

**PREPARED STATEMENT**

**OF**

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**Chief Operating Officer**

**ARMED FORCES RETIREMENT HOME**

**BEFORE**

**THE SUBCOMMITTEE ON MILITARY CONSTRUCTION,  
VETERANS AFFAIRS AND RELATED AGENCIES**

**COMMITTEE ON APPROPRIATIONS**

**UNITED STATES HOUSE OF REPRESENTATIVES**

**ON**

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## **INTRODUCTION**

Mr. Chairman and Members of the Sub-Committee, as the Armed Forces Retirement Home Chief Operating Officer, I appreciate the opportunity to appear before you today and present the Armed Forces Retirement Home's Fiscal year 2016 Budget Request.

The 1991 Defense Authorization Act, Public Law 101-510, created an Armed Forces Retirement Home (AFRH) Trust Fund to finance our two facilities located in Gulfport, Mississippi and Washington, DC. The Homes are financed by appropriations drawn from the Trust Fund. Today, as well as for nearly two centuries, the Armed Forces Retirement Home has been a haven for eligible military service members in their golden years. Our Nation's leaders in the early years of our country pledged to support our veterans for risking their lives to preserve democracy. AFRH proudly continues to uphold this promise.

Today AFRH Residents are veterans who have served in every military campaign since WWII. The Residents are military retirees (81%), non-retired service-connected disabled veterans (3%), non-retired veterans who served in a war theater (11%), or women who served before 1948 (5%). We are proud to

serve veterans from all branches of the military—Army (31%), Navy (31%), Marines (4%), Air Force (33%) & Coast Guard (1%).

## **FY 2016 BUDGET**

The AFRH's operations and capital improvement budgets, appropriated by Congress, utilize funds withdrawn from the AFRH Trust Fund. For almost a decade, AFRH management has worked to strengthen the Trust Fund through cost reduction efforts. In recent years, AFRH management has reduced operating costs and undertaken several major construction projects. Our duty is to preserve the assets in the Trust Fund while taking withdrawals with great discretion. The Trust Fund is funded by:

- Fines & Forfeitures charged to military personnel for misconduct (54%)
- Resident Fees (26%)
- 50 cent monthly payroll withholding from active duty military personnel (14%)
- Interest on AFRH Trust Fund investments (4%)
- Estates and gifts (1%), and
- Sale / Lease of property (1%)

In addition to our recurring Trust Fund revenue, Congress and the President provided \$236M in emergency funding to rebuild our Gulfport facility damaged

by Hurricane Katrina and \$14.6M in emergency funding to make significant repairs to our historic Washington DC Sherman building which was severely damaged during the 2011 earthquake.

AFRH operations continue to require strong fiscal management. Over the last several years AFRH has experienced an unanticipated reduction in our largest revenue stream—Fines & Forfeitures, which peaked in FY 2009 at \$41M and has declined to \$28M in FY 2014. AFRH carefully tracks and projects revenue using historical trends and has never experienced a reduction of this magnitude. Because of this unanticipated loss in revenue, operating costs have exceeded revenue, significantly reducing the Trust Fund Balance.

Unfortunately, operating and capital expenditure costs will continue to increase each year due to the rising costs of health care, AFRH's largest cost driver, and annual inflation. Health care costs encompassed 33% of our FY 2015 operating budget and are anticipated to increase 4% in FY16.

With the assistance of our DoD leadership, the Office of the Secretary of Defense (OSD) Personnel & Readiness (P&R), AFRH is planning to implement initiatives in FY 2015 that will assist in rectifying this situation and ensure long-term Trust Fund Solvency.

- We are planning to implement a reasonable and equitable Resident Fee increase for AFRH Residents at all levels of care. We anticipate that

the fee increase would provide approximately \$1.4M in additional annual revenue. This increase would be the first one since the current fee structure was established by legislation in 2002. Of course, prior to implementation of the Resident Fee increase, we will comply with Congressional notification requirements associated with any Resident Fee increase.

- We are also planning to increase the 50 cents active duty monthly withholding to \$1/month for DoD and U.S. Coast Guard Service Members. This increase would be the first in active-duty withholding since 1977. We anticipate the withholding increase would generate an additional \$7M annually in FY 2016 and out years.
- We are initiating an audit of Fines & Forfeitures for the last three years to ensure the amounts collected by the services are being properly transferred to AFRH. The results of this audit will not only validate the significant reduction in this revenue but also assist in refining revenue projections.
- We are implementing our Washington DC Master Plan to lease 80 underutilized acres in our southeast corner for development. The Master Plan was approved in 2008 but was placed on hold due to the downturn in the DC real estate market. The leasing of this property

will generate additional revenue and reduce costs to maintain the property. The potential revenue from the lease of this land will not be known until developer proposals are received and reviewed.

Our Budget Request of \$64.3 million for FY 2016 includes \$63.3 million for annual Operations and Maintenance (O&M) and \$1 million in Capital Improvements. The O&M request reflects a \$900K increase above the FY 2015 funding level and the Capital request of \$1 million remains constant.

The slight increase in O&M requested in the FY 2016 Budget Request enables AFRH to absorb the rising costs of health care, continue providing the same services to our Residents, and assists AFRH in meeting our strategic goals. In addition to AFRH cost containment efforts, AFRH has realized decreased O&M costs with the reduction in our Washington DC footprint by closures of both the Washington DC Power Plant and Washington DC LaGarde Facility. We have also achieved energy efficiencies through our Green Leadership in Energy and Environmental Design (LEED) facilities at both Gulfport and Washington.

The FY 16 O&M budget request also allows AFRH to continue meeting the Centers for Medicare & Medicaid Services recommended increased staffing ratio for our upper-level care residents. The staff ratio increased the nursing staff/resident ratio from 3.5 to 4.1 hours per day. Currently AFRH is meeting

this requirement with extensive contract support and mandatory federal employee overtime. To efficiently meet this requirement, additional nursing staff personnel hires have been programmed. The additional nursing staff hires are a key component to ensure our Veterans receive the services they require providing better health care and a safer environment for our upper-level Residents who require nursing assistance.

Despite increasing our upper level care nursing staff, AFRH has also implemented a key initiative to contain health care costs by keeping our Residents in their independent living environment longer. Our highly successful pilot program, Independent Living Plus (ILP), will be established as a permanent level of care in FY 2015. Our ILP program provides basic living assistance for Residents who need additional care and allows them to remain independent longer. ILP services can include medical monitoring, medicine management, grooming assistance or housekeeping services. Offering this intermediate step is advantageous to both AFRH and Residents, and is a cornerstone strategy in AFRH's Aging-in Place initiatives. During FY 2014, our Pilot ILP program allowed over 100 Residents to remain independent living residents in their current room. Prior to the introduction of this program, Residents requiring additional assistance were moved to Assisted Living with higher costs for both the Resident and AFRH.

AFRH completed a revitalization that culminated after 11 years of strategic planning. The revitalization included upgrading facilities, rightsizing the AFRH—Washington DC footprint, reducing O&M costs and moving towards Person Centered Care (PCC). With visionary planning by staff members and business partners, many Agency objectives have been realized. In addition to our two emergency funded projects, the AFRH Trust Fund supported replacing the 1950's Scott Building with a modern, energy efficient, ADA compliant new building in 2013. These combined projects produced two state-of-the-art facilities to better serve our Veterans and standardized Gulfport and Washington DC facilities.

With the revitalization effort at both Campuses complete, the \$1M Capital request supports the Washington Master Plan lease initiative, infrastructure improvements, sustainability, and emergency repairs for both facilities. The Gulfport facility presently requires fewer capital improvement since the entire facility was constructed and opened in 2010. The Washington capital improvement projects focus on two key infrastructure projects—designing a replacement for our aging water pipes and installing a Campus irrigation system which draws water from our pond vice from potable water. This would significantly reduce our water consumption for grounds maintenance.

## **CHALLENGES**

**Trust Fund Solvency**--As previously discussed, the solvency of the AFRH Trust Fund is our most crucial challenge; however, we are confident the steps currently being implemented will support rebuilding our Trust Fund Balance. Our best option for increasing the Trust Fund balance is our aggressive pursuit of leasing the underutilized AFRH-Washington property. This effort should take place by the end of FY 2017. However, we will not recommend leasing the land unless the market dictates, and the lease will generate adequate Trust Fund revenue to continue AFRH mission for future generations. We will also comply with all required congressional notifications accordingly.

**Health Care**—AFRH has made significant progress as we continue to serve our current Residents and evolve to meet the needs of the next generation of eligible military veterans. Since 2002, we have been transforming AFRH to meet the changing needs of our Residents. In recent years, AFRH Leadership and staff at both Homes have been reshaping resident care from traditional retirement care to Person-centered Care--a significant shift in our delivery of services and a change for both our Residents and Staff. In our PCC environment, we work hard to fulfill each Resident's personal needs in a careful,

supportive manner developing individual Resident plans of care. This approach helps us deliver meaningful services that are tailored to the individual needs of our Residents and affords them additional choices. The positive impact of offering PCC is evident in our Resident Surveys as reported in our FY 2013 & 2014 Performance & Accountability Reports. In addition to our Commission on Accreditation of Rehabilitation Facilities (CARF) accreditation for our Independent Living level of care which AFRH has maintained since 2008, AFRH is proud to report both Campuses received The Joint Commission (TJC) Accreditation in FY 2014 for ambulatory care and nursing care—the gold seal of health care accreditation. This accreditation ensures our Residents are receiving the highest level of care. This accomplishment was achieved through the efforts of our dedicated and committed staff and is a significant achievement in validating the outstanding care provided to our Residents at all AFRH levels of care.

## **CONCLUSION**

In summary, we believe that FY 2016 will continue to show benefits and cost containment from our new energy efficient buildings, reduced AFRH-Washington footprint and cost saving initiatives. As we closed FY 2014 and begin 2015 on a positive note, including initiatives to bolster our revenue, we

are continuing our focus on a vibrant and economical operation for the heroes we serve and welcoming new Residents to enjoy the benefits of the Homes.

Two hundred years ago America's leaders made a promise to care for its aging Veterans. Today that tradition endures with a focus on greater independence for our Residents which we confidently believe aligns with the vision of our forefathers. I respectfully request the Subcommittee's favorable consideration of our FY 2016 Budget and thank you for the opportunity to address the subcommittee. Mr. Chairman, this concludes my testimony. I will be pleased to respond to questions from the subcommittee.