



OFFICE OF THE UNDER SECRETARY OF DEFENSE  
4000 DEFENSE PENTAGON  
WASHINGTON, D.C. 20301-4000

PERSONNEL AND  
READINESS

AUG 4 2011

The Honorable Joe Wilson  
Chairman  
Subcommittee on Military Personnel  
Committee on Armed Services  
U.S. House of Representatives  
Washington, DC 20515

Dear Mr. Chairman:

As requested by section 642 of the Ike Skelton National Defense Authorization Act for Fiscal Year 2011, the Department is pleased to provide the requested report on the feasibility of establishing a full-service exchange store in the Northern Mariana Islands.

The enclosed Army study outlines the Army and Air Force Exchange Service (AAFES) plan to construct a 5,000 square foot retail store and replace the current 1,200 square foot shoppette to better serve authorized customers in Saipan. The nonappropriated fund project is currently being considered for inclusion in the Fiscal Year 2012 Commissary Surcharge, Nonappropriated Fund and Privately Financed Construction Program, which will be submitted to the Congress in mid-August 2011.

Thank you for your continuing interest in improving the Military Exchange Services programs for our Service members and their families. I am sending a similar letter to the President of the Senate, Speaker of the House of Representatives, the Chairmen of the Senate and House Committees on Armed Services, the Chairmen of the Senate and House Committees on Appropriations, and the Chairman of the Senate Armed Services Subcommittee on Personnel.

Sincerely,

A handwritten signature in black ink, appearing to read "Jo Ann Rooney", with a long horizontal flourish extending to the right.

Jo Ann Rooney  
Principal Deputy

Enclosure:  
As stated

cc:  
The Honorable Susan Davis  
Ranking Member

**Report to Congress on the Feasibility of Establishing a  
Full Exchange Store in the Northern Mariana Islands**

**Pursuant to**

**H.R. 6523, Section 642, of the Ike Skelton National Defense  
Authorization Act for Fiscal Year 2011**

**May 2011**

Preparation of this report cost the  
Department of Defense a total of  
approximately \$6,000 in Fiscal Year 2011

## **Project Data and Financial Analysis Results Summary**

### **9<sup>th</sup> Regional Readiness Command Retail Store**

#### **Project Sizing Analysis**

Project sizing analysis was conducted to determine the optimal size of the new AAFES facility. The smallest AAFES Shopping Center prototype has a total area of 40,800 SF and requires a 6 acre site. The total cost would be approximately \$13M (design, construction and equipment) with an Appropriated Fund cost of \$35K for the Installation's share of the MCSS. Based upon the estimated sales and earnings this would provide an IRR of -7.3%. Any project with a negative rate of return is not a viable project. A six acre vacant site is not available at the Saipan Installation.

Project analysis was also conducted with a 5,000 SF Retail Store and 2 gas pumps. Due to high construction cost and since AAFES sells gas at below cost due to overseas regulations for fuel resale, this option would provide an IRR of -15.49%. Therefore it is not feasible to include gas with this Retail Store.

#### **1. Project Overview:**

This project will construct a 5,000 SF Retail Store at the 9th Regional Readiness Command (RRC) compound located on island of Saipan, United States Commonwealth of the Northern Mariana Islands. There is an existing 1,120 SF Retail Store built in 1987, located in the compound on Navy property. This project will replace the existing Troop Store and provide additional convenience goods for the 3,400 Active Duty, Reserve, National Guard, family members and retirees.

#### **1.1 Operational and Location Description:**

##### **a. Installation Location:**

The island of Saipan is a United States Commonwealth and is the largest island of the Northern Mariana Islands chain in the Pacific Ocean. This United States Army Reserve (USAR) installation is located in the City of Pucrto Rico near the center of the island.

##### **b. Installation Mission/Major Functions:**

9<sup>th</sup> Regional Readiness Command mission is to provide combat ready forces that meet the peacetime and wartime requirements of the Warfighting CINC, and to provide command and control of USAR Forces in the U.S. Army Pacific (USAPAC) Area of Responsibility. The 9<sup>th</sup> RRC is headquartered at Fort Shafter, Hawaii.

**c. Project Review:**

The proposed 5,000 SF Retail Store requires a 1.8 acre site and has a total cost of \$2.44M. It provides an Internal Rate of Return (IRR) of 8.1% and Net Present Value of \$153,383.

**OTHER OPTIONS CONSIDERED:**

Installation leadership has informed us that they have no funding programmed for environmental remediation or for providing a clear site. They have agreed to apply for funding but cannot guarantee that they will receive it. The foundation of the current Troop Store is two feet deep. If the gas is provided the underground gas tanks would be deeper than two feet and may require environmental remediation. This also supports the decision to not include gas with the Retail Store.

The Installation's environmental staff travels from Hawaii to Saipan twice a year and would be able to provide assistance if needed. They have also informed AAFES that the local Historic Preservation Office and archeologist would provide assistance at no cost during construction if necessary.

**d. Project Identification:**

Services:	U.S. Army Reserves
Installation & Location:	Saipan, Commonwealth of the Northern Mariana Islands
Organization:	AAFES
Project Title:	Retail Store
Category:	Exchange Retail
Funding:	NAF

**2. Prospective Customers:**

The eligible patron base for this project will be 604 active duty, National Guard and Reserve personnel with 2,796 family members and retirees.

**3. Alternatives and Identification of Waiver Requests:**

There is no other alternative than construction of a new facility.

**4. Public Private Venture (PPV) Assessment**

**Executive Summary.** Retail Stores are exchange retail merchandise stores, supported by existing AAFES Distribution Centers (DCs) and infrastructure. AAFES generally participates in PPVs primarily through our concession and Name Brand Fast Food (NBFF) programs, taking advantage of private sector branding and operational expertise. No PPVs are included in this project.

## **5. Project Validation Assessment (PVA) Executive Summary:**

### **5.1. Market Analysis:**

This compound is located in the center of the island. There are numerous off-base retail facilities in this area. This project will provide additional consumer goods for the 3,400 active duty, family members and retirees. The closest AAFES retail service is located 120 miles on the separate island of Guam on Andersen AFB.

### **5.2. Facility Analysis:**

Construction consists of concrete footings, slab/foundation with prefabricated metal building and four-ply built-up roof. The exterior of the building will match the existing Installation construction. Construction includes interior walls, finishes, lighting and complete mechanical, electrical and life/safety systems. The project will include AAFES provided equipment and ties into existing utility services and communications systems. The construction also provides pavement, curbs, gutters, storm drainage, retention walls, and site improvements for a complete and useable facility.

### **5.3. Operational Analysis:**

**CURRENT SITUATION:** There is an existing 1,120 SF Troop Store located immediately adjacent to the proposed facility. This project will replace the existing Troop Store and provide additional convenience goods for the 3,400 active duty, family members and retirees.

**IMPACT IF NOT PROVIDED:** The new store, with additional area of 3,880 SF, will be able to provide a larger assortment and quantity of merchandise. Failure to construct this project will impact unfavorably on AAFES' ability to provide adequate service to authorized military customers and their families. The impact will contribute to lowering of community morale and reducing store sales, as prospective customers go to competing commercial establishments. This will subsequently result in reducing services to military members, and their families worldwide. Consequently, supplemental funds designated for the Army Morale, Welfare and Recreation program requirements may be affected.

### **5.4. Construction Alternatives and Recommendation:**

New construction is recommended.

**6. Design Data:** This project is 35% designed.

## 7. Financial Analysis:

Project Cost:	
Primary Facility	\$ 1,775,000
Subtotal	\$ 1,775,000
Total Contract Price	\$ 1,775,000
S.I.O.H. (4.5% of Total Contract Price)	79,875
Design Fees	314,443
Subtotal	\$ 2,169,318
AAFES Installed Equipment	275,000
Total Required Investment	<u>\$ 2,444,318</u>
Total Requested Investment ( <i>Rounded</i> )	<u>\$ 2,444,000</u>
NAF Costs	<u>\$ 2,444,000</u>

NOTE: 9<sup>th</sup> RRC currently does not have any APF programmed to support this project. This could be a problem if environmental issues arise during construction. The Installation's environmental staff has informed us that they travel from Hawaii to Saipan twice a year and would be able to provide assistance if needed. They have also informed AAFES that the local Historic Preservation Office and archeologist would provide assistance at no cost during construction if necessary.

### 7.1. Sales & data projections:

\$285K= Actual FY09 average monthly sales.

\$350K= Projected FY12 average monthly sales without this project.

\$392K= Projected FY12 average monthly sales with this project.

\$ 75K= Actual FY09 average monthly direct operating profit (DOP).

\$ 89K= Projected FY12 average monthly DOP without this project.

\$104K= Projected FY12 average monthly DOP with this project.

The average monthly sales without the project are estimated at \$350,750; with the project the average monthly sales are estimated at \$391,758 for a dollar change of \$41,008. The average monthly earnings without the project are estimated at \$89,441; with the project the average monthly earnings are estimated at \$103,816 for a dollar change of \$14,375.

### 7.2. Calculations:

Quantitative method to evaluate the Internal Rate of Return (IRR): IRR (or profitability) is the percent of return on the total life cycle investment over the economic life of the project. IRR is calculated by finding the compounded interest rate at which the present value of all projected cash inflows equal the present value of all projected outflows. Cash inflows are the projected earnings (DOP) increase between "with" and "without" project condition plus the asset value of fixtures and residual value of real property. Outflows include present and future capital expenditures and for start-up, additional inventory and working funds. Although IRR provides impartiality when assessing the worth of a project, it is not used as sole criteria for project merit.

### 7.3. Hurdle Rate:

The AAFES hurdle rate of 7% IRR has been established for all facility types and construction projects.

**7.4. Net Present Value:**

Net Present Value of \$153,383 and Internal Rate of Return (IRR) of 8.1%.

**7.5. Payback:**

This project is designed to a useful life of 30 years; the payback will be 10 years.

**7.6. The results of the analysis are:**

Net Present Value:	\$153,383
Internal Rate of Return:	8.1%
Payback:	10 years