STATEMENT OF
JAMES M. SULLIVAN
DIRECTOR OF THE OFFICE OF ASSET ENTERPRISE MANAGEMENT
DEPARTMENT OF VETERANS AFFAIRS
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Thank you, Chairman Roe, Ranking Member Walz, and Members of the Committee, for the opportunity to appear today to discuss the Department of Veterans Affairs (VA) capital asset program and address VA's responses the findings in the Commission on Care report, the Independent Assessment, and Government Accountability Office (GAO) Report 17-349 "VA REAL PROPERTY - VA Should Improve its Efforts to Align Facilities with Veterans' Needs." Additionally, I would like to discuss VA's ongoing efforts to dispose or reuse vacant buildings and the need for additional tools that will provide extended opportunities to reduce VA's portfolio of vacant assets.

VA Real Property Portfolio

VA's mission is distinct from other Federal agencies, in that we operate the nation's largest integrated healthcare system, with more than 1,700 health service delivery sites, including hospitals, clinics, community living centers, domiciliaries, residential rehabilitation sites, and other types of facilities. Additionally, VA administers a variety of benefits and services, and operates 135 national cemeteries nationwide.

The Department owns and leases real property in hundreds of communities across the U.S., and overseas. Overall, VA maintains approximately 155 million square feet (SF) in 6,274 owned buildings, and more than 35,000 acres of land. Approximately 24.6 million SF of space has been acquired through over 1,926 leases for the Department. VA's portfolio of nearly 180 million SF is one of the largest in the Federal

Government and is unlike many Federal agencies; VA owns the majority of its portfolio – 86 percent of its square footage – which means real estate plays an important role in our overall asset management. Another aspect that separates VA from other Federal agencies is the fact that the average age of a VA owned building is approaching 60 years old. Managing a portfolio of that size and age is complex, takes a significant amount of resources, and requires a great deal of flexibility to both modernize and adjust to changing demographics of the Veteran population.

VA's Capital Asset Needs

Most of the VA's infrastructure portfolio is dated, in need of repair/replacement, and requires considerable investment. The need is exacerbated because the majority of VA facilities have out-lived their useful life-cycle. VA has more than $50 billion in capital needs, identified through VA's Strategic Capital Investment Planning (SCIP) process, over the next 10 years to modernize and maintain its infrastructure. Specifically, VA's fiscal year (FY) 2018 budget requests $512 million for major construction, $342 million for minor construction, $1.9 billion for non-recurring maintenance and $954 million in medical facilities funds for VA real property leases. VA's FY 2018 request reflects VA's commitment to modernize and fix its existing infrastructure by directing significant resources to projects that correct critical building and infrastructure deficiencies that are in need of repair. VA will also need flexibility to repurpose some facilities and develop partnerships or joint ventures with academic affiliates, the Department of Defense, and the private sector where appropriate. This flexibility will allow VA to assure both access and quality of care, and even expand access to care for Veterans in some markets.

VA Real Property Disposal

One of Secretary Shulkin's top five priorities is "Modernizing (VA) Systems" which includes focusing on infrastructure improvements and streamlining. In support of this priority, VA has identified 430 individual vacant buildings totaling 5.9 million gross SF that are geographically dispersed through VA campuses nationwide. On June 20, 2017, the Secretary announced VA's plans to initiate disposal through demolition, sale

or transfer; or reuse actions for these vacant buildings totaling 5.9 million square feet, over the next 24 months. These buildings are not being used to serve Veterans, and the $7 million in annual capital and operating expenses currently used to maintain these vacant buildings can be better utilized to serve Veterans.

VA evaluated the 430 vacant buildings and categorized them for disposal based on data regarding several factors. These factors included whether the buildings were classified as historic or historic eligible, had environmental concerns, or if there were more complex issues preventing disposal or reuse of the buildings. VA welcomes support from Congress to streamline approval timelines and processes in order for VA to better align owned assets and make business decisions without undue statutory or regulatory constraints from environmental and historic preservation stakeholders who might unintentionally negatively impact cost effective disposal or reuse actions, while still maintaining good environmental outcomes. On June 20, 2017, Secretary Shulkin also announced that VA will review another 784 non-vacant, but underutilized buildings to determine if additional efficiencies can be identified to be reinvested in veterans' services. This effort will be incorporated as the Department works towards the goal of high performing healthcare networks

Available Outleasing Tools

VA has made progress in its efforts to reduce its vacant building footprint, and is continuing to aggressively pursue reuse and disposal strategies. Since 2004, VA has disposed or reused 1,059 assets totaling approximately 8.3 million gross SF and 932 acres. One of VA's most successful real property asset management tools is its Enhanced-Use Lease (EUL) authority. The EUL authority currently allows VA to outlease assets to private and public sector entities, and to transform vacant buildings into housing for homeless Veterans, at little or no long-term carrying cost to VA. The program has provided significant benefits to VA in terms of annual cost savings; improved facilities consistent with VA's mission and operations; increased healthcare services; substantial private investment in VA's capital facilities and infrastructure; creation of jobs; and increased tax revenues for local communities.

VA is one of the few Federal agencies with an EUL authority, and VA manages one of the most successful versions of these programs within the Federal Government. Approximately 4.5 million SF of VA building space has been outleased in public-private partnerships through VA's EUL authority. This has resulted in over 2,700 operational housing units for homeless Veterans, Veterans that are at-risk for homelessness, and in some situations, their families.

VA previously had broader EUL authority that allowed for mixed-use and other wide-ranging partnerships beyond supportive housing. Such uses were consistent with VA's mission and operations. While that authority lapsed in December 2011, VA has submitted draft legislation to Congress that proposes to expand the EUL authority beyond the scope of supportive housing. This would allow greater reuse flexibility of unneeded assets, and to improve services for Veterans.

Additionally, VA is embarking on a program authorized through the National Historic Preservation Act (NHPA) for Historic Outleasing and Exchange Actions that allows expanded ability for reuse of historic properties beyond housing.

Public-Private Partnerships

In addition to utilizing the EUL program, VA welcomes opportunities to explore other forms of public-private partnerships that can provide additional tools to supplement VA's capital requirements and offer new methods to enhance the facilities used to serve Veterans and their families. VA could utilize additional public-private partnerships opportunities to support the right-sizing and adaptation of VA's owned infrastructure. Further flexibility to engage potential partnerships to renovate or reuse existing facilities could provide VA with cost savings upfront and help support improved services for Veterans.

Choice Act - Independent Assessment

The Independent Assessment Recommendations related to facilities (Section K) focused on VA capital project selection/project portfolio; capital project delivery; utilization of existing infrastructure; and the use of transformative options to address unfunded capital requirements. In response to language in the Fiscal Year 2017 Appropriations Bill requiring a National Realignment Strategy, VA began efforts to conduct objective assessments of the markets within the VA healthcare system.

Commission on Care

VA agreed that the Commission on Care's recommendation on facilities was critical to enabling a successful transformation of VA's healthcare system to a modern high-performing integrated network to better serve the needs of Veterans now and in the future. VA stated that a strong suite of capital planning programs, tools, resources, modernized facilities where appropriate, and proper dispositioning of outdated facilities, consistent with the Commission's recommendations, would be needed to fully realize the benefits and Veteran outcomes expected from implementing an integrated healthcare network. Specifically, VA agreed with the Commission that it is critical for VA to determine the optimal mix of healthcare services to meet Veterans needs at the market level before realigning its infrastructure in concert with partner resources in the market. VA also agreed that greater statutory authority and tools are needed to address the Department's real property needs and realign VA's capital assets, including divestiture of outdated properties where appropriate.

GAO Report 17-349 - VA REAL PROPERTY

The report highlighted GAO's findings related to VA's SCIP process, the VA Integrated Planning (VAIP) process, and VA's stakeholder communication efforts related to facility alignment decisions. In response to GAO's report, VA partially concurred with the recommendation regarding the SCIP process, and agreed to address the limitations that are within VA's control. Many of the items noted by GAO are found outside of the SCIP program's purview, in areas where VA has limited ability to influence changes. The SCIP process is a data-driven, long-range planning tool that

integrates all capital investment needs across VA. SCIP informs investment and annual budget decisions by annually setting capital investment policy direction and project priorities, but it is not a budget tool. It does not guarantee whether or when necessary levels of funding will be received or otherwise made available.

To the extent possible, VA is implementing changes to the SCIP process to support better access to project data, improve the visibility and prioritization of sequenced projects, minimize administrative burdens, rationalize proposals based on the realities of Veteran Choice and shifting demographics, and to improve communication of SCIP results to VA planners as early as possible in the process. This also includes reducing the administrative burden of providing SCIP documents.

Through the VAIP process, an estimated 60 Facility Master Plans (FMP) were completed on a Veterans Integrated Service Network (VISN) basis following development of Service Delivery Plans. These FMPs provided a guide for planning and development over a 10-year period. The FMPs were considered highly valuable at the time of inception. VA has considered the feedback from GAO's report and in support of emphasis on Care in the Community, there will be a strategic pause in the VAIP process. VA is in the process of reassessing facility needs as a consequence of the assessment of local health systems during the market based health system optimization process. VA will evaluate service delivery opportunities in each market to build local high-performing integrated healthcare networks.

GAO also stated that VA needs to enhance communication with stakeholders. To ensure consistency in stakeholder engagement efforts and address GAO's recommendations, the Veterans Health Administration's (VHA) Office of Communications is developing a standard operating procedure (SOP) for all VISN and facility public affairs officers to follow when there is a change in mission and/or realignment. The SOP directs that VHA use the template communications plan, including timeline for notifications, target audiences, and example key messaging. In addition, the SOP provides guidance for facilities to implement evaluation tools to

measure the return on their communications investment in sharing information with stakeholders, including after action reports, media monitoring tools, and direct feedback from target audiences. The VHA Deputy Under Secretary for Health for Operations and Management disseminated the SOP through a memorandum to facility and VISN leadership on June 30, 2017, and the topic will be discussed on Network Director monthly conference calls and facility leadership calls, providing an opportunity for discussion and questions. VHA has also established a mechanism for sharing best practices.

Way Forward - High Performing Healthcare Networks

VA is working collaboratively to address the Independent Assessment Recommendations, the Commission on Care's recommendation on facilities, and GAO Report 17-349. VA is working towards the goal of high performing healthcare networks that take into account current and future Veteran demand for medical care, and responsive services by integrating community care, telehealth services and VA-provided healthcare. VA is partnering with private sector healthcare experts to conduct objective assessments and develop local health system optimization plans.

The assessment methodology was developed between the VHA Office of Policy and Planning, VHA Clinical Operations and the VHA Office of Community Care. The assessment methodology was subsequently tested in three pilot markets between April and July 2017. An acquisition process is underway to select a contractor to assist VA with using the pilot results to create a final methodology for use beginning in September 2017 to assess and recommend health system optimization in all 96 markets of the VA healthcare system by the first quarter of FY 2019.

The primary outcomes of the assessments will be a plan for each market to develop a high performing healthcare network. Creating a high performing network will include an evaluation and potential use assessment of all market capabilities including VA, Department of Defense (DoD), Academic Affiliates, Federally Qualified Health Centers, and other community providers. Once the market assessment is complete,

recommendations may include capital investments, divestments, leasing, public-private partnerships, and other approaches for modernizing VA services and infrastructure. In addition to the capital component, the plan will include programmatic/service-line recommendations, as well as opportunities to increase capacity from process improvement and integration of telehealth services.

VA expects that these market area optimization plans will address the Independent Assessment, the Commission on Care recommendations, and GAO concerns by balancing demand for and supply of services in each local market by using government partners, academic affiliates, and private sector resources to provide Veterans improved access, excellent quality care, and greater satisfaction. In addition, the plans will encourage cost effective strategies for coordinating all aspects of a high performing healthcare network while eliminating duplicative and inefficient processes.

Support from Congress

In order to build upon VA's success, continued support from Congress is needed. As the Secretary stated at his recent FY 2018 budget hearings, VA's budget submission includes proposed legislative requests that, if enacted, would increase the Department's flexibility to meet its capital needs. VA included proposals to: (1) increase from $10 million to $20 million the dollar threshold for minor construction projects; (2) modify title 38 to eliminate statutory impediments to acquiring joint facility projects with DoD and other Federal agencies; and (3) expand VA's EUL authority beyond supportive housing. VA is also seeking Congressional authorization of 27 major medical leases in order to establish new points of care, expand sites of care, replace expiring leases, and expand VA's research capabilities. The majority of these leases have been included in previous budget requests, some dating back to the FY 2015 budget submission.

Conclusion

VA has a complex real estate portfolio, and seeks to maintain the optimal mix of assets needed to provide high quality care, readily accessible services, and outstanding benefits to our Nation's Veterans. VA welcomes new or expanded tools and the

necessary flexibilities to address its infrastructure needs and reduce vacant real property assets, including establishing viable reuses where possible and saving taxpayer dollars. The Department will keep the Committee informed as progress is made on healthcare market assessments.

Mr. Chairman, Ranking Member, and Members of the Committee, this concludes my statement. Thank you for the opportunity to testify before the Committee today. I would be happy to respond to any questions you may have.