)	74,223
JAN	1,512,563.79	(25)	60,502	1,616,314.70	(25)	64,653
FEB	1,487,833.00	(24)	61,993	1,513,625.43	(23)	65,810
MAR	1,561,480.60	(26)	60,057	1,710,367.55	(26)	65,783
APR	1,587,073.39	(25)	63,483	1,654,258.40	(25)	66,170
MAY	1,670,726.48	(25)	66,829	1,696,870.36	(26)	65,264
JUN	1,596,838.34	(25)	63,873	1,744,003.30	(26)	67,077
JUL	1,728,441.18	(26)	66,479	1,814,066.76	(26)	69,772
AUG	1,527,288.00	(25)	61,092	1,522,286.50	(26)	58,549
SEP	1,578,453.00	(24)	65,769	1,598,365.68	(25)	63,935

CUSTOMER COUNT

	FY 92			FY 93		
	MONTHLY		DAILY	MONTHLY		DAILY
OCT	30,467	(27)	1,128	31,761	(25)	1,270
NOV	29,512	(24)	1,230	27,215	(21)	1,296
DEC	33,070	(25)	1,323	35,478	(26)	1,364
JAN	29,559	(25)	1,182	30,939	(25)	1,238
FEB	29,046	(24)	1,120	27,691	(23)	1,204
MAR	31,210	(26)	1,200	30,748	(26)	1,183
APR	31,723	(25)	1,269	30,098	(25)	1,204
MAY	32,065	(25)	1,282	31,349	(26)	1,206
JUN	30,614	(25)	1,225	31,502	(26)	1,211
JUL	31,958	(26)	1,229	32,073	(26)	1,234
AUG	30,341	(25)	1,214	31,264	(26)	1,202
SEP	28,989	(24)	1,208	29,889	(25)	1,196

FY 93 RECAP

	FY 92	FY 93	DIF
SALES + 3.9%	19,200,403	19,954,255	+763,882
CUSTOMER COUNT +.4%	368,554	370,007	+1,483
SALES DAYS	301	300	-1

DEPARTMENT OF THE NAVY
U.S. PACIFIC FLEET
COMMANDER U.S. NAVAL FORCES MARIANAS
FPO AP 96538-0051

IN REPLY REFER TO:
11000
Ser N4/2076
3 November 1993

From: Commander U.S. Naval Forces Marianas
To: Commander in Chief, U.S. Pacific Fleet (Attn: N41)

Subj: DECA COMMISSARY AT NAVSTA GUAM

Encl: (1) Commissary Justification

1. Enclosure (1) was provided by the NAVSTA commissary manager. It highlights the important point that the new commissary was not programmed to accommodate projected growth in patronage but to address significant inadequacies in the current store.

2. The relocation of naval aviation operations from NAS Agana to Andersen Air Force Base should not affect patronage at the Naval Station commissary, since the family housing at NAS will remain in use. Furthermore, the construction of 300 additional units of family housing at the Naval Station will shift the centroid of military population on Guam closer to the Naval Station.

3. The availability of a modern, functional commissary at the Naval Station is an important quality of life issue for our military families on Guam, where the cost of groceries on the local economy is more than 50 percent higher than in CONUS. Forcing patrons to the Andersen store is not feasible, as refrigerated and frozen foods would spoil or thaw during the hour long drive back to Naval Station. Construction of this store is a vital signal to our sailors that we care about their welfare and will continue to do our best to support them.

E. R. KRISTENSEN

Justification for the new commissary at Naval Station Guam.

1. Present facility was built in 1969 and is over 34 years old and was not designed to provide the following support to patrons: Delicatessen, bakery, air lock to maintain required temperature/humidity in the store, cart enclosure/bagger cart return. The building cannot fully support a chill meat operation or a retail type produce operation. There are no loading/receiving docks incorporated into current design, making van receipt very labor intensive. All merchandise received must be chained off trucks and then handed loaded into storage areas as no reefers allow a pallet size load.

2. Current facility is not adequate to handle current or past patronage traffic. There are 10 aisles in the store of which five are only 8 feet wide. The remaining five range from 8.5 feet to 8.6 feet wide, severely hampering customer cart traffic and forcing the store to have one way aisles.

3. The square footage of Naval Station Commissary salesfloor is 15300 sq. ft. The planned square footage of the Andersen Commissary after their renovation to only service their current customer base is 22000 sq. ft. This determination is already five years old and could never accommodate an influx of Naval Station customers. The planned new facility at Naval Station which was planned for construction due to the inferior, already inadequate facility rather than any increased customer base is 40,000 square feet of salesfloor. This would allow for more than one grocery cart wide per aisle as well as maintenance of stock levels for patrons during the day. Also, there is a bakery, deli, air lock, generator to power up during typhoons, emergency weather conditions and an emergency water supply.

4. Current refrigeration/air conditioning equipment is in poor condition and requires continual maintenance in order to maintain any sort of adequate service. Air conditioning compressors continually go down and are currently located on the roof with no enclosed protection from the elements. An additional building (259) was added to supplement chill/freeze storage but does not have any capability to stow by pallet loads. All merchandise must be hand loaded and stacked into these spaces. Produce handling area has no air lock and continually is temperature stressed due to loading/unloading. This area opens directly to the outside. The same is true of the meat freezer. The freezer itself opens directly to the outside and shows continual maintenance problems due to rapid, repetitive temperature fluctuations. The meat processing area is not large enough to house modern saws, grinders and labeling, weighing equipment that support a fresh, chill beef operation. Currently, a wrapping system has to be stationed in the meat department hallway which is not adequately chilled in order to support the processing effort. All display cases are an abomination and require daily monitoring and upkeep. The chill display area does not support current customer base. In short, if there is no new store, all refrigeration equip would need to be replace.

5. Due to modern business systems, there is not adequate office space for support, computer, administrative and merchandising

operations. The earthquake of 8 August 1993 severely damaged the front section of the commissary building that houses the commissary management offices and the cash handling area. This part of the building sank when earth shifted and would require major reconstruction to fix.

6. The current facility has no checkout area due to such severe space limitations. Customers simply 'wrap' around the store down the aisles on busy pay day periods as there is no queing area. The checkouts (11) cannot fit a shopping cart through them. This area was revamped when scanning was installed to maximize checkouts but due to this effort, there is no space between checkouts to productively enhance the bagging, checkout function. There is also no air lock at the exit doors, which open directly outside and contribute negatively to the high humidity/ temperature levels in the store. This seriously hampers the air conditioning and refrigeration capabilities in the store. Although there is an air lock at the entrance (an addition to the store used for cart storage), this area has been condemned since the 8 August 1993 earthquake and is due to be demolished. When that occurs, the entrance will not have an air lock either.

7. The current facility design did not include any employee bathrooms. Currently, both customers and employees have to share these facilities which allows for no lockers, changing areas for employees. This presents an extremely negativve image to the customers.

8. The employee lunch/break room was added onto the produce department and is too small to accommodate employees needs. They must walk through the produce processing area to reach this space.

9. The receiving compound is too small to allow adequate space for manuevering of van containers. It cannot be expanded due to the wetlands being located immediately surrounding it. This seriously hampers the receiving/offloading efforts. Only two chill/freeze containers can be accommodated at one time due to the plug/space limitations. This is particularly difficult due to receipt of from 7 to 9 produce containers weekly as well as the routine breakout deliveries from the warehouse and the chill beef and other various local deliveries to the store.

10. Due to such severe space limitations on the salesfloor, there is no customer service area available. A small desk for I. D. check is located at the entrance and this has to serve the dual function of customer service.

11. Construction has building columns located in the aisles and the checkout area, hampering traffic and space. Due to the recent earthquake, there are numerous cracks in the floor and the building, making cart movement difficult in some areas and contributing negatively to pest control efforts.

11/02/93 SALES PROJECTION FOR GUAM

	AVERAGE MONTHLY SALES	CORRECTION FACTOR TO FY82 BASELINE	CORRECTED SALES	INCREASE/ DECREASE	PERCENT CHANGE
FY 84	$1,378,148	.96	$1,318,171		
FY 85	$1,552,244	.96	$1,483,036	$164,865	12.51%
FY 86	$1,403,711	.94	$1,322,488	$-160,548	-10.83%
FY 87	$1,430,413	.91	$1,306,612	$-15,876	-1.20%
FY 88	$1,438,659	.90	$1,292,499	$-14,113	-1.08%
FY 89	$1,447,510	.85	$1,232,972	$-59,527	-4.61%
FY 90	$1,536,628	.81	$1,246,589	$13,617	1.10%
FY 91	$1,711,083	.80	$1,368,866	$122,277	9.81%
FY 92	$1,599,500	.80	$1,292,396	$-76,470	-5.59%
FY 93	1,639,000	.8012	1,313,167	20,771	1.58%

PROJECTED SALES WITH 10% EXPERIENCE FACTOR

FY 94	1,315,690
FY 95	$1,318,219
FY 96	1,320,752
FY 97	1,323,290
FY 98	1,325,832

FACTOR 0.19% FACTOR IS LIMITED TO 10% MAXIMUM FOR SALES PROJECTION

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