

STATEMENT OF
THE HONORABLE JONATHAN B. PERLIN, MD
UNDER SECRETARY FOR HEALTH
FOR PRESENTATION BEFORE THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS
MAY 11, 2006

Mr. Chairman and members of the Committee, good afternoon. I am pleased to appear here this afternoon to provide you with an overview of the Department of Veterans Affairs' (VA) construction program and 5 Year Capital Plan. I will also provide information on VA's portfolio management approach and how the Capital Asset Realignment for Enhanced Services (CARES) process and the Enhanced-Use Leasing program play an integral role in the management of VA's portfolio.

VA has a vast holding of diverse capital assets consisting of buildings and real estate, VA-leased buildings, enhanced-use leases, and infrastructure. Assets include hospitals, clinics, cemeteries, and office buildings. Many of these facilities currently are used, managed, and maintained in relation to and for promotion of the respective activities of VA's Veterans Health Administration (VHA), Veterans Benefits Administration (VBA), National Cemetery Administration (NCA), and Staff Offices (General Administration). At the close of FY 2005, VA held 1,053 operating leases, and owned 5,306 buildings and 32,527 acres of land. Various construction programs are used to fund infrastructure for the Department. Operating dollars fund lease requirements and maintenance projects. The major construction program provides for constructing, altering, and improving any

VA facility with a total project cost over \$7 million and the minor construction program funds construction activities under \$7million. Two grant programs are also utilized for building or improving state veterans cemeteries and state nursing homes and domiciliary facilities.

The VA FY 2007 budget request includes \$714 million in capital funding. Our request includes \$399 million for major construction projects, \$198 million for minor construction, \$85 million in grants for the construction of state extended care facilities, and \$32 million in grants for the construction of state veterans cemeteries.

The 2007 request for construction funding for our medical facilities is \$457 million—\$307 million for major construction and \$150 million for minor construction. These resources will be devoted to implementing projects identified in the Capital Asset Realignment for Enhanced Services (CARES) program. The projects will renovate and modernize VA's health care infrastructure and provide greater access to high-quality care for veterans. VA also received funds enacted in the Hurricane Katrina emergency supplemental funding in late December 2005: \$293 million to fund a CARES project for a new hospital in Biloxi, Mississippi; and \$75 million for planning and design for the restoration/replacement of the medical center facility in New Orleans, Louisiana. To date, including the FY 2007 budget request, VA will have received in excess of \$3 billion to implement CARES. In addition, VA currently has an emergency supplemental request for \$600 million before the Congress for the construction funding of the restoration/replacement of the medical center facility in New Orleans.

Our FY 2007 major construction request for health care will fund the continued development of two medical facility projects—\$97.5 million to address seismic

corrections in Long Beach (California); and \$52.0 million to continue the work necessary to prepare for construction of a new medical center facility in Denver (Colorado). In addition, our request for major construction funding includes \$38.2 million to construct a new nursing home care unit and new dietetics space, as well as to improve patient and staff safety by correcting seismic, fire, and life safety deficiencies at American Lake (Washington); \$32.5 million for a new spinal cord injury center at Milwaukee (Wisconsin); \$25.8 million to replace the operating room suite at Columbia (Missouri); and \$7.0 million to design improvements through renovation and new construction to reduce underutilized vacant space located at the Jefferson Barracks Division campus at St. Louis (Missouri) as well as provide land for expansion at the Jefferson Barracks National Cemetery.

We also requested \$53.4 million in major construction funding and \$25.0 million in minor construction resources to support our burial program. This includes funds for cemetery expansion and improvement at Great Lakes, Michigan (\$16.9 million), Dallas/Ft. Worth, Texas (\$13.0 million), and Gerald B. H. Solomon, Saratoga, New York (\$7.6 million). Our request will also provide \$2.3 million in design funds to develop construction documents for gravesite expansion projects at Abraham Lincoln National Cemetery (Illinois) and at Quantico National Cemetery (Virginia). In addition, the major construction request includes \$12 million for the development of master plans and the initial design for six new national cemeteries in areas directed by the National Cemetery Expansion Act of 2003—Bakersfield, California; Birmingham, Alabama; Columbia-Greenville, South Carolina; Jacksonville, Florida; Sarasota County, Florida; and southeastern Pennsylvania.

CARES

Former Secretary Anthony Principi formed the Capital Asset Realignment for Enhanced Services (CARES) Commission to conduct a “comprehensive, system-wide approach, identifying the demand for VA care and projecting into the future the appropriate function, size, and location for VA facilities.” The CARES Commission submitted findings and recommendations in February of 2004, and on May 7, 2004, the Secretary released his CARES Decision based on the Commission’s findings and recommendations for each CARES site. This CARES decision became VA’s roadmap into the future.

Since that time, much has been done to move these infrastructure improvements forward. Architectural and engineering firms have been retained to prepare designs and 12 construction contracts have been awarded and are underway. An additional 12 construction contracts are planned to be awarded by the end of this Fiscal Year. These projects bring needed improvements for veterans at these locations.

Public law 108-170 provided the Secretary with interim authority to proceed with CARES approved projects subject to a 45 day notice to the Committees. This legislation was used to provide authorization for the first 30 CARES projects. The legislation will sunset on September 30, 2006. Fourteen projects authorized under this public law are not likely to award construction contracts by September 30 and four additional projects which will have construction underway will have second phases of construction that will begin later. Therefore, the Department has requested an extension of that authority until September 30, 2009 in the FY 2007 Budget, 5 Year Capital Plan, and the Omnibus 2006-2007 Construction Authorization Bill. Also in need of authorization are three projects: Biloxi,

Mississippi; Denver, Colorado; and New Orleans, Louisiana, for which the Department has identified as an immediate need in FY 2006. A request for authorization for medical facility leases for FY 2006 and FY 2007 construction projects and medical facility leases are also included in the budget request, capital plan, and authorization bill, which was transmitted to Congress on April 5, 2006. In total, VA is requesting authorization of \$3.7 billion for major medical facility projects and \$51.6 million for major medical facility leases.

5 Year Capital Plan

The Department's 5 Year Capital Plan is the ultimate product of VA's capital investment process, which reflects trade-offs between funding the operational expenses for existing assets and the acquisition of new assets by the most cost-effective and beneficial means. The VA capital plan includes the highest priority capital investments that were vetted through a comprehensive Department wide capital investment process to ensure the assets fully support the mission, vision, and goals of the agency. The plan outlines VA's implementation of the CARES decisions. The plan also includes descriptions of other initiatives and capital asset management tools that VA is utilizing to better manage its large capital portfolio.

For FY 2007 the capital plan is published together with the Department's construction budget. Combining the two documents provides a comprehensive view of the VA construction budget for 2007 and plans for the future

Enhanced-Use Leasing

VA utilizes a capital asset management tool called “enhanced-use leasing” (EU leasing) to better manage its vacant and underutilized real property assets. The authority was initially authorized in 1991, is codified at 38 U.S.C. §§ 8161-8169, and currently is set to expire on December 31, 2011. It permits VA to lease Department-controlled real property to private or other public entities for a term not-to-exceed 75-years. Each lease must be in exchange for “fair consideration” as determined by the Secretary. Such consideration may consist of monetary, and/or “in-kind” consideration including construction, repair, remodeling, improvements, or maintenance services for Department facilities, or the provision of office, storage, or other usable space.

The EU leasing program has enabled VA to leverage its diverse, underutilized real estate portfolio to generate significant revenues. Such revenues are redirected towards the healthcare and capital operations of our medical centers, which serve our nation’s veterans daily. It also has resulted in several privately-financed, developed, and operated facilities which provide valuable, mission-compatible services to the Department and eligible veterans, non-veterans, and VA employees. Such facilities and services have included co-generation energy services, office facilities, parking facilities, hospice care, mental health, single-room occupancy (homeless shelters), affordable housing, transitional housing, low-cost senior housing, and child day care services. Notably, VA’s varied EU leases also have resulted in a substantial short and long-term stimulus for the impacted local, state, and federal governments and economies, due to tax revenues, sales, and job creation.

In FY 2005, through its EU lease program, VA received over \$900,000 worth of in-kind consideration, and \$28,000,000 via a single payment of monetary consideration. The

EU Leasing program is a proven method of leveraging VA's diverse real estate portfolio and market position.

VA's Portfolio Management Approach

VA utilizes a three-tiered portfolio management approach. This approach is the blueprint for VA portfolio management nationwide.

First, VA manages what we have more effectively through Federal Real Property Council (FRPC) performance standards as well as using unique technology-assisted inventory management system. VA is committed to four metrics that set the goals for performance. They include: 1) the percent of space utilization as compared to overall space (owned and direct leased); 2) the percent condition index (owned buildings); 3) the ratio of non-mission-dependent assets to total assets; and 4) the ratio of operating costs per gross square foot (GSF) adjusting for inflation. These goals are based on the FRPC standards for performance measurement in capital portfolio management.

VA is striving to utilize information technology and established capital asset management principles to improve the management of its capital resources. VA created the Capital Asset Management System (CAMS), an integrated, Department-wide system, enabling VA to analyze, monitor, and manage VA's portfolio of capital assets. Data are organized and presented to strategically monitor performance against capital asset goals within and across asset types and VA Administrations (VHA, VBA, and NCA).

Secondly, VA selects prudent capital investments through appropriated dollars. VA uses appropriated dollars to manage CARES capital investment projects that have proven to be sound investments. Each project's performance is measured to ensure the best use of our overall portfolio needs. This innovative approach has allowed VA to manage underutilized assets in a more efficient and cost-effective manner.

VA's third approach is the use of its enhanced-use leasing authority, which has been previously mentioned. Over the past 14 years VA has awarded 47 projects through the enhanced-use leasing authority. An additional 100 initiatives are being studied, of which 45 projects are currently active.

Closing

In summary, Mr. Chairman, the \$714 million that VA is requesting in FY 2007, in addition to the \$293 million provided in the Hurricane Katrina emergency supplemental, will provide the resources necessary for the Department to:

- Continue implementation of the infrastructure improvements identified in CARES to insure that facilities are available to support the provision of timely, high-quality health care to nearly 5.3 million patients. It is important to note that 79 percent are among those who need VA the most—those with service-connected disabilities, lower incomes, or special health care needs;
- Increase access to our burial program by ensuring that nearly 84 percent of veterans will be served by a burial option in a national or state veterans cemetery within 75 miles of their residence; and
- Provide safe and secure facilities for the Department built to current specifications to withstand natural and manmade disasters.

I look forward to working with the members of this committee to continue the Department's tradition of providing timely, high-quality benefits and services to those who have helped defend and preserve freedom around the world. I would be pleased to answer any questions the committee may have.