Testimony

ARMED FORCES RETIREMENT HOME

Statement by

Mr. Timothy Cox
Chief Operating Officer

on

Fiscal Year 2011 Congressional Budget Justification

Introduction

Mr. Chairman, Members of the Committee, as the Chief Operating Officer of the Armed Forces Retirement Home, I thank you for the opportunity to appear before you today. I am proud to present the Armed Forces Retirement Home (AFRH) budget request for Fiscal Year 2011.

On behalf of AFRH, I would like to express our appreciation for the support that Congress has provided over the years.

Congressional Justification

The replacement of the hurricane damaged Gulfport facility, closed since 2005, is on schedule and on budget, and is scheduled for opening in October 2010. Opening ceremonies will be held on November 9, 2010. We would like to extend an open invitation to all members of the Committee to tour the new facility.

The modernization at the DC campus is on-going through a design-build of the Scott Dormitory (called the "Scott Project") approved and funded by Congress for $5.6 million and $70 million in FY 2009 and FY 2010 respectively from our Trust Fund. Our total request for FY 2011 is $71,200,000.

AFRH is not only preserving the rich heritage of the military caring for its own, but expanding concepts in senior living. As we continuously look ahead, we are guiding our staff to maintain resident vitality and make AFRH a special place to call home. These efforts will build a dynamic, mutually satisfying bond between the residents and staff. Further, it will hone our focus forward, to make AFRH even more healthy and vibrant.

AFRH's actions highlight our efforts to exercise effective stewardship, maintain financial integrity and validate the successful delivery of our Mission. The transformation from an historic "Soldiers' Home" in DC to a modern Continuing Care Retirement Community (CCRC) advanced in FY 2009. We conceived a variety of plans under the Aging in Place philosophy and those plans are reflected in recent advances to staffing, programming, and construction. These concepts are also embedded in the operational plans and construction of the new Gulfport facility, which will open this year.

In FY 2009, AFRH demonstrated its commitment to progress with solid achievements in ongoing strategies. Similarly, the Home is striving to ensure our actions meet the new targets by drawing links to this Administration's efforts in healthcare and caring for veterans. In the financial realm, AFRH received its fifth annual "unqualified" audit opinion and the Trust Fund balance has reached an all-time high of $177 million – an increase of $83 million since 2003. Our commitment to "Exceptional Service" focuses on providing "personalized" service by implementing Aging in Place concepts, and enlivening our military heritage. The successful Freedom Day event held on September 22 brought together old and new generations of military, linking the Soldiers' Home founder General Scott with President Lincoln on the 147th anniversary of the signing of the Emancipation Proclamation.

With the advent of this Administration's charge to name high priority performance goals, we quickly identified our prime concerns:

Goal 1: Healthcare (Resident Wellbeing)

Goal 2: Housing (Gulfport & Washington)

Goal 3: Stewardship (Corporate Effectiveness)

Discussion

We have set the groundwork to reduce operational costs in Washington as former Gulfport residents move back to Gulfport and we "rightsize" the campus.

Although the agency is reflecting a decrease in funding overall for FY 2011 as a result of reduced capital projects, the agency's annual operating costs will increase by $7.2 million. The growth is associated with our new 660 thousand square foot facility in Gulfport, MS and a continuation of the growth, which started in 2010 with approximately $9 million to stand up a workforce and initiate base year contracts for full operations beginning October 2010. FY 2011 may be the last year of growth as the new facility begins full operations at Gulfport, MS on October 1, 2010.

Although the last quarter of 2010 is targeted for the initial standup of the Gulfport facility, residents will not occupy the facility until first quarter of 2011. The Director for the AFRH-Gulfport was selected the middle of January and will report in late March 2010. As we standup the Gulfport Campus, we are transferring 52 Full-Time Equivalents (FTEs) from the Washington Campus. The Gulfport Campus will grow by 81 FTEs, producing a net growth of 29 FTEs in FY 2011. Key cost drivers are: Facility and Grounds Maintenance; Custodial; Dining Services; Subsistence; Utilities; Wellness Center; Dental and Optometry; Nursing; and Transportation.

We expect our Budget Authority to stabilize in 2011 as resources (funding and FTE) continue to shift from Washington to Gulfport. Although we are standing up Gulfport in 2011, the Assisted Living, Memory Support, and Long-Term Care (LTC) population will grow as resident's age in place. Initially in Gulfport we are planning for few beds in these levels of care, which will drawdown our costs across the agency.

We are working on multiple efforts to reduce costs and stay within funding in the out years. Our primary efforts are insurance coverage for all AFRH residents and an "Independent Living Plus" program to assist our residents with aging in place. We believe both of these efforts will reduce costs per year to the Trust Fund while enhancing the care and well being of our residents.

The greatest risk to the Trust Fund will occur over the next four transition years (e.g. 2010 - 2013) as we standup operations in Gulfport and transition to a reduced footprint in Washington. Many of the infrastructure and new facility changes occurring at AFRH will have a positive, direct impact on the solvency of the Trust Fund. Although we recognize negative growth will occur between the transition years as we expense the Scott Project, we expect positive growth to continue after 2013. Along with our insurance effort, we are also reviewing our sources of revenue and enhancing staffing at the agency level to meet growing demands of the transition years. As we move forward to our vision of a vibrant, economical operation at both AFRH campuses, we continue to work to use our funding wisely and in the best interest of our stakeholders.

Scott Project

The expenditures for the Scott Project of $5.6 million in FY 2009 and $70 million in FY 2010 from the Trust Fund provide a strong Return on Investment (ROI) of 29 percent, which will have a positive impact on all major cost drivers at the Washington Campus:

- Dining Services –the Agency will be able to provide dining to all residents in one facility or a home like environment for our higher levels of care (e.g. Assisted Living; Memory Support; and Long-term Care);
- Residents will no longer be required to use on campus transportation services to visit their friends in Long-term Care;
- Operational space will not need as many utilities and custodial requirements by reducing square footage (386,000 square feet) while shortening the distance traveled by residents to various programs or activities;

- Newer facilities will minimize maintenance requirements and their associated impacts on residents;

Transition Years FY 2010-2011

Starting with the completion of construction in Gulfport in third quarter FY 2010, AFRH will be ready to open Gulfport for occupancy in October 2010 (FY 2011). Soon thereafter, the population of Washington will begin to reduce going from approximately 1,000 in FY 2010 to a target of 568. There will be a shift of FTEs from all working in Washington to a mix between Gulfport and Washington.

There will be natural cost savings associated with the Gulfport Stand-up:

- As residents age in place there will be no Long-term Care (LTC) costs for a few years;
- Dining services and subsistence will primarily focus on an Independent Living population;
- The new facility will have minimal maintenance costs (Preventive Maintenance Focus)

There are some risks, however, during the transition years, which we have identified and are working:

1-being able to attain the target reduced population in Washington

2-successfully rescoping contracts in Washington

- Facility Maintenance
- Grounds Maintenance
- Dining Services
- Custodial
- Transportation
- Pharmacy and Medical Supplies
- Nurse Staffing

3-Contract strategy

- New contracts for transition years vice modifications for reduced scope
- Future contracts
- Balance costs at Gulfport and Washington for Dining Services and Custodial contracts

4-Insurance for all Residents

- Integrated primary and specialty care
- Medicare primary payer and augmented with Insurance
- Enhanced Pharmacy coverage

Management Challenges

1-Initiate Gulfport Stand-up

A major effort was involving residents in their return to Gulfport. So, focus groups meet monthly to discuss topics like the new building layout, rooms, communications, move transport and more. Plus Q&As were gathered, then compiled in the Communications Plan and posted on www.afrh.gov.

Residents were also involved in the Gulfport Standup Committee, which was formed and holds meetings to share news with residents and staff. They have chosen names for the resident towers and activity spaces.

Agency staff members are monitoring construction progress, which is on schedule. Planning for contracts, campus operations and hiring has begun.

2- Deploy and manage Scott Project

The Scott Project officially began in 2009. Funds for the design were expended, Bridging Architects/Construction Managers contracts were awarded, and development of the Program of Requirements (POR) began.

A resident focus group commenced, with Q&As compiled in the Communications Plan. Residents now meet monthly to hear about conceptual designs, transition plans and new amenities (like IT, communications and security).

3-Advance wellbeing to residents and staff

Resident wellbeing was singled out as a key High-Priority Performance Goal. Currently the Home is spearheading construction at both communities to fulfill resident wellbeing and Aging in Place – and promote fitness and Americans with Disabilities Act (ADA) compliance.

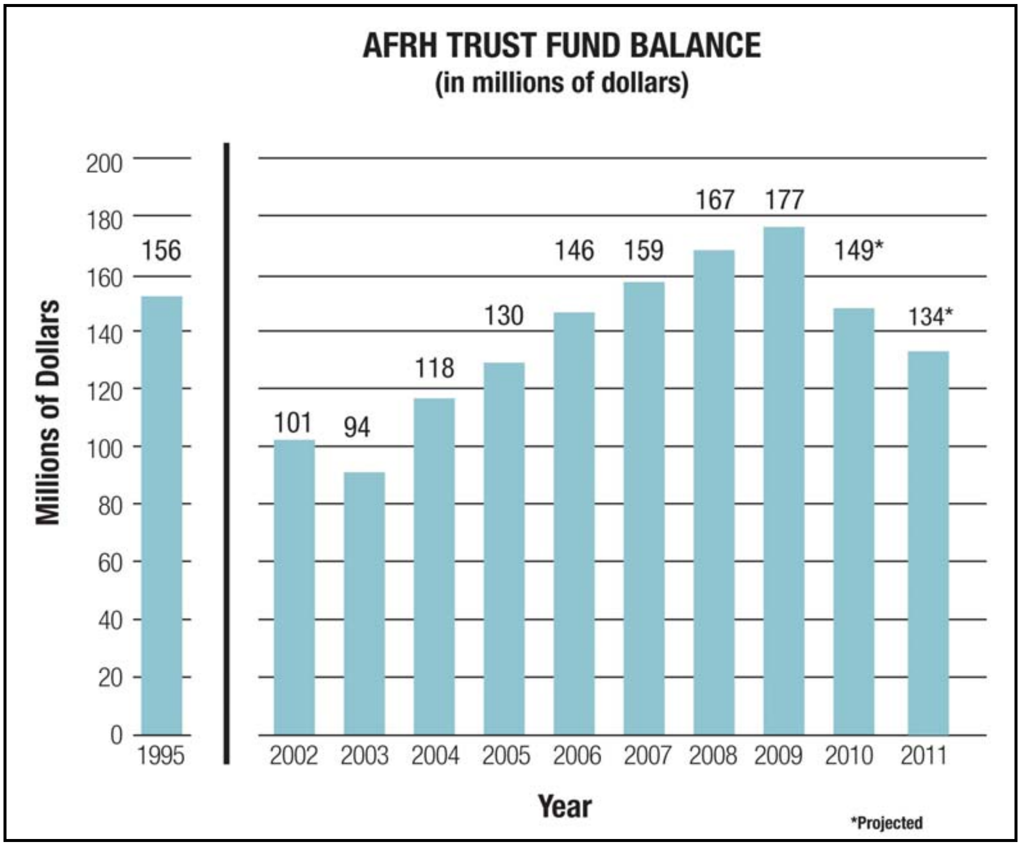
Aging in Place endeavors ramped up this year. We had ongoing management deliberations, and staff discussions. And using special presentations in Town Halls and Focus Groups, we actively sought resident input to refine preferences and amenities.

Aging in Place is also listed as a key action in our Business Plans. Yet it was identified as a "high risk" in our Risk Management Plan with mitigating actions.

Trust Fund Balance

The Trust Fund balance declined from $156 million in 1995 to $94 million in 2003. It became a critical mandate to retain the Home's solvency. So, we concluded that our operating model had to change. We followed the Federal Government's lead for an integrated strategy – linking planning with budget and performance. From 2003 – 2007, we aggressively developed a disciplined strategic plan that netted many gains. The result: the Trust Fund balance grew to $167 million at the end of FY 2008 and reached $177 million in FY 2009. However, with the Scott Project on the horizon, operating costs and capital improvements, taken out of the Trust Fund as projected, diminish it in 2010 to $149 million and in 2011 to $134 million.

The Trust Fund Balance has been steadily increasing since 2003,
but will decrease with withdrawals for Gulfport and the Scott Project in 2010:



[NOTE: The drop from $171 million to $149 million is a reflection of $76 million approved and funded by Congress in 2009 and 2010 for the Scott Project.]

Conclusion

This Justification presents complete, reliable information that demonstrates our efforts to hold both programs and financial systems to the highest standards of accountability. We have an impressive record in reducing costs and fiscal management as seen over the past few years.

We thank Congress for its continued support of the AFRH Master Plan and funding support as a result of Hurricane Katrina. We hope that the Congress agrees that the progress the AFRH has made since 2002 has been remarkable and understands that continued funding is necessary for AFRH to continue serving those who so bravely serve us. Thank you.