



PERSONNEL AND  
READINESS

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
4000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-4000

COPY

DEC 4 2007

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS  
CHAIRMAN OF THE JOINT CHIEFS OF STAFF  
UNDER SECRETARIES OF DEFENSE  
ASSISTANT SECRETARIES OF DEFENSE  
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE  
DIRECTOR, OPERATIONAL TEST AND EVALUATION  
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE  
ASSISTANTS TO THE SECRETARY OF DEFENSE  
DIRECTOR, ADMINISTRATION AND MANAGEMENT  
DIRECTOR, PROGRAM ANALYSIS AND EVALUATION  
DIRECTOR, NET ASSESSMENT  
DIRECTORS OF THE DEFENSE AGENCIES  
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Funding Sources for Nonappropriated Fund Instrumentality (NAFI)  
Facilities

This memorandum provides clarification of policy governing the funding source for facilities modernization and construction for DoD programs and activities authorized to be supported by NAFIs and classified within Program Group I, Military Morale, Welfare, and Recreation (MWR); Program Group II, Armed Services Exchanges; Program Group III, Civilian MWR; Program Group IV, Lodging; Program Group V, Supplemental Mission Funds; and Program Group VI, Special Purpose Central Funds.

Appropriations shall fund facilities modernization and construction (minor and major) for: Program Group I Military MWR Category A Mission Support activities, Category B child development centers, and Category B youth centers, youth courts, and youth playing fields located outside the continental United States; Program Group II Armed Services Exchange facilities required in areas of military conflict or as integral parts of air terminal, hospital, housing or other military construction projects; Program Group II Armed Service Exchange administrative, storage, and maintenance facilities outside the United States; all laundries, dry cleaning plants, bakeries, dairies, or similar facilities operated by a Program Group II Armed Service Exchange in support of a military mission; and Program Group IV Temporary Duty (TDY) Lodging Facilities. In addition, all NAFI Program Groups shall use appropriations to fund facility construction



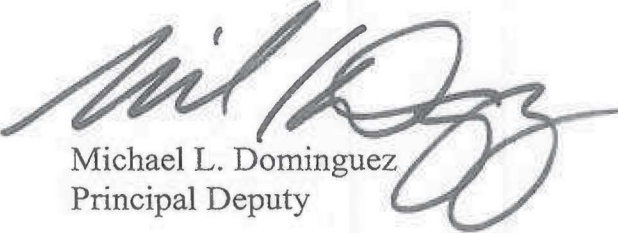
(major and minor) determined by the Military Services to be required to establish, activate or expand a military installation, including Base Realignment and Closure and global re-stationing requirements; relocation of facilities for convenience of the Government; replacement of facilities denied by country-to-country agreements; and restoration of facilities and improvements destroyed by acts of God, fire or terrorism. Expansion must be the result of a mission change or influx of new units or systems and result in a 25 percent increase in authorized and assigned personnel strength within a two-year time span. Appropriations are the authorized funding source for construction (major and minor) and modernization for all NAFI Program Groups to correct life-safety deficiencies. Nonappropriated funds shall fund only those NAFI modernization and construction (major and minor) projects when criteria for appropriated funding as indicated above are not satisfied.

Nonappropriated funds shall not be used in lieu of appropriations, or vice-versa, without an approved deviation. It is recognized that from time-to-time, Service-unique situations or exigencies that need immediate or more specific attention may require deviations or require exceptions to the basic funding policy. These deviations or exceptions will be approved as a matter of funding policy by the Under Secretary of Defense (Personnel and Readiness) (USD(P&R)) and the Under Secretary of Defense (Comptroller) (USD(C)), on a case-by-case basis.

In cases where the Military Department requests a deviation or exception to use nonappropriated funds in lieu of appropriations, all of the following criteria must be satisfied: (1) the Military Department included the project in its Military Construction (MILCON) (major and minor construction) or APF modernization budget submission to the USD(C); (2) the project was not included in the President's Budget submission to the Congress or was not approved by the Congress; (3) failure to build the facility will seriously impact the quality of life of military personnel and their families; (4) the Military Service certifies that the project is of higher priority than all other non-funded NAF construction (major and minor) and modernization requirements; and (5) the Military Department endorses the use of NAF.

The Secretary of the Military Department concerned may approve the use of NAF funding outside the continental United States for youth centers, youth courts, and youth playing fields, when APF are certified as unavailable. The Secretary of the Military Department or Military Service headquarters designee may approve the use of NAF funding for a TDY facility in support of TDY travel when APF are certified as unavailable, recognizing that the waiver of the fund source will create higher NAF expenses and possibly higher lodging service charges.

These policy clarifications are effective immediately and will be included in the next change to DoD Instruction 1015.15, "*Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources*" and DoD Instruction 7700.18, "*Commissary Surcharge, Nonappropriated Fund (NAF), and Privately Financed Construction Reporting Procedures.*"



Michael L. Dominguez  
Principal Deputy