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Before the U.S. House of Representatives Committee on Appropriations Subcommittee on Military Construction, Veterans Affairs, and Related Agencies

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Madam Chair and members of the Subcommittee, thank you for the invitation to testify on the Armed Forces Retirement Home (AFRH) and our budget request for fiscal year 2020. Our Home, with locations in Gulfport, Mississippi and Washington, D.C. is a National treasure, and I am honored to lead the organization on behalf of the Secretary of Defense as we execute plans to solidify the Home and enhance a vibrant community for enlisted Veterans now and for generations to come.

Background

AFRH is an unusual Federal agency. We are independent, but overseen by the Department of Defense (DoD). We are intended to be self-funded, but for several years have relied on taxpayer funding to support our operations. We are the only Federally-owned retirement home, so in many ways function more like a private sector retirement community, but by law provide substantially more support and services to our Veteran residents. Those services, especially in our upper levels of care, are among the very best our Nation has to offer. I encourage you to visit our campuses to see how we take care of our enlisted Veterans. I am confident you will be proud of what you see.

We serve enlisted Veterans regardless of their ability to pay for the services they receive. Admissions are income-blind and monthly resident fees are income-based. The median income of our residents is currently \$44,000 per year, and a quarter of our residents make less than \$34,000 per year. The average resident will pay \$21,000 in fees this year, yet it costs AFRH annually from \$37,000 per independent living resident to \$128,000 per memory support resident. Due to this unique model, it is no secret that AFRH has faced financial challenges in recent years, and in fact throughout our history.

Problem

Two factors led to the financial crisis AFRH has faced since fiscal year 2015. First, our largest source of dedicated revenue, fines and forfeitures from active duty enlisted disciplinary proceedings, declined from a high of \$41 million in FY 2009 to \$22 million in FY 2016, a 46 percent reduction. To put that \$19 million reduction in perspective, it is 30 percent of this year's \$64.3 million budget request. Second, in 2013 AFRH completed a major construction project which cost \$88 million. Together these reduced the trust fund balance from \$187 million to \$55 million—less than one year's operating expenses. As a result, AFRH operations have been supported with \$20-22 million in general funds each year since fiscal year 2016. Understandably, Congress, and this Subcommittee in particular, has demanded that AFRH and DoD work together to generate additional revenue, cut expenses without reducing services to residents, and present legislative and administrative fixes to improve AFRH's fiscal sustainability.

Solutions

Leadership Reorganization

DoD created an entirely new leadership model at AFRH. In 2017, the Deputy Secretary of Defense shifted AFRH oversight responsibility to the Chief Management Officer, who relieved the incumbent Chief Operating Officer and created my position as Chief Executive Officer to exercise DoD's responsibilities full time. Early in 2018, I appointed a new Chief Operating Officer with experience managing complex and historic facilities. I reestablished the Deputy Chief Operating Officer position in May 2018, which had been vacant for approximately 8 years, to improve succession planning and management of AFRH's real property and procurement functions. Around the same time, I also changed the Administrator of the Washington, D.C. facility, installing a retired Navy captain with deep experience as a healthcare administrator. And, with help from DoD, we now have a certified public accountant and certified government financial manager serving as our Director of Finance and Administration.

Resident Fees Restructure

In April 2018, we announced a plan to restructure resident fees to ensure that residents who can afford to cover the cost of their care will do so and that AFRH remains affordable for residents in upper levels of care.

While a quarter of our residents make less than \$34,000 per year, a quarter make over \$59,000; yet our maximum fees were set so that every resident was heavily subsidized. This became a significant obstacle in our effort to increase the active duty pay withholding from \$0.50 to \$1.00, as senior enlisted leaders were adamant that AFRH finances should be fixed not primarily on the backs of active duty service members, but as one part of a comprehensive plan to increase revenues and reduce costs.

Congress responded to the restructuring plan in last year's National Defense Authorization Act by agreeing with the cost-based maximum fee concept, but directed us to implement it over at least 3 years for existing residents. Taking that direction and additional analysis on resident recruitment and retention into account, we extended the implementation period to 5 years and will freeze percentage-of-income fees for existing independent living residents at this year's level of 46.7 percent. This change retains support to Veterans who cannot afford the full cost of their care but reduces subsidies to residents with higher incomes. We estimate we will increase resident fee revenue from about \$17 million to \$23 million, assuming we are successful in achieving a 90 percent occupancy rate.

Leverage Existing Assets for New Revenue

We have reenergized work done on a 2007 master plan to redevelop 80 of the 272 acres on our Washington, D.C. property. That master plan approved 4.3 million square feet of mixeduse development, but was shelved following the 2008 economic downturn. Congress cleared statutory issues regarding our ability to execute leases, and so in May 2018 we issued a request for proposals and received bids in October 2018. Those bids are now being reviewed with the goal of selecting a lead developer in the middle of this year. The property will ultimately provide AFRH with millions of dollars in lease payments annually and restored real property assets worth hundreds of millions. In June 2018, AFRH reached agreement with the D.C. Veterans Affairs Medical Center to provide parking on AFRH property for medical center patients and employees in exchange for monthly rent payments. This new agreement provides over \$430,000 of new revenue to AFRH in its first year, and we are pursuing a similar arrangement with the adjacent MedStar Washington Hospital Center. By taking advantage of what was laying in front of us, we will increase parking revenue from zero to nearly \$900,000.

Also in 2018, we executed a 20-year lease extension with the public charter school located on our Washington property, with lease income of \$1.5 million in fiscal year 2020 with annual increases. The extension locks in a long-term revenue stream for AFRH and will facilitate the school obtaining financing for leasehold improvements to the building.

Finally, we are working with the Lincoln Cottage Foundation to make better use of some of our historic venues and grounds for private event revenue-sharing. Together we are leveraging the Foundation's existing events expertise with our property assets on a pilot program of approximately 18 months, with an industry day planned in April to showcase the available venues.

Operating Cost Containment

We have challenged AFRH's leaders and managers to find ways to reduce costs without reducing the services we provide to our residents. It is an ongoing challenge for us as salaries and wages increase about 2 percent each year for our labor-intensive care and healthcare, and food and utility costs continue to outpace inflation. For this year's budget request, we worked with OMB to increase our full-time employee count from 336 to 363 so we can in-source security and nursing positions which are currently contracted. By in-sourcing and reducing our reliance on overtime for those positions, we hope to save approximately \$1 million each year.

New Opportunities

In last year's National Defense Authorization Act, Congress authorized the admission of spouses. We are working on details of a pilot program to admit spouses and expect to admit our first couples within the next month or two. Congress also authorized us to solicit donations, and we recently awarded a contract for fundraising expertise to help design and implement our fundraising program.

Challenges and Needs

Unreimbursed Medical Expenses

In fiscal year 2018, AFRH spent \$21.4 million on healthcare services for our residents, a third of our budget, yet because of our Federal agency status we receive no financial support from benefit programs our residents have earned: Medicare, Medicaid, TRICARE, and Veterans Health Benefits. The \$21.4 million we spend on healthcare is very near the \$22 million in general fund support we have received in recent years and request again in fiscal year 2020.

Eligibility

The National Guard and Reserves have greatly contributed to our Nation's military efforts, particularly since 9/11; however, today 20-year retirees of the Guard and Reserves are not eligible for admission to AFRH based on their length of service in the military. As part of

the all-volunteer force and total force concept, I believe we should open eligibility to members of all components who have achieved 20 or more years of military service. We have been working with the National Guard Bureau on this concept and hope to obtain support for a change in the law this year.

Capital Investment

Since fiscal year 2015, AFRH has operated with a \$1,000,000 annual budget for capital construction and renovation. The current appropriations language can be interpreted as only allowing AFRH to spend up to \$1,000,000 each year on capital improvements. The balance sheet value of AFRH's property, plant, and equipment was \$316 million in fiscal year 2018, which equates to a capital expenditure ratio of only 0.3%. By comparison, a 2016 senior living industry report showed average capital expenditures per unit of \$6,151 for continuing care retirement communities nationwide¹. AFRH expends less than \$900 per unit. Outdated and deteriorating facilities have a negative effect on AFRH's ability to attract and retain residents, and low occupancy levels exacerbate our financial problems by reducing fee income and driving higher fixed costs per resident.

As detailed in our budget justification materials, AFRH has \$135 million in deferred maintenance, including \$15 million in regulatory-mandated life and safety improvements and \$500,000 in recurring expenses on our property development project. Our top five priority projects—all critical to our operations—together total \$19 million, and our top five projects by dollar value total \$86.3 million.

Conclusion

I am pleased to report on the substantial progress we have made in a short period of time, from restructuring our leadership team to kick-starting efforts to generate new revenue and reduce costs, and expanding our eligibility to take care of more Veterans. With the changes and initiatives I have described here, we are rebuilding our relationship with active duty enlisted leaders, and I hope to earn their support and consensus for an increase in active duty withholding this year.

We have a long road and a lot of work ahead to position AFRH for long-term strength, but with support from this Subcommittee and others in Congress, I am confident that AFRH has a vibrant future. Thank you again for the opportunity to appear today, and I look forward to your questions.

¹ "Actual vs. Budgeted Capital Expenditures Per Available Unit by Property Type" (Table 12.7A, p. 85), *State of Seniors Housing 2016,* American Seniors Housing Association.