STATEMENT OF

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FOR THE RECORD

COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO

VA'S BUDGET REQUEST FOR FISCAL YEAR 2015

WASHINGTON, D.C. March 13, 2014

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

On behalf of the men and women of the Veterans of Foreign Wars of the United States (VFW) and our Auxiliaries, I would like to thank you for the opportunity to testify today. The VFW works alongside the other members of the Independent Budget (IB) – AMVETS, Disabled American Veterans and Paralyzed Veterans of America – to produce a set of policy and budget recommendations that reflect what we believe would meet the needs of America's veterans. The VFW is responsible for the IB's Construction Programs, so I will limit my remarks to that portion of the budget.

The vastness of the Department of Veterans Affairs' (VA) capital infrastructure is rarely fully seen or understood. VA currently manages and maintains 6,016 buildings and almost 34,000 acres of land with a plant replacement value (PRV) of approximately $45 billion. Although VA has addressed a number of critical infrastructure gaps, 4,049 gaps remain that will cost between $56 and $68 billion to close, including $10 billion in activation costs. This is an increase of $2 billion from a year ago.

With shrinking requests and appropriations from the Administration and Congress, VA is moving further behind in closing known safety, utilization, and access gaps and continues to fail to prevent future gaps from arising. To only maintain VA infrastructure in its current condition, VA's Non-Recurring Maintenance (NRM) account would need $1.35 billion per year, based on the estimated plant replacement value the IB partners have calculated. The Administration has requested that NRM be funded at $462 million. More funds will need to be invested to prevent the documented NRM backlog of $18 billion to $22 billion from growing even larger. To address the gaps in safety, access, and utilization, VA will need to invest between $26 billion to $31 billion in major and minor construction and leasing.

In addition, the Strategic Capital Investment Planning (SCIP) process is intended to help VA make more informed decisions on capital investments. A key element missing from the gap analysis criteria is a comprehensive assessment of the resources that exist outside of the VA through existing contracts and sharing agreements. Unlike VA-built or VA-leased space, contracts can be amended, cancelled, or sited differently to respond to any geographic changes and health care needs of veterans eligible for this care. This difference is especially relevant in the Veterans Health Administration (VHA) because VA, Congress, and the IB partners have increasingly supported leveraging community resources to provide accessible care to veterans in rural and underserved areas. Without a comprehensive understanding of the health care resources that exist within and outside of VA, the Department cannot make sound decisions on capital investments and on right sizing its inventory for the near-, mid-, and long-term periods. Another apparent flaw of the SCIP process is the lack of transparency on the costs of VA's future real property priorities, which hinders VA's ability to make informed decisions. This shortcoming was among the findings in a report, titled *VA Real Property: Realignment Progressing, but Greater Transparency about Future Priorities is Needed,* which the Government Accountability Office (GAO) issued on January 31, 2011.

The IB partners fully support the GAO's recommendation in this report that the VA must enhance transparency by submitting an annual report to Congress on the results of the SCIP process, subsequent capital planning efforts, and details on the costs of future projects. The IB partners also support the inclusion of new gap-analysis criteria that consider resources that are available to the VHA through existing contracts and sharing agreements. The IB partners, in turn, will be monitoring the level of funding for each of the infrastructure accounts to ensure that all current gaps are met within 10 years and that emerging and future gaps will be closed by sufficient funding.

Quality, accessible health care continues to be the focus for the IB partners, and to achieve and sustain that goal, large capital investments must be made. Presenting a well-articulated, completely transparent capital-asset plan, which VA has attempted to do, is important, but funding that plan at nearly half of the prior year's appropriated level, and at a level that is only 25 percent of what is needed to close the access, utilization, and safety gaps, will not fulfill VA's requirements, nor will it serve veterans' best interests.

Major Construction Accounts:

Decades of underfunding in amounts between $18.1 billion and $ 22.1billion have led to a major construction backlog. Currently, the VHA has 21 major construction projects dating back to 2007 that have been only partially funded. In the Administration's budget request for fiscal year (FY) 2015, VA requested funding for only four major projects that include partial funding for seismic corrections and extended care facility expansion, and fully fund a spinal cord injury center. The total unobligated amount for all currently budgeted major construction projects exceeds $2.3 billion. Yet, the total budget proposal for FY 2015 major construction accounts is $562 million.

To finish existing projects and to close current and future gaps, VA will need to invest more than $18 billion over the next 10 years. At current requested funding levels, it will take 32 years to complete VA's 10-year plan.

In the short-term, VA must start requesting and Congress must start funding major construction at a level that begins to reduce the backlog. The IB partners recommend providing VA with $2.8 billion in major construction funding in FY 2015. These increased funds will eliminate the most severe safety gaps and complete funding on the longest standing projects. VA must also begin presenting long-term proposals that will outline how the Department will close all major construction gaps.

Minor Construction Accounts:

To close all the minor construction gaps within a 10-year timeline, VA will need to invest between $6.7 billion and $8.2 billion. For several years, VA minor construction was funded at a level to meet its 10-year goal. However, the Administration has abandoned their long-term commitment to increased appropriations and proposed yet another drastic funding decrease for minor construction that would only provide $495 million for FY 2015.

The IB partners believe that minor construction accounts can be brought back on track by investing approximately $831 million per year over the next decade to close existing gaps and to prevent unmanageable future gaps in minor construction.

Additionally, for capital infrastructure, renovations, and maintenance, we recommend $50 million or more for up to five major construction projects in VA research facilities and $175 million in non-recurring maintenance and Minor-Construction funding. This increase would address Priority 1 and 2 deficiencies identified in the 2012 VA research capital infrastructure report (in accounts that are separate from VA's other major, minor, and maintenance and repair appropriations).

Nonrecurring Maintenance Accounts:

Even though non-recurring maintenance (NRM) is funded through VA's Medical Facilities account, and not through a construction account, NRM is critical to VA's capital infrastructure. NRM embodies the many small projects that together provide for the long-term sustainability and usability of VA facilities. NRM projects are one-time repairs, such as modernizing mechanical or electrical systems, replacing windows and equipment, and preserving roofs and floors. Nonrecurring maintenance is a necessary component of the care and stewardship of a facility. When managed responsibly, these relatively small, periodic investments ensure that the more substantial investments of major and minor construction provide real value to taxpayers and to veterans as well.

VA is moving away from closing current NRM safety, utilization, and access gaps and continues to fall behind on preventing future gaps. Just to maintain in the status quo, VA's NRM account must be funded at $1.35 billion per year, based on the estimated Plant Replacement Value (PRV). The Administration is requesting $462 million for NRM in FY 2015. More will need to be invested to prevent the $21.9 billion NRM backlog from growing larger.

The IB partners believe VA should develop a PRV metric and publish its results. Adding the PRV to the SCIP will allow VA to more accurately determine the appropriate amount to request for NRM and objectively decide when a facility becomes more costly to maintain than to replace. Using the PRV as a tool, VA can more accurately determine the annual funding levels needed for NRM by facility, allowing for the reduction in the NRM backlog and fully funding future needs in a way that would be the most cost effective. The industry goal for NRM is around two percent of the PRV. At that rate, facilities can operate for 50 years or more without outspending replacement cost. Knowing what percentage of the PRV is being spent and taking a long view of capital planning would allow Congress and VA to assess when a facility will need to be replaced.

Because NRM accounts are organized under the Medical Facilities appropriation, they have traditionally been apportioned using the Veterans Equitable Resource Allocation (VERA) formula. This formula was intended to allocate health-care dollars to those areas with the greatest demand for health care and is not an ideal method to allocate NRM funds. When dealing with maintenance needs, this formula may prove counterproductive by moving funds away from older medical centers and reallocating the funds to newer facilities where patient demand is greater, even if the maintenance needs are not as great. We are encouraged by actions the House and Senate Veterans' Affairs Committees have taken in recent years requiring NRM funding to be allocated outside the VERA formula, and we hope this practice will continue.

Capital Leasing:

The fourth cornerstone to VA's capital planning is leasing. The current lease plan calls for a little more than $1.1 billion over the next 10 years. VA leases properties to use for each agency within VA, ranging from community-based outpatient clinics (CBOC) and medical centers to research and warehouse space. These leases do not fall under the larger construction accounts, but under each Administration and staff office operating accounts.

Since the 1990s, Congress has helped improve VA health-care access and patient satisfaction by authorizing and funding nearly 900 VA CBOCs. These facilities have provided local, convenient and cost-effective primary care for millions of veterans. In a 2012 policy shift, the Congressional Budget Office changed its accounting practice on how major capital leases are to be funded, effectively halting Congressional authorization of future leases. This is the third year without passing lease authority and there are now 32 major capital leases, totaling nearly $288 million, for which VA has requested Congressional authorization. These leases are in limbo and Congress needs to pass H.R.3521.

Mr. Chairman, this concludes my testimony and I look forward to any questions you or the Committee may have.

Information Required by Rule XI2(g)(4) of the House of Representatives

Pursuant to Rule XI2(g)(4) of the House of Representatives, VFW has not received any federal grants in Fiscal Year 2013, nor has it received any federal grants in the two previous Fiscal Years.