

**STATEMENT OF THE HONORABLE ROBERT A. MCDONALD
SECRETARY OF VETERANS AFFAIRS**

**FOR PRESENTATION BEFORE THE
SENATE COMMITTEE ON VETERANS' AFFAIRS**

**BUDGET REQUEST FOR FISCAL YEAR 2017
FEBRUARY 23, 2016**

Good morning, Chairman Isakson, Ranking Member Blumenthal, and Distinguished Members of the Senate Veterans' Affairs Committee. Thank you for the opportunity to present the President's 2017 Budget and 2018 Advance Appropriations (AA) requests for the Department of Veterans Affairs (VA). This budget continues the President's faithful support of Veterans and their families and survivors, and it sustains VA's historic transformation. It will provide the funding needed to enhance services to Veterans in the short term, while strengthening the transformation of VA that will better serve Veterans in the future.

A Vision for the Future

VA's vision for the future is to be the No. 1 customer-service agency in the Federal government. The American Customer Satisfaction Index already rates our National Cemetery Administration No. 1 with respect to customer service. In addition, for the sixth year in a row, VA's Consolidated Mail Outpatient Pharmacy received J.D. Power's highest customer satisfaction score among the Nation's public and private mail-order pharmacies. These are compelling examples of excellence. We aim to make that so for all of VA.

We are transforming the entire Department, not just making incremental changes to parts of it. We began in July 2014 by immediately reinforcing the importance of our inspiring mission—caring for those “who shall have borne the battle,” their families, and their survivors. Then, we re-emphasized our commitment to our exceptional I-CARE Values—Integrity, Commitment, Advocacy, Respect, and Excellence. To provide timely quality care and benefits for Veterans, everything we are doing is built, and must be built, on the rock-solid foundation of mission and values.

MyVA is the catalyst making VA a world-class service provider. It is a framework for modernizing VA's culture, processes, and capabilities so we put the needs, expectations, and interests of Veterans and their families first, and put Veterans in control of how, when, and where *they* wish to be served.

Listening to others' perspectives and insights has been, and remains, instrumental in shaping our transformation. We have taken advantage of an unprecedented level of outreach to the field and our stakeholders. In my first months as Secretary, I assessed VA and recognized that we would need to change fundamental aspects of every part of VA in order to rise to excellence. I shared my assessment's results with President Obama and received his guidance. I discussed my findings with

you and other Members of Congress—privately and during hearings. And I consulted with literally thousands of Veterans, VA clinicians, VA employees, and Veteran Service Organizations (VSOs) and other stakeholders in dozens of meetings.

Since my July 29, 2014, confirmation, I have made 277 visits to VA field sites in more than 100 cities, including 47 visits to VA Medical Centers, 30 visits to homeless Veterans program sites, 16 visits to Community Based Outpatient Clinics, 15 Regional Offices, and 9 Cemeteries. I have attended 61 Veteran engagements through public and private partnerships and 60 stakeholder events to hear firsthand the problems and concerns impacting our Veterans. To recruit individuals to work for VA as medical professionals and in other critical fields, I have visited 50 medical schools, universities, and other educational institutions. This kind of outreach, partnership, and collaboration underpins our department-wide transformation to change VA's culture and make the Veteran the center of everything we do.

Progress

Transforming an organization of this size is an enormous undertaking. It will not happen overnight. But we are now running the government's second largest Department like a \$166 billion Fortune 6 organization should be run. That is, balancing near term performance improvements while rebuilding VA's long-term organizational health.

Effective change often requires new leadership, and we have made broad changes. Of our top 16 executives, 10 are new to their positions since I became Secretary. Our team today includes extensive executive expertise from the private sector: a former banking industry Chief Financial Officer and President of the USO; the former Chief Executive Officer of Beth Israel Medical Center in New York City and Morristown Medical Center in New Jersey; a former Chief Executive of Jollibee Foods and President of McDonald's Europe; a former Chief Information Officer of Johnson & Johnson and Dell Inc.; a former partner in McKinsey & Company's Transformational Change and Operations Transformation Practices; a retired partner in Accenture's Federal Services Practice; a former Chief Customer Officer for the City of Philadelphia who previously spent 10 years at United Services Association of America (USAA), one of the best and foremost customer-service organizations in the country; a former entrepreneur and CEO of multiple technology companies; and a retired Disney executive who spent 2010-2011 at Walter Reed National Military Medical Center enhancing the patient experience.

Most members of the executive leadership team are Veterans themselves. They have served from Vietnam to Iraq and Afghanistan, and each is here because he or she demonstrates a personal commitment to our mission. These fresh, diverse perspectives, combined with our more experienced government and health care executives, will continue to catalyze innovation and change.

Thanks to the continuing support of Congress, VSOs, union leaders, our dedicated employees, states, and private industry partners, we have made tremendous

headway over the past 18 months. In 2015, we made notable progress building the momentum that will begin delivering transformational changes that VA needs.

Congress has passed key legislation—such as the Veterans Access, Choice, and Accountability Act and the Clay Hunt Suicide Prevention for American Veterans Act—that gives VA more flexibility to improve our culture and ability to execute effectively.

Consistent with the culture of a High Performance Organization that serves Veterans and their families, we have turned VA's structural pyramid upside down. Veterans and their families are at the top. The Office of the Secretary is at the bottom, *supporting* subordinate leaders and the workforce who are serving Veterans. This method of thinking and operating is a reminder to all employees and stakeholders that we are here to support our Veterans, not our bosses.



While reinforcing our I-CARE Values, we are transitioning from a rules-based culture that may neglect the human dimension of service to a principles-based culture grounded in values, sound judgment, and the courage and opportunity “to choose the harder right instead of the easier wrong”

We formed a MyVA Advisory Committee (MVAC) to advise us on our transformation. The MVAC is comprised of a diverse group of business leaders, medical professionals, experienced government executives, and Veteran advocates. The Chairman is retired Major General Joe Robles, former Chairman and CEO of USAA. The Vice Chairman is Dr. J. Michael Haynie, Air Force Veteran, Vice Chancellor of Syracuse University and founder of the Institute for Veteran and Military Families (IVMF). The MVAC includes executives with deep customer service and transformation expertise from organizations such as Amazon, The Cleveland Clinic, McKinsey & Company, Johns Hopkins, Mayo Clinic, as well as a former Surgeon General, a former White House doctor for three US Presidents, a university president who was a Rhodes Scholar from the Air Force Academy who currently serves as a reserve Air Force Lieutenant Colonel, and advocates for both the traditional VSOs and post-9/11 Veterans' organizations.

Private sector leadership experts are bringing cutting-edge business skills and developing VA teams in new ways. We are training critical pockets of our workforce on advanced techniques like Lean and Human Centered Design. For example, working with the University of Michigan, we have already trained more than 5,000 senior leaders across the Nation in our “Leaders Developing Leaders.” The Veterans Benefits Administration (VBA), Veterans Health Administration (VHA), and our Veterans Experience team collaborated using Human Centered Design and Lean techniques to redesign the Compensation and Pension Examination (C&P Exam) process because we received consistent feedback that the process—often, a Veteran’s first impression of the VA when separating from service—can be a confusing and uncomfortable experience.

Across VA, we are encouraging different perspectives and listening to all of our key stakeholders, even those who are critical of VA. To benchmark and capture ideas and best practices along our transformation journey, we have been working collaboratively with world-class institutions like Procter & Gamble, USAA, Cleveland Clinic, Wegmans, Starbucks, Disney, Marriott and Ritz-Carlton, NASA, Kaiser Permanente, Hospital Corporation of America, Virginia Mason, DoD, and GSA, among others.



VA named the Department’s first Chief Veteran Experience Officer and began staffing the office that will work with the field to establish customer service standards, spread best practices, and train our employees on advanced business skills.

Rather than asking Veterans to navigate our complicated internal structure, we are redesigning functions and processes to fit Veteran needs in the spirit of General Omar Bradley’s 1947 proposition that “We are dealing with Veterans, not procedures; with their problems, not ours.”

We are realigning VA to facilitate internal coordination and collaboration among business lines—from nine disjointed, disparate organizational boundaries and organizational structures to a single framework. That means down-sizing from 21 service networks to 18 that are aligned in five districts and defined by state boundaries, except in California. This realignment means opportunities for local level integration, and it promotes consistently effective customer service. Veterans from Florida to

California, Puerto Rico to Maine, Alaska and Guam, and all parts in between, will see one VA.

We have developed a multi-year plan for creating a world-class Information Technology organization, and on November 11, Veterans Day, we launched the Vets.gov initial capability. Developed with support from the U.S. Digital Services Team and informed by extensive feedback from Veterans, Vets.gov is a modern, mobile-first, cloud-based website that will replace numerous other websites and website logins with a single, easy to navigate location. The website puts Veteran needs and wishes first, and we will continue to add the capability that's required to improve its accessibility and usefulness. As Vets.gov evolves, it will simplify the Veteran experience by re-using and making consistent Veteran information, including mailing address and phone number, across the agency.

At VA, we know that serving Veterans is a collaborative exercise, so we will not function in a vacuum. We are operating as part of a community of care, forming strategic partnerships with external organizations to leverage the goodwill, resources, and expertise of valuable partners to better serve our Nation's Veterans and help address a wide variety of Veteran needs, including employment, homelessness, wellness, and mental health. Partners include respected organizations like the YMCA, the Elks, the PenFed Foundation, LinkedIn, Coursera, Google, Walgreens, academic institutions, other Federal agencies, and many more. These partnerships reflect our commitment to re-thinking how VA does business so we can leverage the strengths of others who also care for Veterans.

We have enabled 39 Community Veterans Engagement Boards, a national network designed to leverage *all* community assets, not just VA assets, to meet local Veteran needs. Sixteen more communities are in development right now.

We have renewed and redefined working relationships with our union partners, and union leaders are part of the team, and have had significant input into MyVA. We continue to work with them to address issues and make sure our employees are involved often and early in every major decision.



We are continuing to develop a robust provider network while we streamline business processes and re-imagine how we obtain services such as billing, reimbursement credentialing, and information sharing.

We continue to listen, learn, and grow.

VA's Agency Priority Goals

In 2015, we were guided by and made notable progress toward reaching our three Agency Priority Goals (APGs)—(1) Improve Veteran Access to VA Benefits and Services, (2) End Veteran Homelessness, and (3) Eliminate the Disability Backlog. These accomplishments toward achieving our APGs demonstrate VA's commitment to using our resources effectively to improve care and benefits for Veterans.

Access

We expanded capacity by focusing on staffing, space, productivity, and VA Community Care.

Access. Since discovering the access challenges in Phoenix, Arizona, we have aggressively improved access to care, not just in Phoenix but across VA as a whole. For instance, in the first 12 months after discovering the Phoenix appointment backup, from June 2014 to June 2015, we completed 7 million more appointments than during the same period the year prior: 2.5 million of those appointments were at VA; 4.5 million appointments were in the community. Altogether in FY 2015, we completed 56.7 million appointments, nearly 2 million more than FY 2014. More than 97 percent (55 million) of those 56.7 million appointments were completed within 30 days of the clinically indicated or Veteran's preferred date, an increase of 1.4 million over FY 2014 numbers.

Veteran access is one of the five critical priorities supporting VA health care transformation with far-reaching impact across VA that Under Secretary for Health, Dr. David J. Shulkin announced in September 2015. With the Access Stand Downs, VHA is empowering each facility to focus on the needs of its specific population and refocusing people, tools, and systems on a journey of continuous improvement towards same-day access for primary care and urgent specialty care. The immediate goal is that no patients with urgent appointment requests in VA clinics with the most critical clinical needs, such as cardiology, urology, and mental health, are waiting more than 30 days.

From November 9, through November 13, 2015, VHA conducted a complete review of all Veterans waiting for appointments—with a focus on those Veterans waiting for clinically important and acute services—to ensure that the wait was clinically appropriate as determined by the Veteran's treatment team. This process culminated with the VHA's first Access Stand Down on November 14th—a nationwide effort to ensure Veterans get the right care at the right time.

In the first Access Stand Down, VHA reviewed nearly 55,800 of the more than 56,000 Level One, stat, consults that were open more than 30 days (as of November 6, 2015), a herculean effort. Of those 55,800 urgent open consults reviewed, 82 percent (45,849) were scheduled or closed by the end of that first Stand Down.

Building on the November 14th Access Stand Down momentum and success, VHA is continuing to maximize accessibility to outpatient services with the coming February 27th, 2016 Access Stand Down. The February Stand Down is an opportunity to make another significant leap in dramatically enhancing Veterans' access to care. Clinical operations will meet customer demand through resource-neutral, continuous improvement at the facility-level and scaling-up excellence across the enterprise.

VetLink data is another way we are listening to Veterans. Since September 2015, VHA has analyzed preliminary data from VetLink, our kiosk-based software that allows us to collect real-time customer satisfaction information. In all three separate VetLink surveys to date—related to nearly half-a-million appointments—Veterans told us that about 90 percent of the time, they are either “completely satisfied” or “satisfied” with getting the appointment when they wanted it. However, about 3 percent of Veterans who participated in the survey were either “dissatisfied” or “completely dissatisfied,” so we have more work to do.

Staffing. We increased net VHA staffing. VHA hired 41,113 employees, for a net increase of 13,940 health care staff, a 4.7 percent increase overall. That increase included 1,337 physicians and 3,612 nurses, and we filled several critical leadership positions, including the Under Secretary of Health.

Space. We activated 2.2 million square feet in FY 2015, adding to more than 1.7 million square feet of clinical space activated in FY 2014.

Productivity. We increased physician work Relative Value Units (RVUs) by 9 percent. VA completed more than 1.4 million extended hour completed encounters in primary care, mental health and specialty care in FY 2014 and more than 1.5 million in FY 2015, an increase of 5.7 percent in extended hour encounters.

Care in the Community

In 2015, VA obligated \$10.5 billion for Care in the Community, including resources provided through the Veterans Choice Act—an increase of \$2.3 billion (28 percent) over the 2014 level—which resulted in nearly 2.4 million authorizations for Veterans to receive Care in the Community from December 3, 2014 through December 2, 2015. Programmatically, this included care in the community for Veterans' dialysis, state home programs, community nursing care, Veterans home programs, emergency care, private medical facilities care, and care delivered at Indian health clinics. It also includes care under VA's CHAMPVA program for certain dependents who were entitled for that care.

Homelessness

Veteran homelessness has continued to decline, thanks in large part to unprecedented partnerships and vital networks of collaborative relationships across the Federal government, across state and local government, and with both non-profit and for-profit organizations. Ending and preventing Veteran homelessness is now becoming a reality in many communities, including: the Commonwealth of Virginia; the State of

Connecticut; New Orleans, Louisiana, Houston, Texas; Las Vegas, Nevada; Philadelphia, Pennsylvania; Syracuse, New York; Winston-Salem, North Carolina; and Las Cruces, New Mexico. In collaboration with our Federal and local partners, we have greatly increased access to permanent housing; a full range of health care including primary care, specialty care, and mental health care; employment; and benefits for homeless and at-risk for homeless Veterans and their families.

In FY 2015 alone, VA provided services to more than 365,000 homeless or at-risk Veterans in VHA's homeless programs. Nearly 65,000 Veterans obtained permanent housing through VHA Homeless Programs interventions, and more than 36,000 Veterans and their family members, including 6,555 children, were prevented from becoming homeless.

Overall Veteran homelessness dropped by 36 percent between 2010 and 2015, based on data collected during the annual Point-in-Time (PIT) Count conducted on a single night in January 2015. We saw a nearly 50 percent drop in unsheltered Veteran homelessness. Since 2010, more than 360,000 Veterans and their family members have been permanently housed, rapidly rehoused, or prevented from falling into homelessness.

Backlog

VA transitioned disability compensation claims processing from a paper-intensive process to a fully electronic processing system; as a result, 5,000 tons of paper per year were eliminated.

In FY 2015, VA decided a record-breaking 1.4 million disability compensation and pension (rating) claims for Veterans and their survivors—the highest in VA history for a single year. As of December 31, 2015, VA had driven down the disability claims backlog to 75,480, from a peak of over 611,000 in March 2013.



2016-2017 VA's Agency Priority Goals

In a collaborative, analytic process, VA has established our four new Agency Priority Goals (APGs). In FYs 2016 and 2017, our four APGs build upon and preserve progress we made in 2015. The new APGs will help accelerate transformation to MyVA and advance our framework for allocating resources to improve Veteran outcomes. Our new APGs are to (1) Improve Veterans Experience with VA, (2) Improve VA Employee Experience, (3) Improve Access to Health Care as Experienced by the Veteran, and (4) Improve Dependency Claims Processing. While no longer APGs, VA will continue to build upon the progress it has already made related to ending Veterans' Homelessness and eliminating the compensation rating claims backlog.

FY 2017 Budget Request

Our 2017 budget requests the necessary resources to allow us to serve the growing number of Veterans who selflessly served our Nation.

The 2017 Budget requests \$182.3 billion for VA—\$78.7 billion in discretionary funding (including medical care collections) and \$103.6 billion in mandatory funding for Veterans benefit programs. The discretionary request reflects an increase of \$3.6 billion (4.9 percent) over the 2016 enacted level. The budget also requests 2018 advance appropriations (AAs) of \$66.4 billion for Medical Care and \$103.9 billion for three mandatory accounts that support Veterans benefit payments (i.e., Compensation and Pensions, Readjustment Benefits, and Insurance and Indemnities).

We value the support that Congress has demonstrated in providing the resources needed to honor our Nation's Veterans. We are seeking your support for legislative proposals contained in the 2017 Budget—including many already awaiting Congressional action—to enhance our ability to provide Veterans the benefits and services they have earned through their service. The Budget also proposes a new General Transfer Authority that would allow VA to move discretionary funds across line items. Flexible budget authority would give VA greater ability to avoid artificial restrictions that impede our delivery of care and benefits to Veterans.

Rising Demand for VA Care and Benefits

Veterans are demanding more services from VA than ever before. As VA becomes more productive, the demand for benefits and services from Veterans of all eras continues to increase, and Veterans' demand for benefits has exceeded VA's capacity to meet it.

In 2014, when the Phoenix access difficulties came to light, VA had 300,000 appointments that could not be completed within 30 days of the date the Veteran needed or wanted to be seen. To meet that demand, VA rallied to add capacity to complete 300,000 more appointments each month, or about 3.5 million additional appointments annually.

Despite these extraordinary measures to increase capacity, VA was unable to absorb Veterans' increasing demand for health care. The number of Veterans waiting

for appointments more than 30 days rose by about 50 percent, to roughly 450,000 between 2014 and 2015, so we are aggressively working on innovative ways to address that challenge, and VHA's new Access Stand Downs are central to VHA's healthcare transformation efforts and addressing that challenge.

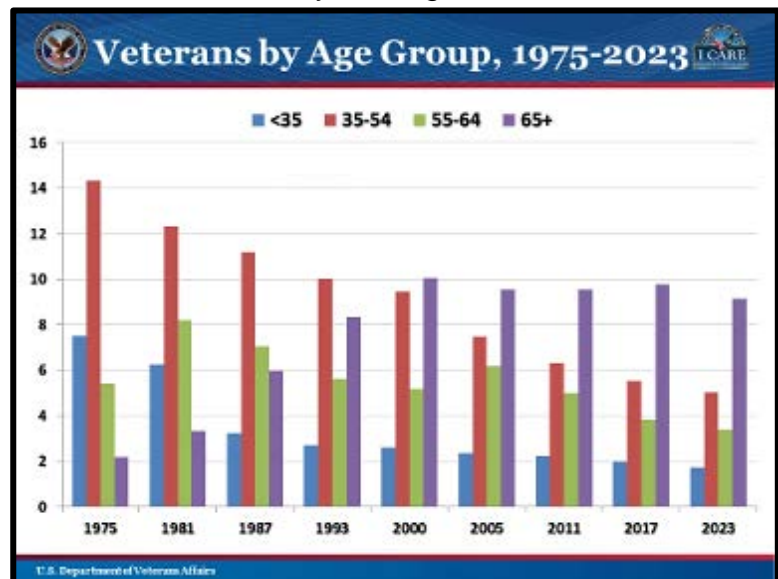
The trend of a growing demand for VA health care is fueled by more than a decade of war, Agent Orange-related disability claims, an unlimited claim appeal process, demographic shifts, increased medical issues claimed, and other factors. Additionally, survival rates among Americans who served in conflicts have increased, and more sophisticated methods for identifying and treating Veteran medical issues continue to become available. And, VA now serves a population that is older, has more chronic conditions, and is less able to afford care in the private sector. Workload will continue to increase as the military downsizes and Veterans regain trust in VA.



In 2017, the number of Veterans receiving medical care at VA will be over 6 million. VA expects to provide more than 115 million outpatient visits in 2017, an increase of 8.4 million visits over 2016, through both VA and Care in the Community.

Compared to FY 2009, the number of patients is projected to increase by 22 percent by FY 2017. And, as Veterans see the results of VA's transformation, we are confident that the number of Veterans utilizing VA services will continue to rise. Currently, 11 million of the 22 million Veterans in this country are registered, enrolled, or use at least one VA benefit or service.

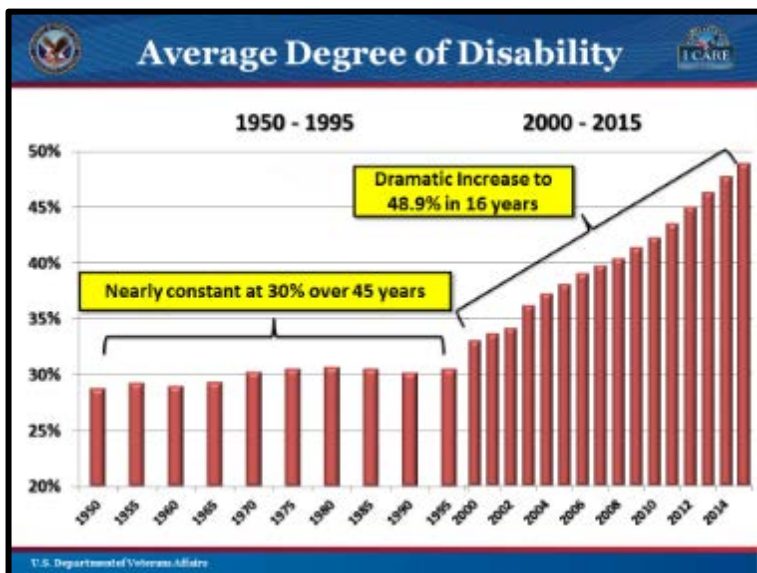
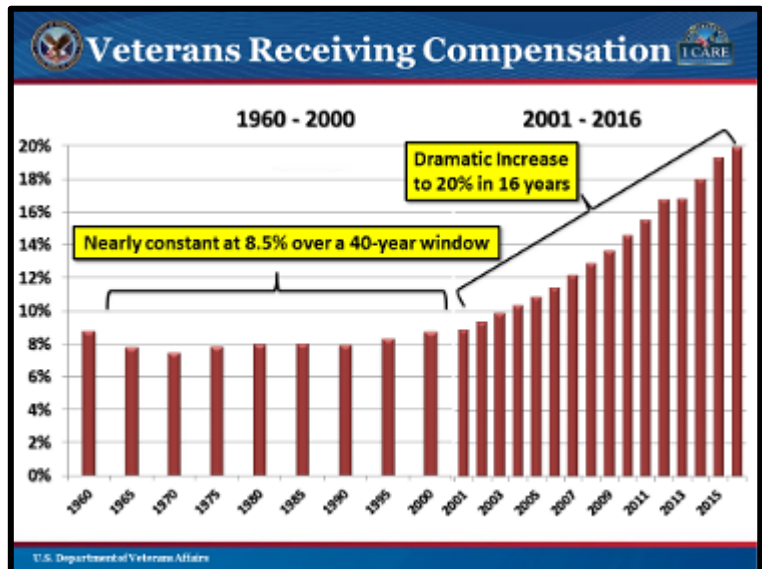
Veterans' health care and benefit requirements continue to increase decades after conflicts' end, and this fact is a fundamental, long-term challenge for VA. Forty years after the Vietnam War ended, the number of Vietnam Era Veterans receiving disability compensation has not yet peaked. VA anticipates a similar trend for Gulf War Era Veterans, only 26 percent of whom



have been awarded disability compensation.

Today, there are an estimated 22 million Veterans. The number of Veterans is projected to decline to around 15 million by 2040. However, while the absolute number may decline, an aging Veteran population requires greater care, services, and benefits. In 2017, 46 percent (or 9.8 million) of the 22 million Veteran population will be 65 years old or older, a dramatic increase since 1975 when only 7.5 percent (or 2.2 million) of the Veteran population was 65 years old or older.

While the percent of the Veteran population receiving compensation was nearly constant at 8.5 percent for more than 40 years, over the past 15 years there has been a striking increase to 20 percent. The total number of service-connected disabilities for Veterans receiving compensation grew from 11.8 million in 2009 to 19.7 million in 2015, an increase of more than 67 percent in just six years. This dramatic growth, combined with estimates based on historic trends, predicts an even greater increase in claims for more benefits as Veterans age and disabilities become more acute.



The increase in Veterans receiving compensation is accompanied by a significant increase in the average degree of disability granted to Veterans for disability compensation. For 45 years, from 1950 to 1995, the average degree of disability held steady at 30 percent. But, since 2000, the average degree of disability has risen to 49 percent. VBA's mandatory request for 2017 is \$103.6 billion, twice the amount spent in FY 2009.

As VA continues to improve access and quality of care, more Veterans will come to VA for more of their care. Veterans today often choose VA for care either because of personal preference or because of VA's economic edge. Some 78 percent of enrolled Veterans at VA have other choices like Medicare, Medicaid, Tricare, or private insurance. Out-of-pocket cost for Veterans at VA is often lower, and cost considerations are a key factor in Veterans'

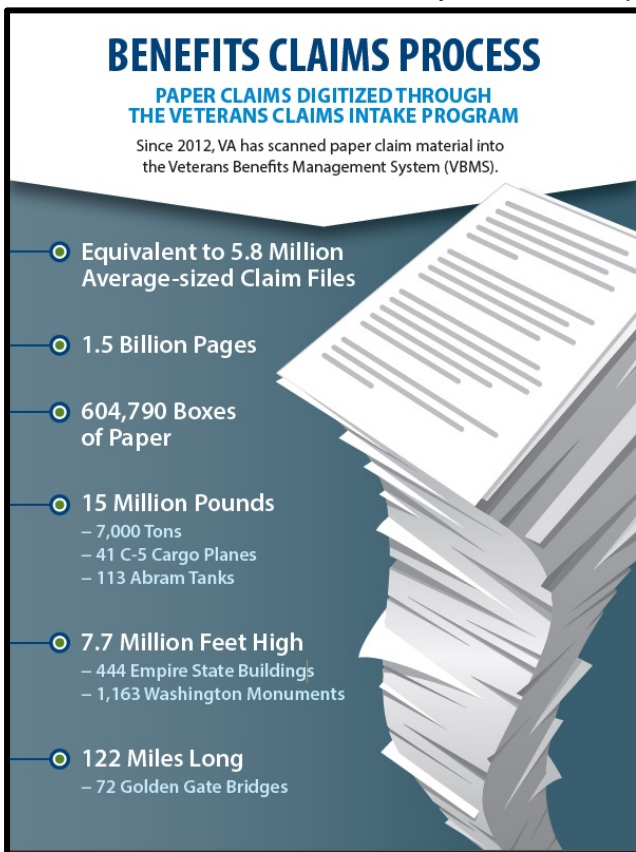
demand for VA health care. In 2014, Veteran enrollees received only 34 percent of their total health care through VA, accounting for about \$53 billion in 2014 costs. Just a one percent increase in Veteran reliance on VA health care will increase costs by \$1.4 billion.

Productivity Improvements and Stewardship

The MyVA transformation will ensure VA is a sound steward of the taxpayer dollar. We are instituting operational efficiencies, cost savings, productivity improvements, and service innovations to support this and future budget requests. We are assessing all aspects of VA operations using a business lens and pursuing changes so VA will deliver care and services more efficiently and effectively at the highest value to Veterans and taxpayers. For instance, few realize that when it comes to the general operating expense of distributing over a hundred-billion dollars in benefits to over 5.3 million Veterans and survivors, VBA spends only about 3 cents on the dollar. By any measure, that's an excellent return on investment. Our Reports, Approvals, Meetings, Measurements, and Policies (RAMMPs) process identifies practices to streamline or, in some cases, eliminate entirely. To free capacity and empower employees to identify

counter-productive or wasteful activities that management can eliminate, VA leaders at all levels of the organization are using RAMMP to address opportunities for improvement that employees have identified.

To boost efficiency and employee productivity, VA is quickly moving to paperless claims processing from its historically manual, paper-intensive process. Modernizing to an electronic claims processing system has helped VBA increase claim productivity per claims processor by 25 percent since 2011 and medical issue productivity by 82 percent per claims processor since 2009. This significant productivity increase helped mitigate the effects of the 131 percent increase in workload between 2009 and 2015, when the number of medical issues rose from 2.7 million to 6.4 million. VA's shift to electronic claims processing has meant converting paper files to eFolders.



Between 2012 and 2015, the Veterans Claims Intake Program (VCIP) scanned nearly 6 million claims files into Veterans' eFolders in the Veterans Benefits Management System (VBMS). VBA has removed more than 7,000 tons of claims-related papers formerly undermining efficiency, hampering productivity, and cluttering workspace.

In FY 2015, VBA deployed its innovative Centralized Mail Initiative to 56 regional offices (ROs) and one pension management center (PMC). Centralized Mail reroutes inbound compensation and pension claims-related mail directly to Claims and Evidence Intake Centers at document conversion services vendor sites, an innovation that improves productivity and enabled digital analysis of more than four million mail packets. Through Centralized Mail, VBA can more efficiently manage the claims workload, and prioritize and distribute claims electronically across the entire RO network, maximizing resources and improving processing timeliness.

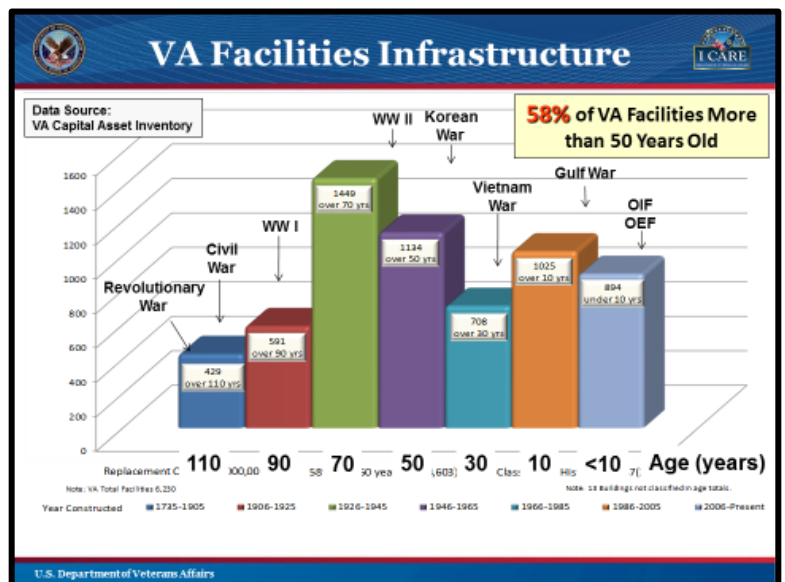
To strengthen financial management and stewardship, in FY 2015 VA launched its multi-year effort to replace VA's antiquated, 30-year-old core Financial Management System (FMS) with a 21st century system that will vastly improve VA financial management accuracy and transparency. The modernization effort requires robust enterprise-wide support across the Department. In FY 2015, VA committed to using a shared service solution and engaged the Department of Treasury's Office of Financial Innovation and Transformation (FIT) to pursue a Federal Shared Service Provider that leverages existing, successful investments and infrastructure across the government and meets our financial management system needs while supporting VA's mission of serving Veterans. VA also stood up a Program Management Office, initially staffed with 5 FTE from existing resources to lead and manage the effort, and identified an OIT Project Manager. VA has worked to compile lessons-learned from other agencies engaged in this effort and from VA's previous attempts to modernize the FTE, to ensure the effort is successful. Tasks ahead include strategies, roadmaps, and project plans, business process re-engineering, and engaging in significant change management activities.

Recent challenges managing non-VA care program finances have demonstrated the great risks and immense burden of the FMS legacy system. FMS failure would severely impede the Department's ability to execute its budget, pay vendors and Veterans, and produce accurate financial statements.

Closing Unsustainable Facilities

It is well-past time to close VA's old, substandard, and underutilized facilities. VA's 2016 Budget testimony last year explained that VA cannot be a sound steward of taxpayer resources with the asset portfolio it carries, and each year of delay makes the situation more costly and untenable. No sound business would carry such a portfolio, and Veterans and taxpayers deserve better.

VA currently has 370 buildings that are fully vacant or less than 50



percent occupied, which are excess to our needs. These vacant buildings account for over 5.2 million square feet of unneeded space. In addition, we have 770 buildings that are underutilized, accounting for more than 6.3 million square feet that are candidates to be consolidated to improve utilization and lower costs. This means we have to maintain over 1,100 buildings and 11.5 million square feet of space that is unneeded or underutilized – taking funding from needed Veteran services. We estimate that it costs VA \$26 million annually to maintain and operate these vacant and underutilized buildings. For example, when attempting to demolish the vacant storage facility in Bedford, Massachusetts, VA encountered environmental issues that prevented the demolition, forcing VA to either pay costly remediation costs to demolish a building we no longer need or maintain facilities such as this across the system.



**Bedford, Massachusetts –
Vacant Storage Building, built in 1939**

As the Veteran population has migrated, VA's capital infrastructure has not kept pace. We continue to operate medical facilities where the Veteran population is small or shrinking. Our smallest hospitals often do not have sufficient patient volume and complexity of care requirements to maintain the clinical skills and competencies of physicians and nurses.

Ensuring Veterans Access to Care

The President's 2017 Budget will allow VA to operate the largest integrated health care system in the country, including nearly 1,300 VA sites of health care and approximately 6 million Veterans receiving care; the eleventh largest life insurance provider, covering both active duty Servicemembers and enrolled Veterans; compensation and pension benefit programs serving more than 5.3 million Veterans and survivors; education benefits to more than one million students; vocational rehabilitation and employment benefits to more than 140,000 disabled Veterans; a home mortgage program that will guarantee more than 429,000 new home loans; and the largest national cemetery system that leads the industry as a high-performing organization, with projections to inter more than 132,000 Veterans and family members in 2017.

The 2017 Budget requests \$65 billion for medical care, an increase of \$3.9 billion (6.3 percent) over the 2016 enacted level. The increase in 2017 is driven by Veterans' demand for VA health care as a result of demographic factors, economic assumptions, investments in access, and high priority investments for caregivers, new Hepatitis C treatments, and support for Veterans Health Information Systems and Technology

Architecture (VistA) Evolution. The 2017 request supports programs to end and prevent Veteran homelessness, invests in strategic initiatives to improve the quality and accessibility of VA health care programs, continues implementation of the Caregivers and Veterans Omnibus Health Services Act, and provides for activation requirements for new or replacement medical facilities. The 2017 appropriations request includes an additional \$1.7 billion above the enacted 2017 AA for Veterans medical care. The request assumes approximately \$3.6 billion annually in medical collections in 2017 and 2018. For the 2018 Advance Appropriations for medical care, the current request is \$66.4 billion.

Hepatitis C Treatment

Although the Hepatitis C virus infection (HCV) takes years to progress, it is the main cause of advanced liver disease in the United States. Treatment of this disease remains a high priority because its cure dramatically lowers patients' risk of liver failure, liver cancer, and death.

VA is the largest single provider of care in the Nation for chronic HCV, and over the next five years, VA will strive to provide treatment to all Veterans with HCV who are treatment candidates. For FY 2017, VA is requesting \$1.5 billion for the cost of Hepatitis C drugs and clinical resources. With a budget of \$1.5 billion in FY 2017, VA expects to treat 35,000 patients with HCV. At the beginning of FY 2016, almost 120,000 Veterans in VA care were awaiting HCV treatment, of whom approximately 30,000 have advanced liver disease.

VA successfully negotiated extremely favorable pricing for both of the new treatments available—Harvoni and Viekira—from two different drug manufacturers by stressing VA's proven ability to deliver market share, VA's large HCV population, and the long-term impact that VA's physician residency programs can have on post-residency prescribing practices.

During FY 2015, VA medical facilities treated more than 30,000 Veterans for HCV with these new drugs with remarkable success, achieving cure rates of 90 percent, similar to those seen in clinical trials.

VA clinicians have rapidly adopted new, more effective therapies for HCV as they have become available. New therapies are costly and require well-trained clinical providers and support staff, presenting resource challenges for the Department. VA will focus resources on the sickest patients and most complex cases and continue to build capacity for treatment through clinician training and use of telehealth platforms. Patients with less advanced disease are being offered treatment through the Veterans Choice program in partnership with community HCV providers.

Care in the Community

VA is committed to providing Veterans access to timely, high-quality health care. The 2017 Budget includes \$12.2 billion for Care in the Community and includes a new Medical Community Care budget account, consistent with the VA Budget and Choice Improvement Act (P.L. 114-41). Of the total that will be spent on non-VA care in

FY 2017, \$7.5 billion will be provided through a transfer of the 2017 enacted AA from the Medical Services account to the new budget account, and \$4.7 billion will be provided through the resources provided in the Veterans Choice Act for implementation of the Veterans Choice Program.

The Choice Act increased VA's in-house capacity by funding medical personnel growth in VA facilities and expanded eligibility for Care in the Community to ensure access to care within 30 days and to provide care closer to home for enrollees residing more than 40 miles from a VA facility (the 40-mile group).

This additional capacity facilitated an increase in enrollees' reliance on VA health care by more than half a percent over the level expected in FY 2015. This growth was the result of enrollees increasing their use of VA funded health care versus their use of other health care options (Medicare, Medicaid, commercial insurance, etc.).

The FY 2015 growth in enrollee reliance was largely in Care in the Community, with the 40-mile group generating a more significant increase in care:

- In FY 2015, enrollees' reliance on VA health care increased by 0.7 percent overall. Reliance for the 40-mile group increased by 2.8 percent from 32.5 percent to 35.3 percent.
- The increase in reliance was mostly driven by growth in Care in the Community. Cost sharing levels in VA are lower than what is typically available elsewhere, which provides an incentive for enrollees to use VA-paid Care in the Community.

Enrollee reliance on VA health care is expected to continue to increase in 2016 and beyond to service the unmet demand that the Choice Act was enacted to address.

On October 30, 2015, VA provided Congress with a plan for the consolidation and improvement of all purchased care programs into one New Veterans Choice Program (New VCP). Consistent with this report, the 2017 Budget will include legislative proposals to streamline and improve VA's delivery of Community Care.

Caregiver Support Program

Caregivers give their time and love in countless behind-the-scenes ways. Whether they are helping with transportation to and from appointments, helping the Veteran apply for benefits, or helping with meals, bathing, clothing, medication, the spectrum of care is wide and compassion runs deep.

The 2017 Budget requests \$725 million for the National Caregivers Support Program to support nearly 36,600 caregivers, up from about 30,600 in FY 2016. Funding requirements for caregivers are driven by an increase in the eligible Veteran population, with caregiver enrollment increasing by an average of about 500 each month.

Ending Veteran Homelessness

The ambitious goal of ending Veteran homelessness has galvanized the Federal government and local communities to work together to solve this important National problem. Our systems are designed to help prevent homelessness whenever possible, and our goal is a systematic end to homelessness, meaning that there are no Veterans sleeping on our streets and every Veteran has access to permanent housing. Should Veterans become homeless or be at-risk of *becoming* homeless, there will be capacity to quickly connect them to the help they need to achieve housing stability.

The 2017 Budget supports VA's commitment to ending Veteran homelessness by emphasizing rescue for those who are homeless today and prevention for those at risk of homelessness. The 2017 Budget requests \$1.6 billion for VA homeless-related programs, including case management support for the Department of Housing and Urban Development (HUD)-VA Supportive Housing program (HUD-VASH), the Grant and Per Diem Program, VA justice programs, and the Supportive Services for Veteran Families program.

In FY 2015 and FY 2016, VA committed more than \$1.5 billion annually to strengthen programs that prevent and end homelessness among Veterans. Communities that have reached the goal or are close to effectively ending homelessness rely heavily on VA targeted homeless resources. Communities that have a sustainment plan are depending on those resources to be available as they continue to tackle homelessness and sustain the support for Veterans who have moved into permanent housing, ensuring that they maintain housing stability and do not fall back into homelessness.

VA will continue to advocate for its continuum of homeless services to address the needs associated with preventing first-time homelessness, as well as the needs of those who return to homelessness, and focus on the root causes associated with homelessness, including poverty, addiction, mental health, and disability.

Congress has an important role, as well, in ensuring adequate resources to meet the needs of those most vulnerable Veterans by enacting authorizations and other legislation to provide VA with a full complement of tools to combat homelessness—including legislation that is a prerequisite to carry out dramatic improvements to our West Los Angeles campus centered on the needs of Veterans.

Benefits Programs

The 2017 Budget requests \$2.8 billion and 22,171 FTE for VBA General Operating Expenses, an increase of \$93.4 million (3.4 percent) over the 2016 enacted level. The request includes an additional 300 full-time equivalent (FTE) employees for non-rating claims.

With the resources requested in the 2017 Budget, VA will provide:

- Disability compensation and pension benefits for 5.3 million Veterans and survivors, totaling \$86 billion;

- Vocational rehabilitation and employment benefits to nearly 141 thousand disabled Veterans, totaling \$1.4 billion;
- Education benefits totaling \$14 billion to more than one million Veterans and family members;
- Guaranty of more than 429,000 new home loans; and
- Life insurance coverage to 1.0 million Veterans, 2.2 million Servicemembers, and 2.8 million family members.

Improving the quality and timeliness of disability claim decisions has been integral to VBA's transformation of benefits delivery. VBA successfully streamlined a complex and paper-bound compensation claims process and implemented people, process, and technology initiatives necessary to optimize productivity and efficiency. In alignment with the MyVA initiative, VBA is working to further improve its operations with a focus on the customer experience. We are implementing enhancements to enable integration across our programs and organizational components, both inside and outside of VBA.

VBA has processed an unprecedented number of rating claims in recent fiscal years (nearly 1.4 million in 2015, and more than 1 million per year for the last 6 years). However, its success has resulted in other unmet workload demands. As VBA continues to receive and complete more disability rating claims, the volume of non-rating claims, appeals, and fiduciary field examinations increases correspondingly.

- **Non-rating claims.** VA completed nearly 37 percent more non-rating work in 2015 than 2013—and 15 percent more than 2014. The 2017 Budget requests \$29.1 million for an additional 300 non-rating claims processors to reduce the non-rating claims inventory and provide Veterans with more timely decisions on non-rating claims.
- **Appeals.** Over the last 20 years, appeal rates have continued to hold steady at between 11 and 12 percent of completed claims. As VBA continues to receive and complete record-breaking numbers of disability rating claims, the volume of appeals correspondingly increases. As of December 31, 2015, there were more than 440,000 benefits-related appeals pending in the Department at various stages in the multi-step appeals process, which divides responsibility between VBA and the Board of Veterans' Appeals (Board)—355,803 of those benefits-related appeals are in VBA's jurisdiction and 85,682 are within the Board's jurisdiction.

Under current law, VA appeals framework is complex, ineffective, and opaque, and veterans wait on average 5 years for final resolution of an appeal. The 2017 Budget supports the development of a Simplified Appeals Process to provide veterans with a simple, fair, and streamlined appeals procedure in which they would receive a final appeals decision within 365 days from filing of an appeal by FY 2021. The 2017 Budget provides funding to support over 900 FTE for the Board and proposes a legislative change that will improve an outdated and

inefficient process which will benefit all veterans through expediency and accuracy. We look forward to working with Congress, Veterans, and other stakeholders to implement improvements.

- **Fiduciary program.** The fiduciary program served 29 percent more beneficiaries in 2015 than it served in 2014. Program growth is primarily due to an increase in the total number of individuals receiving VA benefits and an aging population of beneficiaries. Additionally, in 2015 the fiduciary program changed the way it captures beneficiary population data and now reports all beneficiaries served during the course of the fiscal year. In 2015, fiduciary personnel conducted more than 84,000 field examinations, and VBA anticipates field examination requirements will exceed 97,000 in 2017.
- **Housing program.** The 2017 Budget includes \$34 million for the VA Loan Electronic Reporting Interface (VALERI) to manage the 2.4 million VA-guaranteed loans for Veterans and their families. VALERI connects VA with more than 320,000 Veteran borrowers and more than 225,000 mortgage servicer contacts. VA uses the VALERI tool to manage and monitor efforts taken by private-sector loan servicers and VA staff in providing timely and appropriate loss mitigation assistance to defaulted borrowers. Without these resources, approximately 90,000 Veterans and their families would be in jeopardy of losing their homes each year, potentially costing the government an additional \$2.8 billion per year. VALERI also supports payment of guaranty and acquisition claims.

The Budget requests the following advance appropriations amounts for 2018: \$90.1 billion for compensation and pensions, \$13.7 billion for readjustment benefits, and \$107.9 million for insurance and indemnities. VA will continue to closely monitor workload and monthly expenditures in these programs and will revise cost estimates as necessary in the Mid-Session Review of the 2017 Budget, to ensure the enacted advance appropriation levels are sufficient to address anticipated veteran needs throughout the year.

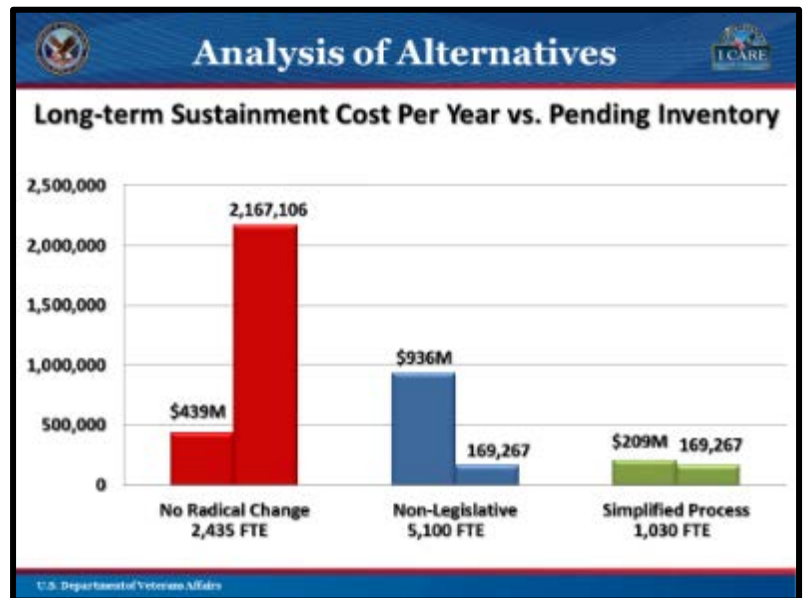
The Simplified Appeals Initiative

The current VA appeals process is broken. The more than 80-year-old process was conceived in a time when medical treatment was far less frequent than it is today, so it is encumbered by some antiquated laws that have evolved since WWI and steadily accumulated in layers.

Under current law, the VA appeals framework is complex, ineffective, confusing, and understandably frustrating for Veterans who wait much too long for final resolution of their appeal. The current appeals system has no defined endpoint, and multiple steps are set in statute. The system requires continuous evidence gathering and multiple re-adjudications of the very same or similar matter. A Veteran, survivor, or other appellant can submit new evidence or make new arguments at any time, while VA's duty to assist requires continuous development and re-adjudication. Simply put,

the VA appeals process is unlike other standard appeals processes across Federal and judicial systems.

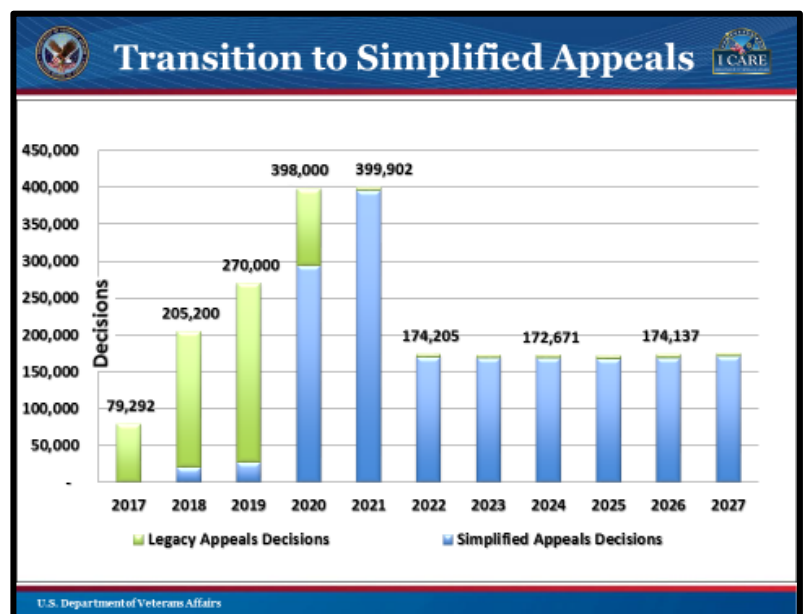
Fundamental legislative reform is essential to ensure that Veterans receive timely and quality appeals decisions, and we must begin an open, honest dialogue about what it will take for us to provide Veterans with the timely, fair, and streamlined appeals decisions they deserve. To put the needs, expectations, and interests of Veterans and beneficiaries first—a goal on which we can all agree—the appeals process must be modernized.



The 2017 Budget proposes a Simplified Appeals Process—legislation and resources (i.e., people, process, and technology) that would provide Veterans with a simple, fair, and streamlined appeals process in which they would receive a final decision on their appeal within one year from filing the appeal by FY 2021.

The 2017 Budget requests \$156.1 million and 922 FTE for the Board, an increase of \$46.2 million and 242 FTE above the FY 2016 enacted level. This is a down-payment on a long-term, sustainable plan to provide the best services to Veterans. This policy option also represents the best value to taxpayers (as outlined in the chart, Analysis of Alternatives).

Without legislative change or significant increases in staffing, VA will face a soaring appeals inventory, and Veterans will wait even longer for a decision on their appeal. If Congress fails to enact VA’s proposed legislation to simplify the appeals process, Congress would need to provide resources for VA to sustain more than double its appeals FTE, with approximately 5,100 appeals FTE onboard. The prospect of such a dramatic increase, while ignoring the need for structural reform, is not a good result for Veterans or taxpayers.

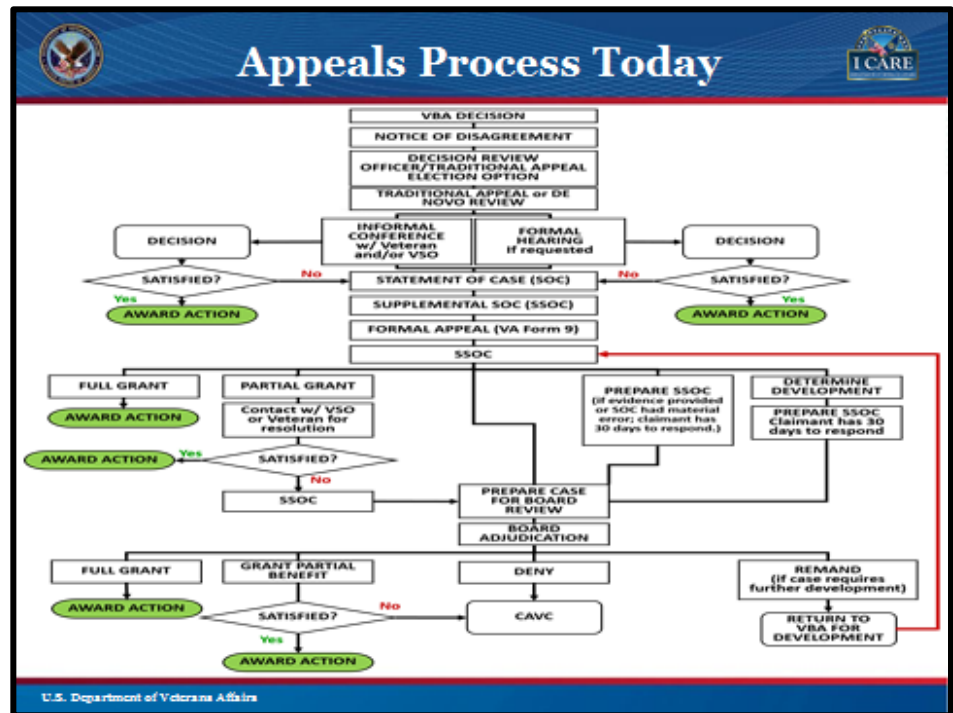


Simplified Appeals Process: Ramp Up and Long-Term Sustainment

While the Simplified Appeals proposal would require FTE increases

for the first several years to resolve the more than 440,000 currently pending appeals, by 2022, VA would be able to reduce appeals FTE to a sustainment level of roughly 1,030 FTE (including 980 FTE at the Board and 50 at VBA), a level sufficient to process all simplified appeals in one year. Notably, such a sustainment level is 1,135 FTE less than the current 2016 budget requires, and is 4,070 FTE less Department-wide than would be required to address this workload with FTE resources alone. In addition, this reform would essentially eliminate the need for appeals FTE at VBA, allowing these resources to be redirected within VBA to other priorities.

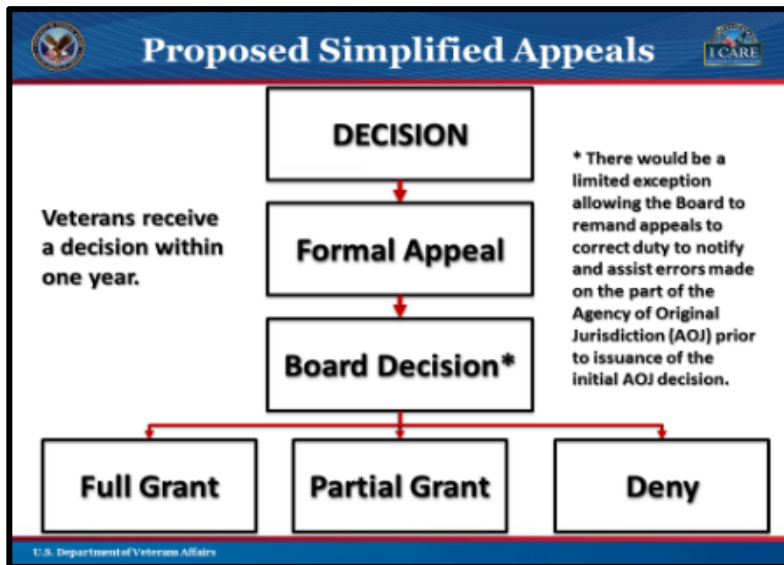
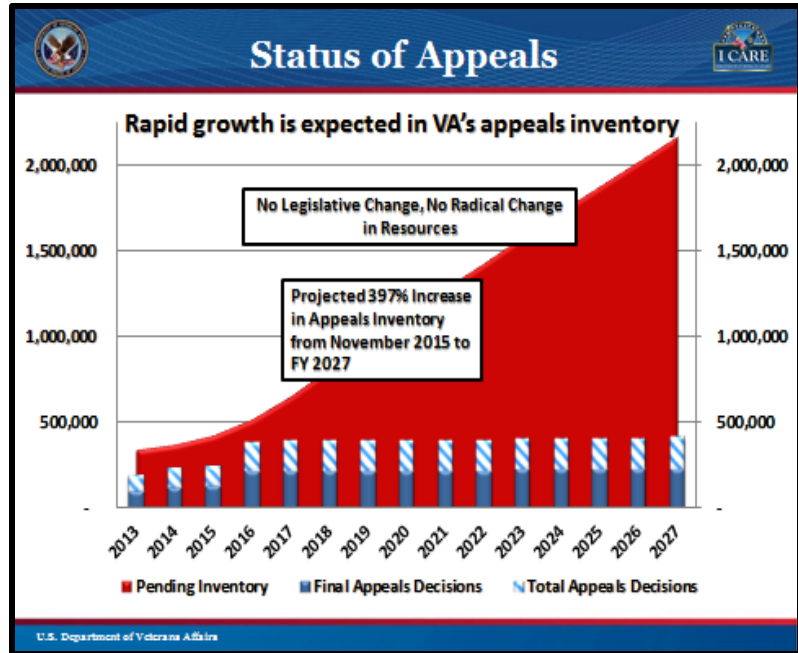
In 2015, the Board was still adjudicating an appeal that originated 25 years ago, even though the appeal had previously been decided by VA more than 27 times. Under the Simplified Appeals Process, most Veterans would receive a final appeals decision within one year of filing an appeal. Additionally, rather than trying to navigate a multi-step process that is too complex and too difficult to understand, Veterans would be afforded a transparent,



In today's Convoluted Appeals Process, Veterans Wait 5 Years for a Decision

single-step appeal process with only one entity responsible for processing the appeal. Essentially, under a simplified appeals process, as soon as a Veteran files an appeal, the case would go straight to the Board where a Judge would review the same record considered by the initial decision-maker and issue a final decision within one year; informing the Veteran whether that initial decision was substantially correct, contained an error that must be corrected, or was simply wrong. If a Veteran disagrees with any or all of the final appeals decision, the Veteran always has the option of filing a new claim for the same benefit once the appeal is resolved, or may pursue an appeal to the Court of Appeals for Veterans Claims.

Rapid growth in the appeals workload exacerbates this challenge. As VBA has produced record-setting claims-decision output over the past five years, appeals volume has grown commensurately. Between December 2012 and November 2015, the number of pending appeals rose by 34 percent. Under current law with no radical change in resources, the number of pending appeals is projected to soar by 397 percent—from 437,000 to 2.17 million (chart, Status of Appeals)—between November 2015 and FY 2027.

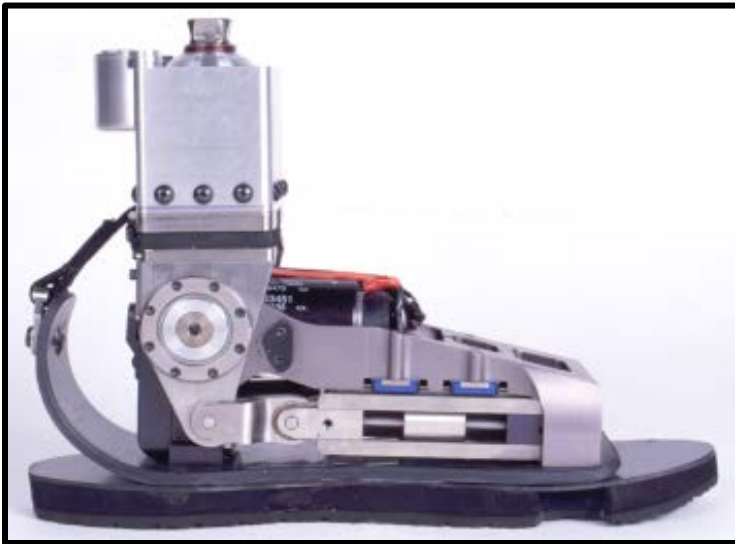


VA's Proposed Simplified Appeals Process: Veterans Receive an Appeal Decision Within One Year

VA firmly believes that justice delayed is justice denied. In the streamlined appeals process proposed in the FY 2017 President's Budget (chart, Proposed Simplified Appeals), there would be a limited exception allowing the Board to remand appeals to correct duty to notify and assist errors made on the part of the Agency of Original Jurisdiction (AOJ) prior to issuance of the initial AOJ decision.

Medical and Prosthetic Research

The 2017 Budget continues VA's program of groundbreaking, high standard research focused on advancing the health care needs of all Veterans. The 2017 Budget requests \$663 million for Medical Research and supports the President's Precision Medicine Initiative (PMI) to drive personalized medical treatment and the evolving science of Genomic Medicine—how genes affect health. In addition to the direct appropriation, Medical Research will be supported through \$1.3 billion from VA's Medical Care program and other Federal and non-Federal research grants. Total funding for Medical and Prosthetic Research will be more than \$2.0 billion in 2017.



The First Powered Ankle-Foot Prosthesis

VA research is focused on the U.S. Veteran population and allows VA to uniquely address scientific questions to improve Veteran health care. Most VA researchers are also clinicians and health care providers who treat patients. Thus, VA research arises from the desire to heal rather than pure scientific curiosity and yields remarkable returns.

For more than 90 years, VA research has produced cutting-edge medical and prosthetic breakthroughs that improve the lives of Veterans and

others. The list of accomplishments includes therapies for tuberculosis following World War II, the implantable cardiac pacemaker, computerized axial tomography (CAT) scans, functional electrical stimulation systems that allow patients to move paralyzed limbs, the nicotine patch, the first successful liver transplants, the first powered ankle-foot prosthesis, and a vaccine for shingles. VA researchers also found that one aspirin a day reduces by half the rate of death and nonfatal heart attacks in patients with unstable angina. More recently, VA investigators tested an insulin nasal spray that shows great promise in warding off Alzheimer's disease and found that prazosin (a well-tested generic drug used to treat high blood pressure and prostate problems) can help improve sleep and lessen nightmares for those with post-traumatic stress disorder.

Beyond VA's support of more than 2,200 continuing research projects, VA will leverage our Million Veteran Program (MVP)—already one of the world's largest databases of genetic information—to support several Precision Medicine Initiatives. The first initiative will evaluate whether using a patient's genetic makeup to inform medication selection is effective in reducing complications and getting patients the most effective medication for them. This initiative will focus on up to 21,500 Veterans with PTSD, depression, pain, and/or substance abuse.



VA's Million Veteran Program Recruitment

The second initiative will focus on additional analysis of DNA specimens already collected in the MVP. More than 438,000 Veteran volunteers have contributed DNA samples so far. Genomic analysis on these DNA specimens allows researchers to extract critical genetic information from these specimens. There are several possible “levels” of genomic analyses, with increasing cost.

Built into the design of MVP and currently funded within the VA research program is a process known as “exome chip” genotyping—the tip of the iceberg in genomic analysis. Exome Chip genotyping provides useful information, but newer technologies promise significantly greater information for improving treatments. VA proposes conducting the next level of analysis, known as “exome sequencing,” on up to 100,000 Veterans who are enrolled in MVP. This exome sequencing analyzes the part of the genome that codes for proteins—the large, complex molecules that perform most critical functions in the body. Sequencing efforts will begin with a focus on Veterans with PTSD and frequently co-occurring conditions such as depression, pain, and substance abuse, and expand to other chronic illnesses such as diabetes and heart disease, among others. This more detailed genetic analysis will provide greater information on the biological factors that may cause or increase the risk for these illnesses.

VA's research and development program improves the lives of Veterans and all Americans through health care discovery and innovation.

Other Priorities

Information Technology

The 2017 Budget demonstrates VA's commitment to using cutting-edge information technology (IT) to support transformation and ensure that the Veteran is at the center of everything we do. The Budget requests \$4.28 billion—an increase of \$145

million (3.5 percent) from the 2016 enacted level—to help stabilize and streamline core processes and platforms, eliminate the information security material weakness, and institutionalize new capabilities to deliver improved outcomes for Veterans. The request includes \$471 million for new efforts to develop, improve, and enhance clinical and benefits systems and processes and supports VA's strategy to replace FMS. The 2017 Budget was developed through Federal IT Acquisition Reform Act (FITARA) compliant processes led by the Chief Information Officer (CIO), in concert with the Chief Financial Officer and Chief Acquisition Officer.

In FY 2015, the Office of Information and Technology (OIT) developed an IT Enterprise Strategy and an Enterprise Cybersecurity Strategy. These strategies support OIT's vision to become a world-class organization that provides a seamless, unified Veteran experience through the delivery of state-of-the-art technology. OIT is implementing a new IT Security Strategy to improve VA's security posture and eliminate the Federal Information Security Management Act/Federal Information System Controls Audit Manual material weakness.

The 2017 Budget includes \$370.1 million for information security, an increase of 105 percent over the FY 2016 funding level. In addition, the 2017 Budget includes \$50 million to launch a new Data Management program to use data as a strategic resource. Under this program, VA will inventory its data collection activities—with the objective of requesting data from the Veteran only once—and dispose expired information in a secure and timely way. These two aspects will reduce VA costs for data storage and support safeguards for Veterans' information.

National Cemetery Administration

The National Cemetery Administration (NCA) has the solemn duty to honor Veterans and their families with final resting places in national shrines and with lasting tributes that commemorate their service and sacrifice to our Nation. The 2017 Budget requests \$286 million, an increase of \$15 million (5.5 percent) to allow VA to provide perpetual care for more than 3.5 million gravesites and more than 8,800 developed acres. The Budget supports NCA's efforts to raise and realign gravesites and repair turf in order to maintain cemeteries as national shrines. The Budget also continues implementation of a Geographic Information System to enable enhanced accounting of remains and gravesites and enhanced gravesite location for visitors. The Budget positions NCA to meet Veterans' emerging burial and memorial needs in the decades to come by ensuring that Veterans and their families continue to have convenient access to a burial option in a National, state, or tribal Veterans cemetery and that the service they receive is dignified, respectful, and courteous.

VA Infrastructure

The 2017 Budget requests \$900.2 million for VA's Major and Minor construction programs. The Budget invests in infrastructure projects at existing campuses that will lead to seismically safe facilities, ensuring that Veterans are safe when they seek care. The capital asset budget request demonstrates VA's commitment to address critical Major construction projects that directly affect patient safety and seismic issues, and

reflects VA's promise to provide safe and secure facilities for Veterans. The 2017 Budget also requests funding to ensure that VA has the ability to provide eligible Veterans with access to burial services through new and expanded cemeteries, and prevent the closure to new interments in existing cemeteries.

VA acknowledges the transformation underway in the landscape for health care delivery. Our future space needs may be impacted by the changes we are already implementing in how we deliver care for Veterans. In addition, we plan to potentially incorporate any recommendations from the Commission on Care and their impact on our changing service delivery into our long-term infrastructure strategy.

Leasing provides flexibility and enables VA to more quickly adapt to changes in medical technology, workload, new programs, and demographics. VA is also looking to Congress for authorization of 18 leases submitted in VA's FY 2015 and 2016 Budget requests. The pending major medical facility lease projects will replace, expand, or create new outpatient clinics and research facilities and are critical for providing access for Veterans and enhancing our research capabilities nationwide. The 2017 Budget includes a request to authorize six additional replacement major medical facility leases under VA's authority in 38 U.S.C. §§ 8103 and 8104 and with the anticipated delegation of leasing authority from the General Services Administration. The Department is awaiting authorization of its request to expand the definition of "Medical Facilities" in VA's authorizing statutes to allow VA to more easily partner with other Federal agencies. Another proposal that deserves attention is authorization of enhanced use lease (EUL) authority to encompass broader possibilities for mixed-use projects. This change would give VA more opportunities to engage the private sector, local governments, and community partners by allowing VA to use underutilized property that would benefit Veterans and VA's mission and operations.

Major Construction

The 2017 Budget requests \$528.1 million for Major Construction. The request includes funds to address seismic problems in facilities in Long Beach, California, and Reno, Nevada. These projects will correct critical safety and seismic deficiencies that pose a risk to Veterans, VA staff, and the public. Consistent with Public Law 114-58, the Department must identify a non-VA entity to execute these two projects, as they are more than \$100 million. We have identified the U.S. Army Corps of Engineers as our construction agent to execute these projects.



San Fernando Medical Center collapse, 1971

We must prevent the devastation and potential loss of life that may occur because our facilities are vulnerable to earthquakes—such as the one that occurred in 1971 in San Fernando, California. As shown, a 6.5-magnitude earthquake caused two

buildings in the San Fernando Medical Center to collapse and 46 patients and staff to lose their lives.

These images show a known seismic deficiency at the San Francisco Medical Center—built in 1933—wherein the rebar does not extend into the “pile cap.”

The request also includes funding for new national cemeteries in western New York and southern Colorado, and national cemetery expansions in Jacksonville, Florida and South Florida. These cemetery projects support NCA’s goal to ensure that eligible Veterans have access to a burial option within a reasonable distance from their residences.



San Francisco Medical Center



- The new western New York national cemetery will establish a dignified burial option for more than 96,000 Veterans plus eligible family members in the western New York region.
- The new southern Colorado national cemetery will establish a dignified burial option for more than 95,000 Veterans plus eligible family members in the southern Colorado region.
- The Jacksonville National Cemetery expansion will develop approximately 30 acres of undeveloped land to provide approximately 20,200 gravesites.
- The South Florida National Cemetery expansion will develop approximately 25 acres of undeveloped land to provide approximately 21,750 gravesites.

Minor Construction

In 2017, the Budget requests \$372 million for Minor Construction. The requested amount would provide funding for ongoing projects that renovate, expand and improve VA facilities, while increasing access for our Veterans. Examples of projects include enhancing women’s health programs; providing additional domiciliaries to further address Veterans’ homelessness; improving safety; mitigating seismic deficiencies; transforming facilities to be more Veteran-centric; enhancing patient privacy; and enhancing research capabilities.

The Minor Construction request will also provide funding for gravesite expansion and columbaria projects to keep existing national cemeteries open, and will support NCA’s urban and rural initiatives. It will also provide funding for projects at VBA

regional offices nationwide and will fund infrastructure repairs and enhancements to improve operations for the Department's staff offices.

Leasing

The 2017 Budget includes a request to authorize six replacement major medical facility leases located in Corpus Christi, Texas; Jacksonville, Florida; Pontiac, Michigan; Rochester, New York; Tampa, Florida; and Terre Haute, Indiana. These leases will allow VA to provide continued access to Veterans that are served in these locations.

MyVA Transformation

MyVA puts Veterans in control of how, when, and where they wish to be served. It is a catalyst to make VA a world-class service provider—a framework for modernizing VA's culture, processes, and capabilities to put the needs, expectations, and interests of Veterans and their families first. A Veteran walking into any VA facility should have a consistent, high-quality experience.

MyVA will build upon existing strengths to promote an environment where VA employees see themselves as members of one enterprise, fortified by our diverse backgrounds, skills, and abilities. Moreover, every VA employee—doctor, rater, claims processor, custodian, or support staffer, or the Secretary of Veterans Affairs—will understand how they fit into the bigger picture of providing Veteran benefits and services. VA, of course, must also be a good steward of public resources. Citizens and taxpayers should expect to see efficiency in how we run our internal operations.



The FY 2017 budget will make investments toward the five critical MyVA objectives:

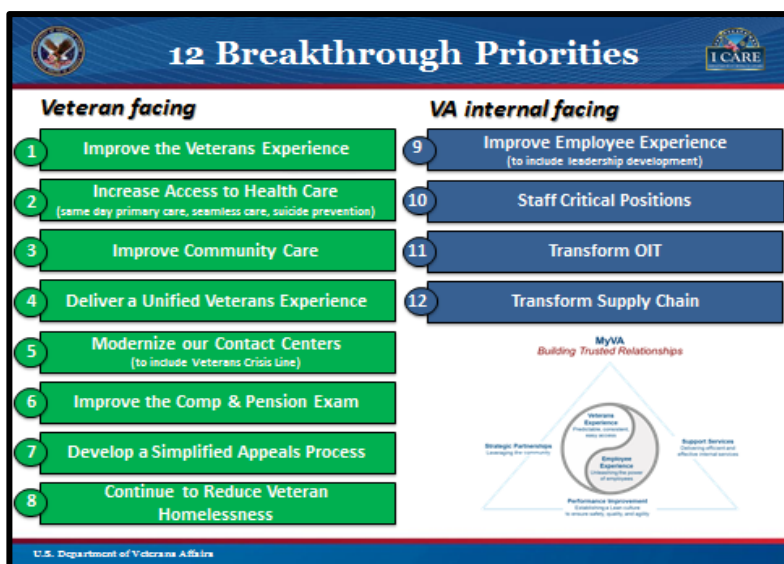
1. **Improving the Veteran experience:** At a bare minimum, every contact between Veterans and VA should be predictable, consistent, and easy; however, we are aiming to make each touchpoint exceptional. It begins with receptionists who are pleasant to our Veteran clients, but there is also a science to this experience. We are focusing on human-centered design, process mapping, and working with leading design firms to learn and use the technology associated with improving every interaction with clients.

2. **Improving the employee experience—so we can better serve Veterans:** VA employees are the face of VA. They provide care, information, and access to earned benefits. They serve with distinction daily. We cannot make things better for Veterans without improving the work experience of our dedicated employees. We must train them. We must move from a rules/fear-based culture to a principles/values-based culture. I learned in the private sector that it is absolutely not a coincidence that the very best customer-service organizations are almost always among the best places to work.
3. **Improving internal support services:** We will let employees and leaders focus on assisting Veterans, rather than worrying about “back office” issues. We must bring our IT infrastructure into the 21st century. Our scheduling system, where many of our issues with access to care were manifest, dates to 1985. Our Financial Management System is written in COBOL, a language I used in 1973. This is simply unacceptable. It impedes all of our efforts to best serve Veterans.
4. **Establishing a culture of continuous improvement:** We will apply Lean strategies and other performance improvement capabilities to help employees examine their processes in new ways and build a culture of continuous improvement.
5. **Enhancing strategic partnerships:** Expanding our partnerships will allow us to extend the reach of services available for Veterans and their families. We must work effectively with those who bring capabilities and resources to help Veterans.

Breakthrough Priorities for CY 2016

While we have made progress, we are still on the first leg of a multi-year journey. We have narrowed down our near-term focus to 12 “breakthrough priorities.”

Many of these reflect issues which are not new—they have been known problems, in some cases, for years. We have already seen some progress in solving many of them. However, we still have much work to do.



The following are our 12 priorities and the 2016 outcomes to which we aspire. We understand that it will be a challenge to accomplish all of these goals this year, but we have committed ourselves to producing results for Veterans and creating irreversible momentum to continue the transformation in future years.

Veteran Facing Goals

1. Improve the Veteran Experience.

- Breakthrough Outcome for 2016:
 - Strengthen the trust in VA to fulfill our country's commitment to Veterans; currently measured at 47 percent, we want it to be 70 percent by year end.
 - Establish a Department-wide customer experience measurement framework to enable data-driven service improvements.
 - Make the Veterans Experience office fully operational.
 - Expand the network of Community Veteran Engagement Boards to more than 100.
 - Additionally, in order to deliver experiences to Veterans that are effective, easy, and in which Veterans feel valued, medical centers will ensure that they are fully staffed at the frontline with well-prepared employees who have been selected for their customer service. Functionally, this means new frontline staff will be assessed through a common set of customer service criteria, hired within 30 days of selection, and provided a nationally standardized onboarding and training program.

2. Increase Access to Health Care.

- Breakthrough Outcome for 2016:
 - When Veterans call or visit primary care facilities at a VA Medical Center, their clinical needs will be addressed the same day.
 - When Veterans call for a new mental health appointment, they receive a suicide risk assessment and immediate care if needed. Veterans already engaged in mental health care identifying a need for urgent attention will speak with a provider the same day.
 - Utilizing existing VistA technology, Veterans will be able to conveniently get medically necessary care, referrals, and information from any VA Medical Center, in addition to the facility where they typically receive their care.

3. Improve Community Care.

- Breakthrough Outcome for 2016: Improve the Veterans' experience with Care in the Community. Following enactment of our requested legislation, by the end of the year:
 - VA will begin to consolidate and streamline its non-Department Provider Network and improve relationships with community providers and core partners.
 - Veterans will be able to see a community provider within 30 days of their referral.
 - Non-Department claims will be processed and paid within 30 days, 85 percent of the time.

- Health care claims backlog will be reduced to less than 10 percent of total inventory.
- Referral and authorization time will be reduced.

4. Deliver a Unified Veteran Experience.

- Breakthrough Outcome for 2016:
 - Vets.gov will be able to provide Veterans, their families, and caregivers with a single, easy-to use, and high-performing digital platform to access the VA benefits and services they have earned.
 - Vets.gov will be data-driven and designed such that the top 100 search terms will be available within one click from search results. The top 100 search terms will all be addressed within one click on the site.
 - All current content, features and forms from the current public-facing VA websites will be redesigned, rewritten in plain language, and migrated to Vets.gov, in priority order based on Veteran demand.
 - Additionally, we will have one authoritative source of customer data; eliminating the disparate streams of Administration-specific data that require Veterans to replicate inputs.

5. Modernize our Contact Centers (Including Veterans Crisis Line).

- Breakthrough Outcome for 2016:
 - Veterans will have a single toll free phone number to access the VA Contact Centers, know where to call to get their questions answered, receive prompt service and accurate answers, and be treated with kindness and respect. VA will do this by establishing the initial conditions necessary for an integrated system of customer contact centers.
 - By the end of this year, every Veteran in crisis will have his or her call promptly answered by an experienced responder at the Veterans Crisis Line.

6. Improve the Compensation & Pension (C&P) Exam Process.

- Breakthrough Outcome for 2016:
 - Improved Veteran satisfaction with the C&P Exam process. We have a baseline satisfaction metric in place and have established a goal for significant improvement.
 - VA will have a national rollout of initiatives to ensure the experience is standardized across the Nation.

7. Develop a Simplified Appeal Process.

- Breakthrough Outcome for 2016:
 - Subject to successful legislative action, put in place a simplified appeals process, enabling the Department to resolve 90 percent of appeals within one year of filing by 2021.

- Increase current appeals production to more rapidly reduce the existing appeals inventory.

8. Continue Progress in Reducing Veteran Homelessness.

- Breakthrough Outcome for 2016:
 - Continue progress toward an effective end to Veteran homelessness by permanently housing or preventing homelessness for an additional 100,000 Veterans and their family members,

VA Internal Facing Goals

9. Improve the Employee Experience (Including Leadership Development).

- Breakthrough Outcome for 2016:
 - Continue to improve the employee experience by developing engaged leaders at all levels who inspire and empower all employees to deliver a seamless, integrated, and responsive VA customer service experience.
 - More than 12,000 engaged leaders skilled in applying LDL principles, concepts, and tools will work projects and/or initiatives to make VA a more effective and efficient organization.
 - Improve VA's employee experience by incorporating LDL principles into VA's leadership and supervisor development programs and courses of instruction.
 - VA Senior Executive performance plans will include an element that targets how to improve employee engagement and customer service, and all VA employees will have a customer service standard in their performance plans.
 - All VA supervisors will have a customer service standard in their performance plans.
 - VA will begin moving from paper-based individual development plans to a new electronic version, making it easier for both supervisors and employees.

10. Staff Critical Positions.

- Breakthrough Outcome for 2016:
 - Achieve significantly improved critical staffing levels that balance access and clinical productivity, with targets of 95 percent of Medical Center Director positions filled with permanent appointments (not acting) and 90 percent of other critical shortages addressed—management as well as clinical.
 - Work to reduce “time to fill” hiring standards by 30 percent.

11. Transformation the Office of Information & Technology (OIT).

- Breakthrough Outcome for 2016: Achieve the following key milestones on the path to creating a world-class IT organization that improves the support to business partners and Veterans.

- Begin measuring IT projects based on end product delivery, starting with a near-term goal to complete 50 percent of projects on time and on budget.
- Stand up an account management office.
- Develop portfolios for all Administrations.
- Tie all supervisors' and executives' performance goals to strategic goals.
- Close all current cybersecurity weaknesses.
- Develop a holistic Veteran data management strategy.
- Implement a quality and compliance office.
- Deploy a transformational vendor management strategy.
- Ensure implementation of key initiatives to improve access to care.
- Establish one authoritative source for Veteran contact information, military service history, and Veteran status.
- Finalize the Congressionally mandated DoD-VA Interoperability requirements.

12. Transform Supply Chain.

- *Breakthrough Outcome for 2016:*
 - Build an enterprise-wide integrated Medical-Surgical supply chain that leverages VA's scale to drive an increase in responsiveness and a reduction in operating costs. More than \$150 million in cost avoidance will be redirected to priority Veteran programs.

We are rigorously managing each of these “breakthrough priorities” by instituting a Department level scorecard, metrics, and tracking system. Each priority has an accountable and responsible official and a cross-functional, cross-Department team in support. Each team meets every other week in person with either the Secretary or Deputy Secretary to discuss progress, identify roadblocks, and problem solve solutions. This is a new VA—more transparent, collaborative, and respectful; less formal and bureaucratic; more execution and outcome-focused; principles based, not rules-based.

Legislative Priorities

The Department is grateful for your continuing support of Veterans and appreciates your efforts to pass legislation enabling VA to provide Veterans with the high-quality care they have earned and deserve. We have identified a number of necessary legislative items that require action by Congress in order to best serve Veterans going forward:

1. **Improve Care in the Community:** We need your help, as discussed on many occasions, to help overhaul our Care in the Community programs. VA staff and subject matter experts have communicated regularly with congressional staff to discuss concepts and concerns as we shape the future plan and recommendations. We believe that together we can accomplish legislative

changes to streamline Care in the Community programs before the end of this session of Congress.

2. **Flexible Budget Authority:** We need flexible budget authority to avoid artificial restrictions that impede our delivery of care and benefits to Veterans. Currently, there are more than 70 line items in VA's budget that dedicate funds to a specific purpose without adequate flexibility to provide the best service to Veterans. These include limitations within the same general areas, such as health care funds that cannot be spent on health care needs. These restrictions limit VA's ability to deliver Veteran care and benefits based on demand, rather than specific funding lines. The 2017 Budget proposes language to provide VA with new authority to transfer up to two percent of the discretionary appropriations for fiscal year 2017 between any of VA's discretionary appropriations accounts. This new authority would give VA greater ability to address emerging needs and overcome artificial funding restrictions on providing Veterans' care and benefits.
3. **Support for the Purchased Health Care Streamlining and Modernization Act:** This legislation would clarify VA's ability to contract with providers in the community on an individual basis, outside of Federal Acquisition Regulations (FAR), without forcing providers to meet excessive compliance burdens, while maintaining essential worker protections. The proposal allows this option only when care directly from VA or from a non-VA provider with a FAR-based agreement in place is not feasibly available. Already, we have seen certain nursing homes not renew their agreements with VA because of the excessive compliance burdens, and as a result, Veterans are forced to find new nursing home facilities for residence.

VA further requests your support for our efforts to recruit and retain the very best clinical professionals. These include, for example, flexibility for the Federal work period requirement, which is inconsistent with private sector medicine, and special pay authority to help VA recruit and retain the best talent possible to lead our hospitals and health care networks.

4. **Special Legislation for VA's West Los Angeles Campus:** VA has requested legislation to provide enhanced use leasing authority that is necessary to implement the Master Plan for our West Los Angeles Campus. That plan represents a significant and positive step for Veterans in the Greater West Los Angeles area, especially those who are most in need. We appreciate the Committee's hearing in December 2015 on legislation to implement that Master Plan, and VA urges your support for expedited consideration of this bill to secure enactment of it in this session of Congress. Enactment of the legislation will allow us to move forward and get positive results for the area's Veterans after years of debate in the community and court action. This bill would reflect the settlement of that litigation, and truly be a win-win for Veterans and the community. I believe this is a game-changing piece of legislation as it highlights the opportunities that are possible when VA works in partnership with the community.

- 5. Overhaul the Claims Appeals Process:** As mentioned earlier, VA needs legislation that sets out structural reforms that will allow VBA and the Board to provide Veterans with the timely, fair, and quality appeals decisions they deserve thereby addressing the growing inventory of appeals.

Lastly, let me again remind everyone that the vast majority of VA employees are hard workers who do the right thing for Veterans every day. However, we need your assistance in supporting the cultural change we are trying to drive. We are working to change the culture of VA from one of rules, fear, and reprisals to one of principles, hope, and gratitude. We need all stakeholders in this transformation to embrace this cultural transformation, including Congress. In fact, I think Congress, above all, recognizes the policy window we have at hand and must have the courage to make the type of changes it is asking VA and our employees to make. Congress can only put Veterans first by caring for those who serve Veterans.

Our dedicated VA employees, if given the right tools, training, and support, can and go out of their way to provide the best care possible to our Veterans and their families.

Closing

VA exists to serve Veterans. We have spent the last year and a half working to find new and better ways to provide high quality care and administer benefits effectively and efficiently through responsible use of taxpayer dollars. We will continue to face enormous challenges, and this budget request will provide the resources needed to continue the transformation of this Department.

This budget and associated legislative proposals will allow us to streamline care for Veterans and improve access by addressing existing gaps, develop a simplified appeals process, further the progress we have made to eliminate the VBA claims backlog and end Veteran homelessness, and improve our cyber security posture to protect Veteran and employee data. It will also allow us to continue implementing MyVA to guide overall improvements to VA's culture, processes, and capabilities.

I have pledged that VA will ensure that the funds Congress appropriates to VA will be used to improve both the quality of life for Veterans and the efficiency of our operations. I am proud to continue this work and recognize there is much left to be done. We have made great strides and are grateful for the support of Congress through this transformation.

Thank you for the opportunity to appear before you today and for your continued steadfast support of Veterans. We look forward to your questions.