

## Calendar No. 592

109TH CONGRESS }  
2d Session }

SENATE

{ REPORT  
{ 109-328

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TO AUTHORIZE MAJOR MEDICAL FACILITY PROJECTS AND MAJOR MEDICAL FACILITY LEASES FOR THE DEPARTMENT OF VETERANS AFFAIRS FOR FISCAL YEARS 2006 THROUGH 2009

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SEPTEMBER 6, 2006.—Ordered to be printed

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Mr. CRAIG, from the Committee on Veterans' Affairs,  
submitted the following

### R E P O R T

[To accompany S. 3421 as amended]

The Committee on Veterans' Affairs (hereinafter, "the Committee"), to which was referred the bill (S. 3421) to authorize major medical facility projects and major medical facility leases for the Department of Veterans Affairs for fiscal years 2006 and 2007, and for other purposes, having considered the same, reports favorably thereon with a technical amendment, and recommends that the bill, as amended, do pass.

#### INTRODUCTION

On June 6, 2006, Committee Chairman Larry E. Craig introduced S. 3421, to authorize major medical facility projects and major medical facility leases for the Department of Veterans Affairs for fiscal years 2006 through 2009, and for other purposes. The bill, as introduced, would have: authorized fiscal year 2006 major medical facility projects; extended the authorization and VA's authority to enter into contracts for major medical facility construction projects authorized in Public Law 108-170 under the Capital Asset Realignment for Enhanced Services (hereinafter "CARES") process through September 30, 2009; and authorized fiscal years 2006 and 2007 major medical facility leases. The bill was referred to the Committee on Veterans' Affairs.

#### COMMITTEE HEARINGS

Earlier, on April 6, 2006, the Committee held hearings on VA's proposals for construction and lease authorization. Testimony was heard from: The Honorable Wayne Allard, United States Senator, Colorado; The Honorable Mel Martinez, United States Senator, Florida; The Honorable Bill Nelson, United States Senator, Florida;

Dr. Jonathan Perlin, MD, VA Under Secretary for Health; and Mr. Dennis Cullinan, Director, National Legislative Service, Veterans of Foreign Wars of the United States.

COMMITTEE MEETING

After carefully reviewing the testimony from the foregoing hearing, the Committee met in open session on June 22, 2006, to consider S. 3421. Senator Murray offered an amendment that would have authorized six additional construction projects in FY 2007 in American Lake, WA; Columbia, MO; Fayetteville, AR; Milwaukee, WI; St. Louis, MO; and San Juan, PR. Senator Murray expressed discontent that these projects were not included in S. 3421, noting that they had been requested by the administration and approved through VA's CARES process. Senator Murray also expressed her belief in the immediate necessity of the seismic upgrades at the American Lake facility, as well as the San Juan facility.

Chairman Craig did not dispute the importance of these, or any other projects not included in S. 3421, but he expressed his frustration at what has become a convoluted process for forward movement on major construction projects. He went on to explain that there are currently VA construction projects that have been authorized but not appropriated, appropriated but not authorized, and projects that are in need of additional appropriations and authorizations in order to be completed. Chairman Craig stated that he wants to bring order to VA's convoluted approach to construction. He believes that waiting to begin authorizing new projects until construction projects that have already begun are completed will bring needed order to the process.

The Committee then voted on Senator Murray's amendment. The amendment failed on a 6-8 vote. The Committee then voted by voice vote to report favorably S. 3421, as amended by an amendment offered by Committee Chairman Craig. Committee Member Patty Murray of Washington requested that she be recorded as opposed to S. 3421.

SUMMARY OF THE COMMITTEE BILL AS REPORTED

S. 3421 as reported (hereinafter the "Committee bill"), consists of, as noted on page 18, no changes to current law, and is summarized below:

1. Authorize Fiscal Year 2006 major medical facility projects in New Orleans, LA; Biloxi, MS; and Denver, CO. The New Orleans project is authorized as a collaborative effort consistent with the New Orleans Collaborative Opportunities Study Group Report (section 1);
2. Extend the period during which VA is authorized to enter into contracts for major medical facility construction projects originally authorized as CARES projects by Public Law 108-170 (section 2);
3. Authorize Fiscal Year 2006 major medical facility leases (section 3); and
4. Authorize Fiscal Year 2007 major medical facility leases (section 4).

## BACKGROUND AND DISCUSSION

*Section 1. Authorization of fiscal year 2006 major medical facility projects*

Section 8104 of title 38, United States Code, requires statutory authorization for all VA major medical facility construction projects (defined as those which cost more than \$7 million) prior to the appropriation or expenditure of funds. Three projects warrant immediate Fiscal Year (hereinafter "FY") 2006 authorization: New Orleans, LA; Biloxi, MS; and Denver, CO.

The New Orleans project received \$75,000,000 in FY 2006 budget authority in Public Law (hereinafter "P.L.") 109-148, the emergency legislation that includes, in Division B, funding for Hurricane Katrina recovery. The New Orleans Collaborative Opportunities Study Group continues to determine the most efficient and cost-effective manner to provide health care services to veterans in the New Orleans service area. Currently, there is no fully functional hospital infrastructure or fully staffed VA hospital facility in the city of New Orleans. The total cost associated with the restoration/replacement of the New Orleans VA Medical Center facility is estimated at \$636,000,000.

In May 2004, former Secretary of Veterans Affairs, Anthony Principi issued his decision to among other things, follow generally the CARES Commission's recommendation to consolidate the services provided at the Gulfport VAMC to the Biloxi VAMC. Prior to Hurricane Katrina, VA was developing plans for reuse or divestment of the Gulfport campus, and plans for major construction to modernize patient care facilities at the Biloxi campus and opportunities for coordination and sharing with Keesler Air Force Base (hereinafter "AFB") were underway.

Damage to the Gulfport VAMC from Hurricane Katrina in August 2005 was beyond repair. The Biloxi campus also sustained significant damage. The Biloxi project authorized in Section 1 will accelerate the restoration of the hospital at Biloxi and will consolidate and co-locate all clinical and administrative functions of the two-division medical center at the Biloxi VAMC campus. The project received \$17,500,000 in FY 2006 budget authority and an additional \$295,500,000 in budget authority in the FY 2006 Emergency Supplemental Appropriation Act, P.L. 109-148. This project includes the campus consolidation initiative, as well as a separate CARES initiative to build a new Blind Rehabilitation Center on the Biloxi VAMC campus. The consolidation achieves the objectives of CARES to realign and decrease the amount of infrastructure maintained and operated by VA by 383,868 gross square feet at Gulfport.

The total acquisition cost for a replacement medical center facility at Denver, Colorado, has been estimated in VA's FY 2006 budget request at approximately \$621,000,000. In addition to construction, project costs also include equipment, activation, and land acquisition. The project received \$30,000,000 in FY 2004 appropriations. VA asserts that project cost estimates have grown as a result of larger than predicted inflation in health care construction costs, and that the addition of several mental health programs, as well as having received a polytrauma site designation, have increased the project costs. The Committee bill authorizes \$52,000,000, the

amount VA estimates is needed to enter into an agreement to purchase a site for the replacement medical center. Any additional obligation of funding on the Denver project will require additional authorization.

*Section 2. Extension of authorization for major medical facility construction projects authorized under capital asset realignment initiative*

In Section 221 of Public Law 108–170, VA was authorized to carry out any major medical facility construction project consistent with the final CARES decision of the Secretary of Veterans Affairs. However, the authority of VA to enter into contract to carry out projects under that law expires September 30, 2006. Section 2 of the Committee bill contains a list of eighteen major medical facility construction projects that were authorized as part of the final CARES decision, but for which it is unlikely that contract awards will be accomplished by September 30, 2006. A description of each of these projects appears below and is also included in the Department's 5-Year Capital Plan.

The construction of an outpatient clinic and regional office at the Department of Veterans Affairs Medical Center in Anchorage, Alaska received \$11,760,000 in FY 2004 for design and an additional \$63,510,000 in FY 2006 to complete phase 2 construction. The total acquisition cost is \$75,270,000, the amount that is reauthorized in this measure.

The consolidation of the clinical and administrative function of the Department of Veterans Affairs Medical Center in Cleveland, Ohio, and the Department of Veterans Affairs Medical Center in Brecksville, Ohio, received \$15,000,000 in FY 2004 budget authority for design and \$87,300,000 in FY 2006 budget authority to complete the project, for an estimated total cost of \$102,300,000. The total is reauthorized in this measure, so that the project can continue without interruption toward an estimated March 2009 completion.

Construction of the Extended Care Building at the Department of Veterans Affairs Medical Center in Des Moines received \$25,000,000 in FY 2005 budget authority, its total acquisition cost. The project is fully reauthorized in this measure so that it may continue without interruption toward an estimated February 2008 completion.

The renovation of 46,000 gross square feet of patient wards at the Department of Veterans Affairs Medical Center in Durham received FY 2004 budget authority for its total acquisition cost, \$9,100,000. The project is fully reauthorized in this measure so that it may continue without interruption toward an estimated December 2008 completion.

The correction of patient privacy deficiencies at the Department of Veterans Affairs Medical Center in Gainesville received \$8,800,000 in FY 2004 budget authority and \$76,400,000 in FY 2006 budget authority, to complete phase 2 construction, representing its total acquisition cost of approximately \$85,200,000. The project is fully reauthorized in this measure so that it may continue without interruption toward an estimated June 2009 completion.

The 7th and 8th Floor Wards Modernization at the Department of Veterans Affairs Medical Center in Indianapolis received \$27,400,000 in FY 2004 budget authority, representing its total acquisition cost. The project is fully reauthorized in this measure so that it may continue without interruption toward an estimated December 2007 completion.

The construction of a new medical center facility at the Department of Veterans Affairs Medical Center in Las Vegas received \$60,000,000 in FY 2004 budget authority for design and land purchase, and \$199,000,000 in FY 2006 budget authority. An additional \$147,000,000 in appropriated funds must be requested by VA and is required to complete construction, for a total acquisition cost of approximately \$406,000,000. The project is fully reauthorized in this measure. Although this project will close significant service delivery gaps identified in the CARES process, full funding has not yet been requested by VA, and no target completion date has been identified.

Construction of an Ambulatory Surgery/Outpatient Diagnostic Support Center in the Gulf South Submarket of Veterans Integrated Service Network (hereinafter "VISN") 8 and completion of Phase 1 land purchase in Lee County, Florida, received \$6,510,000 in FY 2005 budget authority. The total acquisition cost is estimated at \$65,100,000. The project is fully reauthorized in this measure. Although this project will accommodate a growing market share for the veteran population in this VISN 8 submarket whose needs are not currently being met, VA has not yet requested the remaining \$58,590,000 necessary to complete the project, and no target completion date has been identified.

The seismic corrections at the Long Beach VA Medical Center received \$10,300,000 in FY 2004 budget authority for design. VA has requested \$97,545,000 in FY 2007 budget authority to complete the project, for a total acquisition cost of approximately \$107,900,000. The project is fully reauthorized in this measure.

The seismic corrections at the Los Angeles VA Medical Center received \$8,000,000 in Fiscal Year 2005 budget authority to complete phase 1 design, with a total estimated acquisition cost of approximately \$79,900,000. The project is fully reauthorized in this measure. Although this structure has not been significantly modified since it was built in 1976 and its seismic performance was evaluated according to the requirements of the 2001 California Building Code, VA has not yet requested the remaining \$71,900,000 necessary to complete the project, and no target completion date has been identified.

Construction of the new medical center facility in the Orlando area, received \$25,000,000 in FY 2004 budget authority to complete phase 1 design, with an estimated total acquisition cost of \$347,700,000. The project is fully reauthorized in this measure. Although this project will resolve the CARES VISN 8 Central Market Acute Care Planning Initiative Gap by increasing access by nearly 35%, VA has not yet requested the remaining \$322,700,000 necessary to complete the project, and no target completion date has been identified.

The consolidation of services at the Highland Drive division of the Pittsburgh Health Care system with University Drive and H. John Heinz III progressive care divisions in Pittsburgh received

\$20,000,000 in FY 2004 and an additional \$82,500,000 in FY 2006 budget authority to complete phase 2 construction. This project requires an additional \$86,705,000 for completion, with an estimated total acquisition cost of approximately \$189,205,000. The project is fully reauthorized in this measure. This consolidation project will provide state-of-the-art care and reduce operating expenses, therefore realigning those assets to enhance services, and it may also include a component that would improve benefits service delivery. Yet, VA has not requested the necessary funds to complete the project, and no target completion date has been set.

The construction of 26,000 new square feet and the renovations of approximately 62,800 square feet at the San Antonio VA Medical Center received \$19,100,000 in FY 2004, the estimated project cost. The upgrade and expansion project is fully reauthorized in this bill, and is slated for a January 2010 completion date.

The seismic corrections in the main hospital building of the San Juan VA Medical Center are necessary to comply with VA seismic and immediate occupancy standards. The project received \$15,000,000 in FY 2005 budget authority, and requires \$130,200,000 in order to complete the project. This legislation fully reauthorizes the project at its estimated cost of \$142,200,000. VA has not requested the necessary funds to complete the project.

Construction of a Spinal Cord Injury Center at the Syracuse VA Medical Center received \$53,900,000 in FY 2005 budget authority. This is the total estimated cost associated with the project, which is fully reauthorized in this measure. The construction is scheduled for August 2009 completion.

The Spinal Cord Injury Extended Care addition at the Tampa VA Medical Center received \$7,100,000 in FY 2005 budget authority. This project, which is funded entirely, is scheduled for a March 2007 completion.

The Blind Rehabilitation and Psychiatric Bed renovation and new construction project at the Temple VA Medical Center received \$56,000,000, the total estimated cost associated with the project, in FY 2005 budget authority. This project is fully reauthorized in this measure, and no estimated completion date has been identified.

### *Section 3*

Section 8104 of title 38, U.S.C., requires statutory authorization for all VA major medical facility leases (defined as those which cost more than \$600,000 annually) prior to the appropriation or expenditure of funds. Three leases require authorization for FY 2006: Baltimore; Evansville; and Smith County.

The Baltimore outpatient clinic lease proposes the acquisition of approximately 132,300 square feet of space in proximity to the existing Baltimore VAMC in order to meet projected space gaps for the primary care, mental health, specialty care, and research. The lease is fully authorized in the measure for \$10,908,000.

The Evansville outpatient clinic lease would allow for the acquisition of approximately 126,000 square feet of space that will replace and expand the existing Evansville lease that expires on November 20, 2008. The lease is part of an aggressive strategy to correct severe space deficiencies identified during the CARES process at the Marion VAMC. The bill fully authorizes the lease for \$8,988,600.

The Smith County/Tyler outpatient clinic lease would allow for the acquisition of approximately 72,760 square feet of space for activation of a comprehensive outpatient clinic that will provide primary, specialty, and mental health care services in Smith County/Tyler market area. The bill fully authorizes the lease for \$5,093,200.

*Section 4*

S. 3421 also includes five leases for FY 2007 requiring authorization [in accordance with 38 U.S.C. 8104].

The Austin outpatient and specialty care clinic lease proposes the acquisition of approximately 85,000 square feet of space in the area to relocate and expand outpatient specialty care services. Doing so will free space in the existing south Austin outpatient clinic for primary and mental health expansion. The lease is fully authorized in the measure for \$6,162,500.

The Lowell outpatient clinic lease expires on March 14, 2008. This project will lease approximately 35,000 square feet of outpatient clinic space which now exists and would fill a CARES-identified gap in access to care. The bill fully authorizes the lease for \$2,520,000.

The Grand Rapids outpatient clinic lease would allow for the acquisition of approximately 65,800 square feet to correct space deficiencies. The lease will maintain outpatient medical care for the veterans residing in western Michigan. The current clinic is fifty-eight percent undersized, and based on CARES workload projections will be seventy six percent undersize by 2011. The bill fully authorizes the lease for \$4,409,000.

VA operates a number of small clinics in the Las Vegas area, which continues to experience some of the highest growth rates in the country. A number of these leases expire between October 2008 and June 2009. The Las Vegas project will lease approximately 109,200 square feet for up to four primary care and mental health clinics in the metropolitan area. The bill fully authorizes the lease for \$8,518,000.

The Parma outpatient clinic lease will replace the current primary care clinic at the Brecksville Division of the Cleveland VA medical center with a new 74,000 square foot clinic in Parma. This project is part of the larger consolidation at the Wade Park Division of the Cleveland VAMC, which is expected to save approximately 23 million dollars annually in operating costs. The bill fully authorizes the lease for \$5,032,000.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

In compliance with paragraph 11(a) of rule XXVI of the Standing Rules of the Senate, the Committee, based on information supplied by the Congressional Budget Office (hereinafter, "CBO"), estimates that enactment of the Committee bill would, relative to current law, authorize the appropriation of \$998 million for three projects in 2006, \$1.75 billion for 18 projects in 2007, and \$52 million for the leasing of eight clinics in 2006 and 2007.

CBO estimates that implementing S. 3421 would cost \$78 million in 2007 and about \$1.8 billion over the 2007–2011 period, assuming appropriation of the necessary amounts. No additional spending in

fiscal year 2006 is estimated since the year is nearly completed. Enacting the bill would not affect direct spending or receipts.

S. 3421 contains no intergovernmental or private-sector mandates and would impose no costs on state, local, or tribal governments.

The cost estimate provided by CBO, setting forth a detailed breakdown of costs, follows:

U.S. CONGRESS,  
CONGRESSIONAL BUDGET OFFICE,  
*Washington, DC, August 3, 2006.*

Hon. LARRY E. CRAIG,  
*Chairman, Committee on Veterans' Affairs,  
U.S. Senate, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for S. 3421, a bill to authorize major medical facility projects and major medical facility leases for the Department of Veterans Affairs for fiscal years 2006 and 2007, and for other purposes.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Michelle S. Patterson.

Sincerely,

DONALD B. MARRON,  
*Acting Director.*

Enclosure.

*S. 3421—A bill to authorize major medical facility projects and major medical facility leases for the Department of Veterans Affairs for fiscal years 2006 and 2007, and for other purposes*

Summary: S. 3421 would authorize funding for the construction, renovation, improvement or leasing of over two dozen medical facilities by the Department of Veterans Affairs (VA). The bill would specifically authorize the appropriation of \$998 million for three projects in 2006, \$1.75 billion for 18 projects in 2007, and \$52 million for the leasing of eight clinics in 2006 and 2007.

CBO estimates that implementing S. 3421 would cost \$78 million in 2007 and about \$1.8 billion over the 2007–2011 period, assuming appropriation of the necessary amounts. (We estimate no additional spending in fiscal year 2006 since the year is nearly completed. Most of the 2006 funding authorized by S. 3421 has already been appropriated.) Enacting the bill would not affect direct spending or receipts.

S. 3421 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

Estimated Cost to the Federal Government: The estimated budgetary impact of S. 3421 is shown in the following table. This estimate assumes the legislation will be enacted near the end of fiscal year 2006, that the necessary funds for implementing the bill will be provided each year, and that outlays will follow historical spending patterns for existing or similar programs. The costs of this legislation fall within budget function 700 (veterans benefits and services).

	By fiscal year, in millions of dollars—					
	2006	2007	2008	2009	2010	2011
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law for Major Construction of Veterans Medical Facilities:						
Budget Authority .....	1,583	0	0	0	0	0
Estimated Outlays .....	167	412	504	499	273	128
Proposed Changes:						
Estimated Authorization Level .....	52	1,813	20	20	20	20
Estimated Outlays .....	0	78	481	637	460	188
Spending Under S. 3421:						
Estimated Authorization Level .....	1,646	1,802	20	20	20	20
Estimated Outlays .....	167	490	985	1,136	733	316

Basis of estimate: S. 3421 contains provisions that would authorize appropriations for major construction and the leasing of medical facilities by VA. CBO estimates that implementing these provisions would cost \$78 million in 2007 and about \$1.8 billion over the 2007–2011 period, assuming appropriation of the authorized amounts.

#### MAJOR MEDICAL FACILITY PROJECTS

Section 2 would authorize the construction, renovation, repairs and upgrades of 18 medical facilities across the country. Projects range from the construction of a new medical center facility in Las Vegas to the expansion of the Spinal Cord Injury Center in Tampa. The bill would authorize \$1.75 billion in 2007 for these projects.

Section 1 would authorize the appropriation of \$998 million for three projects in 2006, though most of this funding has already been appropriated. In 2004, \$30 million was appropriated for the replacement of a medical center in Denver, and S. 3421 would authorize an additional \$52 million for 2006, much of which would be used to acquire the necessary land.

Section 1 also would authorize the restoration or replacement of two medical centers damaged by Hurricane Katrina, for which most of the necessary funding has already been appropriated. Public Law 109–148 provided \$75 million for the planning of a replacement facility in New Orleans, and Public Law 109–234 appropriated \$550 million for construction on this project. Based on VA’s current estimate of the total construction costs of \$636 million, CBO estimates that the bill would authorize the appropriation of an additional \$11 million for the New Orleans medical center. (That amount is included in the estimated authorization level for 2007 in the above table.)

Public Law 109–148 provided almost \$293 million for the restoration of the Biloxi, Mississippi, medical center, and Public Law 109–234 appropriated almost \$36 million for the clean-up of this center (along with another nearby medical facility). Based on VA’s current estimate of the total costs of \$310 million, CBO estimates no more funds would need to be appropriated to restore the Biloxi medical center.

CBO estimates that implementing these two sections would cost \$77 million in 2007 and about \$1.7 million over the 2007–2011 period, assuming appropriation of the authorized amounts.

## LEASES FOR MEDICAL FACILITIES

Sections 3 and 4 would authorize the Secretary of VA to lease facilities for eight outpatient clinics whose payments, together, would not exceed \$52 million. (That amount is included in the table's estimated authorization level for 2007.) VA advises that there would be no spending for any of these leases until 2009 because all of the facilities would have to undergo improvements that would allow them to be used as clinics. A lump-sum payment would be made for the cost of modifications along with the first year's rent when construction is complete.

Though the bill only authorizes payments for the first year, CBO assumes that VA would enter into 20 year agreements at an estimated cost of about \$20 million a year. Thus, CBO estimates that implementing this section would cost \$46 million in 2009 and \$90 million over the 2009–2011 period, assuming appropriation of the necessary amounts.

Intergovernmental and private-sector impact: S. 3421 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

Estimate prepared by: Federal Costs: Medical Care: Michelle Patterson. Readjustment Benefits: Mike Waters. Compensation, Pensions, Burial Benefits and Other Programs: Dwayne M. Wright. Housing: Sunita D'Monte. Impact on State, Local, and Tribal Governments: Melissa Merrell. Impact on the Private Sector: R. Derek Trunkey.

Estimate approved by: Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.

## REGULATORY IMPACT STATEMENT

In compliance with paragraph 11(b) of rule XXVI of the Standing Rules of the Senate, the Committee on Veterans' Affairs has made an evaluation of the regulatory impact that would be incurred in carrying out the Committee bill. The Committee finds that the Committee bill would not entail any regulation of individuals or businesses or result in any impact on the personal privacy of any individuals and that the paperwork resulting from enactment would be minimal.

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## TABULATION OF VOTES CAST IN COMMITTEE

In compliance with paragraph 7 of rule XXVI of the Standing Rules of the Senate, the following is a tabulation of votes cast in person or by proxy by members of the Committee on Veterans' Affairs at its June 22, 2006, meeting. On that date, the Committee, as noted on page 2, considered the Murray amendment to add six major construction authorizations. The Murray amendment was defeated on a 6–8 vote, with Senators Akaka, Rockefeller, Jeffords, Murray, Obama, and Salazar voting aye, and Senators Specter, Hutchison, Graham, Burr, Ensign, Thune, and Isakson voting nay. The Committee then accepted under unanimous consent a Craig amendment to decrease the authorized amount for the New Orleans project and to authorize the Secretary to carry out the project

as a collaborative effort consistent with the June 12, 2006 New Orleans Collaborative Opportunities Study Group Report.

The Committee then, by unanimous voice vote, ordered S. 3421, as amended, a bill to amend Title 38, United States Code, to authorize major medical facility projects and major medical facility leases for the Department of Veterans Affairs for fiscal years 2006 and 2007, and for other purposes, reported favorably to the Senate.

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#### AGENCY REPORT

On April 6, 2006, VA's Under Secretary for Health, the Honorable Jonathan B. Perlin, MD, appeared before the Committee and submitted testimony on the Department of Veterans Affairs' construction program and 5 Year Capital Plan, as well as 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.

#### STATEMENT OF JONATHAN PERLIN, MD, UNDER SECRETARY FOR HEALTH, DEPARTMENT OF VETERANS AFFAIRS

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 \$7 million. 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 con-

struction, \$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 has 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) program 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, an independent body, evaluated VA’s CARES program and 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 11 construction contracts have been awarded and are underway. An additional 13 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 and 5 Year Capital Plan. 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 and capital plan. 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 in-

cludes 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 the percent of space utilization as compared to overall space (owned and direct leased); the percent condition index (owned buildings); the ratio of non-mission-dependent assets to total assets; and lastly 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 the 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 veterans.
- 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.

CHANGES IN EXISTING LAW MADE BY THE COMMITTEE BILL, AS  
REPORTED

Pursuant to paragraph 12 of rule XXVI of the Standing Rules of the Senate, the Committee finds no changes in existing law made by S. 3421 as reported.

