**ARMED FORCES RETIREMENT HOME**

**COMPLETE STATEMENT**

**OF**

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**BEFORE**

**THE SUBCOMMITTEE ON MILITARY CONSTRUCTION, VETERANS AFFAIRS AND RELATED AGENCIES**

**COMMITTEE ON APPROPRIATIONS**

**UNITED STATES HOUSE OF REPRESENTATIVES**

**ON**

**ARMED FORCES RETIREMENT HOME**

**INTRODUCTION**

Mr. Chairman and distinguished members of the Subcommittee: Thank you for the opportunity to appear before you today. First, we would like to thank the Committee for strongly supporting the replacement of the former Navy Home in Gulfport, Mississippi, and the renewal of the Washington, DC Home. We successfully opened the Gulfport Home last fall on time and on budget, and plan to do the same here in Washington. I am honored to present the Armed Forces Retirement Home's (AFRH) Congressional Budget Justification (CBJ) of $67,700,000 for Fiscal Year 2012.

The 1991 Defense Authorization Act, Public Law 101-510, created an Armed Forces Retirement Home (AFRH) Trust Fund to finance the AFRH-Gulfport and the AFRH-Washington Homes. The Homes are financed by appropriations drawn from the Trust Fund. Nearly two centuries ago, the leaders of our young nation made a Promise to care for our former enlisted military personnel who were aging or infirm. This pledge would serve as a payback to soldiers for risking their lives to preserve democracy.

Today, we continue to provide shelter and care for former enlisted military, Warrant Officers, retirees and veterans as they age. This care demonstrates to today’s service members – and tomorrow’s veterans – that their service and sacrifices won’t be forgotten. Just as our brave young men and women helped save the world from fascism in the 20th Century, today’s heroes can fight for and preserve our way of life – knowing their country will repay them for their service. The AFRH Fiscal Year 2010 Performance and Accountability Report displayed the significant progress of the AFRH over the past eight years.

**FY 2012 BUDGET**

The Gulfport Home was rebuilt within funding and completed on schedule in 2010. The first residents returned to Gulfport on October 4, 2010. The modernization at the DC campus is ever evolving through the design build of one of our primary dormitories – The Scott Building. The Scott Project was approved and funded by $5.6 million and $70 million in FY 2009 and 2010 respectively from our Trust Fund. This Project will create better living conditions for our DC residents; promote aging in place; and bring AFRH resident facilities in line with the Americans with Disabilities Act (ADA), fire codes, and other building regulations. This Project is also within funding and on schedule.

Our Budget Request of $68 million for FY 2012 contains $66 million in Operations & Maintenance (O&M) and $2 million in Capital Improvements. The O&M request reflects $3 million in growth to begin full operations in Gulfport with the transfer of 238 residents from DC to Gulfport. These resident transfers contribute to a decrease of $6.5 million in DC as the facility begins to eliminate transition duplication, modernize and right size to the population it will serve. This will produce a net decrease of $3.5 million in operating costs across the Agency in 2012. This decrease is associated with AFRH's continued efforts to become more fiscally sound and move towards a sustainable AFRH Trust Fund.

The Gulfport Campus will grow by 21 full-time equivalents (FTE) employees, which is completely offset by a 21 FTE reduction on the Washington Campus, thus producing no net growth between FY 2011 and 2012. Being that our mission is peculiar in nature when compared to other Federal Government Agencies; our non-labor expenditures contain a diverse assortment of fundamental cost drivers. AFRH’s key cost drivers are: Dining Services; Subsistence; Nursing; Wellness Center; Dental and Optometry; Utilities; Facility and Grounds Maintenance; and Transportation.

We expect our Budget Authority to peak in 2011 and then decline as the duplication of resources (funding and FTE) decline as the shift from Washington to Gulfport is completed. Although we have opened Gulfport for residency in 2011, the Assisted Living, Memory Support, and Long-term care units will grow as the resident population ages. Initially in Gulfport our plans reflect few occupied beds in these levels of care. The result is a drawdown of our costs across the agency.

We are working on multiple initiatives to reduce costs in the out years. The primary effort is our "Independent Living Plus" program, which assists residents with aging in place. We believe this effort will reduce costs in the Trust Fund while enhancing the care and well-being of our residents.

The greatest risk to the Trust Fund is occurring over the four transition years (e.g. 2010 - 2013) as we stand up 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 and direct impact on the solvency of the Trust Fund, as well as a profound influence on the well-being of our residents. 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.

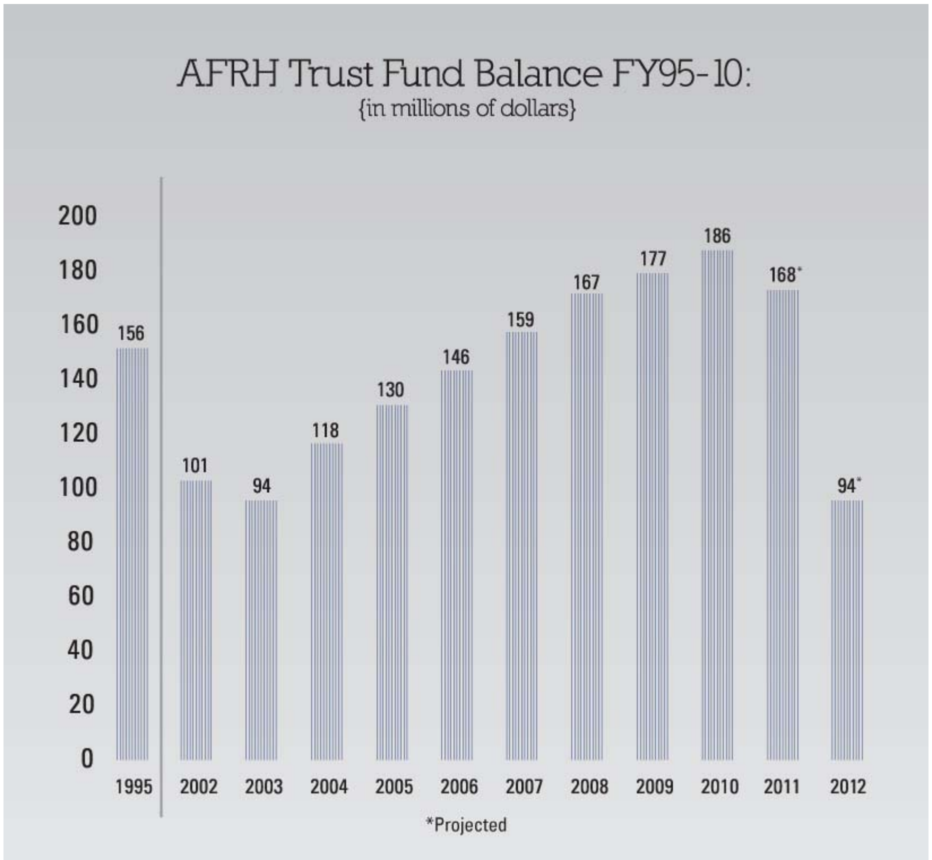
The budget forecast shows that operating costs for the Washington campus will decline from $45.9 million in 2009 to $36.6 million in 2012. This represents approximately a 20 percent reduction in 2012 for the DC campus. The Scott Project will generate savings in all major cost drivers:

- Consolidate Dining Services so that only one dining facility is operational
- Reduce subsistence costs by approximately 40%
- Reduce nursing staff by almost 50% from FY09 levels
- Reduce utility costs by approximately 44% or greater
- Reduce facility maintenance requirements by greater than 50%
- Reduce custodial requirement by approximately 40%
- Streamline Campus operation so that on-campus transportation is no longer required

**TRUST FUND BALANCE**

In 2003, operating costs greatly increased over previous years - eventually outpacing our revenue. The Trust Fund balance declined from $156 million in 1995 to $94 million in 2003. Renewing a healthy balance 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 by implementing an integrated strategy - linking planning with budget and performance. From 2003 - 2010, we aggressively developed a disciplined strategic plan that netted many gains. The result: the Trust Fund balance grew substantially to $186 million at the end of FY10. However over the next two years the Trust Fund will have negative growth as disbursements are made for the Scott Project. In FY 2012 the Trust Fund will level out at $94 million and begin to once again climb thereafter. The chart below reflects the Trust Fund's consistent growth over the years, with an expected decline in FY 2011 and 2012.

***The Trust Fund Balance has been steadily increasing since 2003 but will decrease with withdrawals for the Scott Project in 2011:***




**CONCLUSION**

Our paramount goal is to continue to serve our heroic population of residents with the high level of residential and medical services that they deserve. This Justification presents complete, reliable information that demonstrates our efforts to hold both programs and financial systems to the highest standards of accountability in serving our residents. We have an impressive record of providing a high level of services while reducing costs through sound fiscal management as the evidence indicates over the past few years. I respectfully ask the Subcommittee's favorable consideration of our FY 2012 Congressional Budget Justification. Mr. Chairman, this concludes my testimony.  We will be pleased to respond to questions from the subcommittee.