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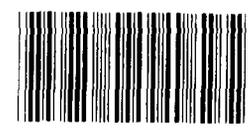
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Briefing Report to the Honorable
Henry B. Gonzalez, House of
Representatives

January 1988

MILITARY EXCHANGES

Consolidation of Exchange Service Distribution Facilities in Waco, Texas



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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

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January 25, 1988

The Honorable Henry B. Gonzalez
House of Representatives

Dear Mr. Gonzalez:

In response to your March 10, 1987, request, we reviewed the Army and Air Force Exchange Service's (AAFES's) decision to consolidate its San Antonio and Fort Worth, Texas, warehousing distribution activities in Waco, Texas. We briefed your staff on November 2, 1987, on the results of our review. At that time we were requested to provide you a report on actions AAFES plans to take to assist displaced employees. In addition, we are including information about the sites AAFES considered in its site selection process.

In September 1982, the AAFES Board of Directors approved, in principle, a program to upgrade and modernize its distribution system. Both the San Antonio and Fort Worth distribution centers were identified as AAFES activities that would be affected by the project. AAFES planned to construct a new, modern distribution center to consolidate the activities being carried out by the San Antonio and Fort Worth centers.

In July 1983, AAFES appointed a site selection committee to recommend a suitable site for the proposed North Texas Distribution Center. The committee evaluated 39 potential sites. This number was later reduced to nine sites in AAFES' final site selection analysis. On October 4, 1984, the House Committee on Armed Services, Morale, Welfare, and Recreation (MWR) Panel instructed AAFES that only a nominal amount of nonappropriated funds could be used to purchase or lease commercial property for the new distribution center. In August 1986, AAFES decided to locate the new center in Waco, Texas. A construction contract for the project was approved in September 1987, and AAFES estimated that the project was about 10 to 15 percent complete as of December 1987. The detailed results of our work are presented in the appendix.

In summary, we found that:

- The Waco site, which was selected, ranked the most favorable among the nine locations considered in the 1986 AAFES site selection analysis.

- Employees at the San Antonio and Fort Worth distribution centers were notified of the relocation on August 25, 1986, and again on February 9, 1987.
- AAFES estimates that 531 employees (100 in San Antonio and 431 in Fort Worth) will be affected by the consolidation.
- AAFES plans to provide several outplacement services for displaced employees--employees not selected to transfer to the new Waco facility and those who do not wish to transfer.
- The MWR Panel directed the Commander of AAFES to offer employment and training to all employees of the Fort Worth center. In addition, the Panel directed AAFES to reimburse employees for any expenses related to moving to Waco. According to AAFES officials, AAFES will implement the Panel's direction for both Fort Worth and San Antonio employees.

We discussed the report with AAFES headquarters officials and incorporated their comments where appropriate. As requested by your office, we did not obtain official comments.

We plan no further distribution of this report until 10 days from the date of this letter, unless you publicly announce its contents earlier. At that time, we will send copies to the Chairmen, House and Senate Committees on Armed Services; other interested committees; members of the Morale, Welfare, and Recreation Panel; other members of the Texas congressional delegation; the Secretaries of Defense, the Army, and the Air Force; the Commander of the Army and Air Force Exchange Service; and the Director, Office of Management and Budget. We also will make copies available to others upon request.

If you have any questions, please call me on 275-8412.

Sincerely yours,



Martin M Ferber
Senior Associate Director

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ABBREVIATIONS

AAFES	Army and Air Force Exchange Service
MWR	Morale, Welfare, and Recreation Panel
REAL	Realignment of AAFES Logistics

AAFES' DECISION TO RELOCATE THE SAN ANTONIO
AND FORT WORTH DISTRIBUTION ACTIVITIES

The Army and Air Force Exchange Service (AAFES) is a non-appropriated fund activity with missions of (1) providing merchandise and services for resale to Army and Air Force personnel and their dependents and (2) generating revenue to support the Army and Air Force morale, welfare, and recreation program.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to examine the AAFES site selection process and determine how AAFES plans to assist displaced employees. To achieve these objectives, we examined AAFES documents pertaining to this process and AAFES' plans for assisting displaced employees from the San Antonio and Fort Worth centers. Also, we interviewed officials of AAFES headquarters and Atlanta Distribution Regional Office. The Atlanta office is the location of AAFES Chief of Human Resources.

We conducted our work from April through October 1987 in accordance with generally accepted government auditing standards.

SITE SELECTION PROCESS FOR THE
NORTH TEXAS DISTRIBUTION CENTER

In February 1981, AAFES management established a Distribution Facility Improvement Study Group to identify ways to improve its distribution operations. The study group recommended a program referred to as Project REAL (Realignment of AAFES Logistics) for upgrading its distribution system. As part of Project REAL, the study group recommended closing, renovating, or constructing 11 AAFES distribution centers. Both the San Antonio and Fort Worth centers were identified by the group as facilities that would be consolidated under the project to form the new North Texas Distribution Center. In September 1982, the AAFES Board of Directors approved Project REAL in principle.

In July 1983, AAFES appointed a site selection committee to recommend a suitable site for the proposed North Texas Distribution Center. On October 4, 1984, the House Committee on Armed Services, Morale, Welfare, and Recreation (MWR)

Panel instructed AAFES that only nominal nonappropriated funds could be used to purchase or lease commercial property for Project REAL facilities. This Panel has oversight of nonappropriated fund activities within the Department of Defense, such as AAFES, and reviews all nonappropriated fund construction projects that exceed \$500,000.

In August 1986, the AAFES site selection committee narrowed the number of possible sites from 39 sites initially evaluated to 9, which the committee decided were the most suitable, based on factors such as location, size, and topography. The committee used a site questionnaire to collect data about each of the nine sites and a computer analysis to analyze the information and rank the sites. The computer program considered both economic factors, such as life cycle costs, and non-economic factors, such as the amount of acreage at the sites. Based on the results of this analysis, the committee recommended to the Commander of AAFES that a site in Waco, Texas, be selected. The AAFES Commander, on August 18, 1986, approved Waco as the site of the new distribution center. The results of the AAFES site selection process are shown in table I.1.

Table I.1: Results of 1986 AAFES Site Selection Process

<u>Site ranking</u>	<u>Locations in Texas</u>	<u>Land cost</u>
1	Waco 1	\$ -0-
2	Carter	3,114,332
3	Waco 2	1,176,000
4	Levi	178,610
5	GSA ^a	3,254,326
6	Mineral Wells	954,332
7	Cleburne	1,896,332
8	Ennis	1,882,332
9	Fort Hood	1,592,000

As shown in this table, the Waco 1 site, with no land cost, ranked the most favorable and met the MWR Panel's requirement concerning nominal use of nonappropriated funds to purchase or lease land.

The AAFES Director of Audits told us that AAFES included all of the sites determined acceptable by the site selection committee in the analysis to provide assurance that no other site would rank higher than the Waco site in terms of all the factors evaluated. He said that had another site ranked higher even considering the cost of the land, AAFES could have raised the issue with the MWR Panel before finalizing the selection.

AAFES' ACTIONS TO ASSIST DISPLACED
SAN ANTONIO AND FORT WORTH EMPLOYEES

According to AAFES Chief of Human Resources, the employees at the San Antonio and Fort Worth centers were notified of the decision to relocate the distribution centers to Waco on August 25, 1986, and again on February 9, 1987. On those dates, the employees were informed that all regular, full-time employees would be considered for employment at the Waco center.

AAFES projections, as of October 26, 1987, of the number of employees who would be affected by the consolidation of the centers are shown in table I.2.

Table I.2: Disposition of Displaced Employees

<u>Action</u>	<u>San Antonio</u>	<u>Fort Worth</u>	<u>Total</u>	<u>Percent</u>
Transfer to new Waco center	15	86	101	19
Transfer to other local facilities	31	43	74	14
Retirement	10	51	61	11
Attrition	21	43	64	12
Potential reduction-in-force	23	208	231	44
Total	<u>100</u>	<u>431</u>	<u>531</u>	<u>100</u>

In an August 4, 1987 letter, the Chairman of the MWR Panel notified the Speaker of the House of Representatives that the Panel had directed the AAFES Commander to offer employment and/or training to all employees of the Fort Worth center and to reimburse them for any moving expenses. Employees could be offered jobs in Waco or at other AAFES facilities. Additionally, the Commander of AAFES was instructed to report to the Panel in a timely fashion on the effect of the

relocation on employees from Fort Worth. The AAFES Director of Audits told us that employees of the San Antonio center will receive the same considerations.

AAFES plans to provide several outplacement services for employees who are not selected for employment at the new center or who do not wish to transfer. These services include (1) administrative leave for interviews with prospective employers, (2) assistance in preparing and sending resumes, (3) counseling on unemployment compensation rights, (4) severance pay for employees displaced by the reduction-in-force, and (5) a crisis center to answer employee questions.

Additionally, the AAFES Chief of Human Resources told us that employees who transfer to the new Waco facility will receive the following benefits:

- Administrative leave up to 10 days.
- Assistance from a private firm in selling and purchasing homes.
- Reimbursement of real estate expenses for selling and purchasing homes.
- Advance of salary up to six pay periods (net pay).
- Transfer allowance of 9 percent of base annual salary.
- Relocation allowance of \$700 or equivalent of 2 weeks compensation, whichever is less.
- Shipment of household goods.
- Insurance on household goods, up to \$25,000.
- Mileage allowance at the rate of 20.5 cents per mile.
- Subsistence allowance for 30 days (additional days may be granted for compelling reasons).

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