

Testimony

ARMED FORCES RETIREMENT HOME

Statement by

Mr. Timothy Cox
Chief Operating Officer

on

Fiscal Year 2010 Budget Request

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. Since the Administration has not cleared me to discuss the detailed Fiscal Year 2010 Appropriation Request, I can only talk about the work that is ongoing within the Armed Forces Retirement Home. I also want to update you on our progress as we evolve to meet the needs of the next generation of eligible military veterans.

Today, as well as for nearly two centuries, the Armed Forces Retirement Home has been a haven for eligible military service members in retirement. At present, we are revamping a mammoth 19th century institution into a modern 21st century community. This transformation is a direct result of our new perspective on aging. Today, progressive senior care includes services to help people maintain independence in their home of choice and support to help them stay connected, active members of the community. So AFRH is modernizing to promote this "aging in place" philosophy and to uphold the century old Promise to care for our heroes.

To continue needed modernization at the DC campus, \$5.6 million in Trust Fund money was requested and approved to begin planning for a design-build renovation of the Scott Dormitory or the "Scott Project." Built in 1954, the Scott Dormitory has had no major renovation and a 2007 capital study identified over \$81 million in needed repair work. In 2006, 54 percent of all the work orders on the

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Campus were associated with the Scott Building. Completion of the Scott Project will provide significant operational savings, result in a new commons space for all levels of care, and provide renovated assisted living space in the Sheridan Dormitory as well as new long-term care and memory support accommodations in the same footprint as the costly Scott Building.

Working in partnership with General Services Administration (GSA), our lead construction agent, I am pleased to report that the Gulfport rebuild remains within budget and on-track for a July 2010 completion and resident occupancy in October 2010. Design is 100% complete, finishes and final color selections are being reviewed, and furniture, fixtures and equipment procurement packages are being prepared. Construction is approximately 50 percent complete. A "*Topping Off*" ceremony for construction workers, community leaders, and others was held on February 27th.

Congressional Justification

It is an honor to represent the Armed Forces Retirement Home (AFRH). On behalf of AFRH, I would like to express our appreciation for the support that Congress has provided over the years. AFRH will continue to improve and reduce its infrastructure; develop world class Continuing Care Retirement Communities (CCRCs) at both Gulfport, MS and Washington, DC; and continue working towards the stand up of our Gulfport, MS facility and completion of our Scott Project in Washington, DC.

Controls

I am particularly proud that for FY 2008 AFRH once again received an "unqualified" audit opinion from independent, external auditors. This marks the fourth consecutive year AFRH has received this distinction. Through our partnership with Bureau of Public Debt (BPD) starting in the middle of FY04, our financial

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statements have had no material weaknesses since our very first audit in FY05. Our successful audit are a reflection of our renewed emphasis on Internal Controls. First we diligently meet our quarterly meeting requirements throughout the year. Also, key decisions we have made include changing the composition of our Local Advisory Board, ensuring more managers are allowed to comment in our annual questionnaire, and developing an AFRH Notice. The Notice identifies our senior assessment team, outlines our quarterly meeting agendas and discusses the five critical areas to pinpoint internal control (Control Environment, Risk Assessment, Control Activities, Information and Communications and Monitoring).

Plans

The Home experienced a stable financial year throughout FY 2008 – despite an array of changing economic conditions all around us. We have consistently shown marked growth in our Trust Fund over several years. The Trust Fund balance peaked this year to \$167 million. This is quite a rebound from its lowest level of \$94 million in 2003. All along, we have geared all our efforts to reviving the Trust Fund balance to produce net growth--we have truly succeeded.

External forces at work in the global economy are affecting AFRH operations. Financial instability, the credit crisis, declining real estate values, fluctuating fuel costs, rising utility costs and food price increases are the major challenges we're facing. We are mindful of these significant developments and their impact on our financial arena. In FY 2009 we began the necessary steps to meet our financial challenge of the future and sustain growth in the Trust Fund by controlling our operating environment.

The AFRH Trust Fund has funded our operation since 1851. Our greatest risk is a shrinking balance. So, we seek to maintain and grow its balance with three risk management strategies:

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1) Washington Master Plan

Congress gave AFRH, through DoD, the authority to sell or lease portions of AFRH's valuable real estate. Our Plan calls for private, mixed-use development and leasing on portions of our southern-most acreage. The Plan keeps our community intact, protects resident vitality and preserves our historic grounds.

A major milestone was reached in FY 2008 with the approval of our Master Plan from the National Capital Planning Commission to proceed; however, the change in the financial market has created new challenges to contend with. This crisis directly impacts our ability to develop our property as quickly as we had planned. Plus, the lack of readily available financing may hinder potential developers from partnering with AFRH.

Although AFRH had selected a preferred developer, we decided to stop negotiations with this firm in late 2008. The developer was selected to develop a portion of our Master Plan which calls for the private development of Zone A of AFRH-Washington, an underutilized portion of the campus. Negotiations were halted by the AFRH, primarily due to the inability of AFRH and the developer to reach an agreement. The turbulent market conditions were not the sole cause of the termination of negotiations, but they certainly exacerbated the issues.

Additionally, the value to AFRH in the deal was largely driven by the property value at initial appraisal. Given the market conditions, the initial appraisal would have been conducted in a very poor market, and resulted in a long-term diminution of value to the Home.

2) Gulfport Master Plan

Rebuilding Gulfport is another key risk management strategy. The temperate weather and oceanfront views make Gulfport in high demand for potential residents. The targeted construction completion is no later than July 2010. We are working

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closely with GSA for transition of the facility and have set the initial occupancy date to October 1, 2010, the start of FY 2011.

3) AFRH Long Range Financial Plan

We appreciate the \$800 thousand appropriated by Congress in FY 2008 for the study of funding sources for the Trust Fund to determine the long-term viability of the Trust Fund. The resulting Plan, undertaken by a team of experts in senior living, engineering, financial analysis, and architecture, confirms the Trust Fund's solvency while addressing our capital requirements across the Agency. Additionally, the Plan presents a conceptual design for the Washington campus based on resident profiles and vitality, principles of aging in place, and economies and efficiencies.

The purpose of this Plan, is to inform decision-makers of the choices we have made and to outline the conceived future for AFRH. The various elements in the Plan are the building blocks of our vision conceived in 2003 to nurture the Health and Wellness philosophy of aging while providing a continuum of Life Care Services in a community setting.

Thanks to the support of Congress, we are modernizing our Washington campus and rebuilding our Gulfport campus with Hurricane Katrina emergency funding and Trust Fund monies. We are working closely with the GSA on both the Scott Project in Washington and the Gulfport restart in Mississippi.

GSA was given the task by legislation to rebuild our Gulfport home. Through two public laws, (PL 109-148 and 109-234), Congress authorized approximately \$240 million to rebuild the Gulfport Home. Because of the excellent GSA support in the Gulfport project, we engaged them for the Scott Project in Washington. GSA signed a Memorandum of Agreement in fourth quarter FY 2008 and has proceeded on schedule with soliciting for firms to begin the design based on the concepts in the Long Range Financial Plan - Scott Project.

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Our team of key AFRH staff and expert consultants studied various facility improvement scenarios to meet our new operating model. The initial focus was to undertake a major renovation of the nearly 60-year-old Scott Building (totaling 357 thousand square feet). Scott currently houses resident living units and healthcare, dental, and optometry services as well as primary "common areas" such as kitchen and dining, library, theatre, and administrative offices. After extensive analysis, it was determined that renovation was cost prohibitive, due to the many obstacles associated with this massive, aging structure (E.g., inadequate room heights for healthcare functions, oversized and inefficient common spaces, and unachievable energy conservation goals). Also, the large cost of a total renovation was estimated to be well beyond the Trust Fund capability.

The final design concept is to replace the Scott Building, replacing it with a new Commons building and a new Healthcare Center. The Commons would contain dining, the kitchen, a wellness center, dental and optometry services, administrative offices, and recreation spaces as well as a Hall of Honors and a Main Street with the post office, banks, and retail outlets. The new Healthcare Center, at a reduced population level, would house Long Term Care and Memory Support. The Sheridan Building would be remodeled to accommodate Assisted Living. We are mindful of maintaining our Washington campus population with as little disruption as possible. The opening of Gulfport will be a force multiplier in this effort.

Progress

Since 2002, we have been forging a transformation of AFRH, moving towards a more efficient model of operation. By FY 2004, with a dramatically reduced footprint of both campuses, allowing us to cut capital expenses, such as for vehicles and facilities, our financial performance improved via accounting with Bureau of Public Debt. In addition, we expanded our Strategic Plan with in-depth business and operational plans. Our success continued into FY 2005, when we were accredited by

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Joint Commission on Accreditation of Healthcare Organizations (JCAHO) and both campuses earned the "Gold Seal of Approval." In 2005 we also received our first "Unqualified Audit" opinion meeting the new timelines required by the Chief Financial Officer's Act, which was subsequently awarded in FYs 2006, 2007, and 2008. We're proud that, for FY 2007, we also won the GSA "Customer of the Year" award and our Trust Fund balance reached \$159 million, a growth of \$65 million over four years. In 2008, our Trust Fund balance reached \$167 million and is expected to reach \$171 million in FY 2009.

AFRH takes its mission very seriously and we thank the members of Congress for your strong support of this one-of-a-kind independent agency, established to care for our Nation's Veterans in four settings – independent living, assisted living, memory support, and long term care. We were recently awarded a 5-year accreditation for the first time by the Commission on Accreditation of Rehabilitation Facilities (CARF), a nationally recognized agency responsible for accrediting facilities providing continuing care retirement services. We continue to work with the Deputy Director, TRICARE Management Activity in his role as AFRH Medical Advisor, to follow-up on allegations of substandard medical care and are reviewing on-going processes and procedures to ensure high quality standards of care are maintained. We are also working with the DoD Inspector General's office in preparation for a comprehensive inspection later this year.

This demonstrates our commitment to excellence. In truth, we focus on the Residents' needs in all we do – from improving basic necessities and activities – to advancing health and wellbeing. In fact our programs are being revamped to provide more interaction, stimulation and activity. Plus we are enhancing staff knowledge to keep our residents strong and productive.

This Justification presents complete, reliable information that demonstrates our efforts to hold both programs and financial systems to the highest standards of

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accountability. We have an impressive record in reducing costs and fiscal management as seen over the past few years.

As a result of our Long Range Financial Plan, we have ascertained that the Trust Fund will be solvent even after our capital improvements are completed.

Moving Forward

Regarding Gulfport. In 2008, we broke ground on the new residence facility in Gulfport and in 2009 we see the completion of all the floors, outside walls and roof. The builder has to complete the construction contractually by July 2010. To be ready for occupancy in the Fall of 2010, we have a lot of preparations to complete in FY 2009. Residents displaced to Washington from Gulfport must be prepared for relocation back to Gulfport. All contracts to operate the facility must be created; organization and staff positions, using the same model as the Washington campus, must be prepared.

For former Gulfport Residents residing on the AFRH-Washington Campus, AFRH will transport individuals and household goods from Washington to Gulfport in small groups. An extensive Gulfport admission priority list is maintained at AFRH. Continuous mailings to other former Gulfport Residents are being made to help them stay informed of construction progress as well as needed documentation for moving to Gulfport.

The Gulfport workforce will be recruited, trained and positioned in the building. When Residents will begin occupying Gulfport in early October 2010, all staff will be in place and ready to provide exceptional service. As discussed earlier

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we are working closely with GSA for transfer of the facility and have programmed funds appropriately followed by full operations in FY 2011.

To ready the building for occupancy, AFRH will be moving forward with securing support contracts and ramping up building utilities services and maintenance. Support services such as dining food services and healthcare services are also in the restart mode with a Fall 2010 target for full operations.

Regarding CARF. After our first inspection with CARF, we were presented with Quality Improvement Plans (QIP) that must be followed. Our staff must show progress towards meeting the plans and after the first review, we received only positive feedback.

Regarding the Scott Project. Following the recommendations in the Long Range Financial Plan, GSA has started the search for the firms to create architectural designs to match the design concept for the replacement buildings for Scott. Timing moves and relocations according to the schedule will be completed during FY 2009 so that all plans will be poised for implementation on schedule.

The implementation of our plans will require several ancillary projects, such as the permanent relocation of the onsite IT Center and Scott/Sheridan chiller plant – both of which are currently housed in Scott. Also, the build-out of temporary spaces will be required to maintain operations during construction – such as a dining area, wellness center and administrative offices. These functions are all currently housed in Scott and will eventually be relocated to the new Commons.

Regarding Resident Wellbeing. Key to our long range plans is the full realization of our “aging in place” philosophy. The concept of aging in place means that older persons are able to remain in their own living spaces as they age. AFRH is implementing this concept by creating physically supportive residential settings linked with services through coordination of health and housing programs to deliver a customized level of care in an enhanced residential operating environment. The

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Resident Profile completed as part of our study in 2008 defines the spatial needs for activities and leisure according to the resident population. The Vitality Plan was administered to 995 residents from July – September 2008. This model measures levels of Activities of Daily Living (ADL) and helps determine staff assistance required and resident level of independence.

Additionally, we are taking actions in response to our Inspector General's identification of management challenges: to stay on track with the restart of Gulfport, to stay on schedule with the initial tasks in the Scott Project, to provide a strategy for relocating our Gulfport Residents, to create succession planning for management, to ensure CARF accreditation criteria are maintained and quality improvement plans are implemented as recommended, and to educate Congress and our constituents on our direction and progress.

Looking Ahead

Our progress has been steady and the future looks bright. AFRH will realize great savings in operating and maintenance costs from the proposed downsizing and consolidation of the Washington facility, the elimination of the over-sized Scott Building, and the closure of the LaGarde Building. These savings are illustrated in the annual operating budgets, which were developed as part of the Long Range Financial Plan.

AFRH is focused on our financial strategy and careful management to ensure we reach our objectives is necessary. All indications are that we have the right concepts for implementation and we are poised for the transformation to tomorrow.

Conclusion

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

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who so bravely serve us. When the FY 2010 Budget is released by the Administration, we will provide full details. Thank you.