CARL BLAKE, NATIONAL LEGISLATIVE DIRECTOR, PARALYZED VETERANS OF AMERICA

STATEMENT OF
CARL BLAKE
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BEFORE THE
SENATE COMMITTEE ON VETERANS' AFFAIRS
CONCERNING
THE INDEPENDENT BUDGET
AND THE DEPARTMENT OF VETERANS AFFAIRS BUDGET
FOR FISCAL YEAR 2013

FEBRUARY 29, 2012

Chairman Murray, Ranking Member Burr, and members of the Committee, as one of the four co-authors of The Independent Budget (IB), Paralyzed Veterans of America (PVA) is pleased to present the views of The Independent Budget regarding the funding requirements for the Department of Veterans Affairs (VA) health care system for FY 2013.

As the country faces a difficult and uncertain fiscal future, the Department of Veterans Affairs likewise faces significant challenges ahead. Following months of rancorous debate about the national debt and federal deficit during the summer of 2011, Congress agreed upon a deficit reduction measure, P.L. 112-25, that could lead to cuts in discretionary and mandatory spending for VA. The coauthors of The Independent Budget—AMVETS, Disabled American Veterans, Paralyzed Veterans of America, and the Veterans of Foreign Wars—have serious concerns about the potential reductions in VA spending. While changes to benefits programs and cuts to discretionary programs have unique differences, the impact of these possibilities will be equally devastating for veterans and their families.

Discretionary spending in VA accounts for approximately $62 billion. Of that amount, nearly 90 percent of that funding is directed toward VA medical care programs. The VA is the best health-care provider for veterans. Providing primary care and specialized health services is an integral component of VA's core mission and responsibility to veterans. Across the nation, VA is a model health-care provider that has led the way in various areas of medical research, specialized services, and health-care technology. The VA's unique system of care is one of the nation's only health-care systems that provides developed expertise in a broad continuum of care. Currently, the Veterans Health Administration serves more than 8 million veterans and provides specialized health-care services that include program specific centers for care in the areas of spinal cord injury/disease, blind rehabilitation, traumatic brain injury, prosthetic services, mental health, and war-related polytraumatic injuries. Such quality and expertise on veterans' health care cannot be adequately duplicated in the private sector. Any reduction in spending on VA health-care programs would only serve to degrade these critical services.

The Independent Budget veterans service organizations (IBVSOs) are especially concerned about steps VA has taken in recent years in order to generate resources to meet ever-growing demand on the VA health-care system. In fact, the FY 2012 and FY 2013 advance appropriation budget proposal released by the Administration last year included "management improvements," a popular gimmick used by previous Administrations to generate savings and offset the growing costs to deliver care. Additionally, the FY 2013 Budget Request and FY 2014 advance appropriation recommendation includes many of the same "management and program improvements." Unfortunately, these savings are often never realized leaving VA short of necessary funding to address ever-growing demand on the health-care system. In fact, the Government Accountability Office (GAO) outlined its concerns with this budget accounting technique in a report released to the House and Senate Committees on Veterans' Affairs in June 2011. In its report, the GAO states:

If the estimated savings for fiscal years 2012 and 2013 do not materialize and VA receives appropriations in the amount requested by the President, VA may have to make difficult tradeoffs to manage within the resources provided.

This observation reflects the real possibility that exists should VA health care, as well as other programs funded through the discretionary process, be subject to spending reductions.

Moreover, we believe that continued pressure to reduce federal spending will only lead to greater reliance on gimmicks and false assumptions to generate apparent but illusory funding. This is particularly true given the VA's claim in the FY 2013 Budget Request that it was provided nearly $3.0 billion in excess resources in FY 2012 and more than $2.0 billion in excess resources in FY 2013. We question how the VA can make such a claim, particularly about FY 2012, when there remains fully seven months in this current fiscal year (FY 2012). This information deserves the highest level of scrutiny and oversight that this Committee can provide. While the VA claims that changes in its assumptions included in its actuarial model have led to this determination, the IB would argue that wide-ranging and sweeping changes in its assumptions would be necessary to lead to an approximately five percent change in funding needs. Additionally, the claim of excess resources does not seem to match the all-too-common reports that we receive of understaffed facilities and unavailability of services.

In light of the Administration's continued inability to determine its position with regards to sequestration, we have serious concerns about the fact that the VA claims to have nearly five percent in excess resources when it faces the prospect of up to a two percent reduction in funding under the rules of sequestration. We cannot emphasize enough the need for VA to state unequivocally that its programs will not be cut through sequestration.
Meanwhile, Congress once again failed to fulfill its obligations to complete work on appropriations bills funding all federal departments and agencies, including VA, by the start of the new fiscal year on October 1, 2011. Fortunately, as has become the new normal, last year the enactment of advance appropriations shielded the VA health-care system from the political wrangling and legislative deadlock.

Finally, the IBVSO's remain concerned about the continued downward revision of estimates in Medical Care Collections. In fact, in its original advance appropriation estimate for FY 2012, the VA projected collections of approximately $3.7 billion. Last year, the Administration revised

that estimate to approximately $3.1 billion. This year, the Administration once again revised the collections estimate for FY 2012 down to approximately $2.7 billion. At the same time, the collections estimate for FY 2013 was revised down from an estimate of $3.3 billion last year to a current estimate of approximately $3.0 billion. Given these revisions, we believed then, and continue to believe now, that the VA budget request and ultimately the funding provided through the appropriations process, was insufficient for VA to meet the demand on the health-care system, and may be insufficient going forward.

Funding for FY 2013

For FY 2013, The Independent Budget recommends approximately $57.2 billion for total medical care, an increase of $3.3 billion over the FY 2012 operating budget level provided as an advance appropriation by P.L. 112-10, the "the Department of Defense and Full-Year Continuing Appropriations Act for FY 2011." Meanwhile, the Administration recommended an advance appropriation for FY 2013 of approximately $52.5 billion in discretionary funding for VA medical care as a part of its FY 2012 Budget Request. When combined with the $3.3 billion Administration projection for medical care collections, the total available operating budget recommended for FY 2013 is approximately $55.8 billion.

The medical care appropriation includes three separate accounts—Medical Services, Medical Support and Compliance, and Medical Facilities—that comprise the total VA health-care funding level. For FY 2013, The Independent Budget recommends approximately $46.0 billion for Medical Services. Our Medical Services recommendation includes the following recommendations:

Current Services Estimate…….$43,855,969,000
Increase in Patient Workload……..$1,510,394,000
Additional Medical Care Program Costs…..…….$675,000,000
Total FY 2013 Medical Services…….…..$46,041,363,000

Our growth in patient workload is based on a projected increase of approximately 110,000 new unique patients—priority groups 1¬–8 veterans and covered nonveterans. We estimate the cost of these new unique patients to be approximately $1 billion. The increase in patient workload also includes a projected increase of 96,500 new Operation Enduring Freedom and Operation Iraqi Freedom (OEF/OIF), as well as Operation New Dawn (OND) veterans at a cost of approximately $349 million. Our recommendations represent an increase in projected workload in this population of veterans over previous years as a result of the withdrawal of forces from Iraq, the drawdown of forces in Afghanistan, and a potential drawdown in the actual number of service members currently serving in the Armed Forces. And yet, we believe that growth in demand for this cohort specifically could be far greater given the changing military policies mentioned above.

Finally, our increase in workload includes the projected enrollment of new priority group 8 veterans who will use the VA health-care system as a result of the Administration's continued efforts to incrementally increase the enrollment of priority group 8 veterans by 500,000 enrollments by FY 2013. We estimate that as a result of this policy decision, the number of new priority group 8 veterans who will enroll in VA should increase by 125,000 between FY 2010

and FY 2013. Based on the priority group 8 empirical utilization rate of 25 percent, we estimate that approximately 31,250 of these new enrollees will become users of the system. This translates to a cost of approximately $134 million. When compared to the projections that the Administration had previously made for increased utilization for this Priority Group, we believe that our recommendations are on target for those projections.

The Independent Budget also believes that there are additional projected funding needs for VA. Specifically, we believe there is real funding needed to restore the VA's long-term-care capacity (for which a reasonable cost estimate can be determined based on the actual capacity shortfall of VA) and to provide additional centralized prosthetics funding (based on actual expenditures and projections from the VA's prosthetics service). In order to restore the VA's long-term care average daily census (ADC) to the level mandated by Public Law 106-117, the "Veterans Millennium Health Care and Benefits Act," we recommend $375 million. In order to meet the increase in demand for prosthetics, the IB recommends an additional $300 million. This increase in prosthetics funding reflects a significant increase in expenditures from FY 2011 to FY 2012 (explained in the section on Centralized Prosthetics Funding) and the expected continued growth in expenditures for FY 2013. Additionally, it is worth noting that the VA has actively implemented the new caregiver program mandated by Public Law 111-163, the "Caregivers and Veterans Omnibus Health Services Act." However, we believe that still greater funding should be appropriated, above what the VA has currently allocated for this program, in order to more effectively and efficiently operate the program.

For Medical Support and Compliance, The Independent Budget recommends approximately $5.6 billion. Finally, for Medical Facilities, The Independent Budget recommends approximately $5.6 billion. While our recommendation does not include an additional increase for nonrecurring maintenance (NRM), it does reflect a FY 2013 baseline of approximately $900 million. While we appreciate the significant increases in the NRM baseline over the last couple of years, total NRM funding still lags behind the recommended two to four percent of plant replacement value. In fact, VA should actually be receiving at least $2.1 billion annually for NRM (Refer to Construction section article "Increase Spending on Nonrecurring Maintenance).

For Medical and Prosthetic Research, The Independent Budget recommends $611 million. This represents a $30 million increase over the FY 2012 appropriated level. We are particularly pleased that Congress has recognized the critical need for funding in the Medical and Prosthetic Research account in the last couple of years. Research is a vital part of veterans' health care, and an essential mission for our national health care system.

Lastly, Mr. Chairman, I would like to note one late change to our IB budget recommendations for State Home Construction Grants which arose after we went to press. Late last week VA finally released the FY 2012 grant priority list for State Home repair, renovation and new construction projects and there was a significant increase in State matching funds certified as available. After reviewing the newly released Priority List for FY 2012, there is now $321 million worth of Priority 1 State Home projects for which the States have certified matching funds available. As a result, the federal funding required for Priority 1 projects will be at least $204 million in FY 2013, and that number is likely to rise even higher as States approve additional matching funding this year for a backlog of projects currently estimated at $400 million. While this

recommendation is not reflected specifically in The Independent Budget, this change reflects what we believe our recommendation should now be.

Advance Appropriations for FY 2014

As we have noted in the past, P.L. 111-81 requires the President's budget submission to include estimates of appropriations for the medical care accounts for FY 2013 and subsequent fiscal years. With this in mind, the VA Secretary is required to update the advance appropriations projections for the upcoming fiscal year (FY 2013) and provide detailed estimates of the funds necessary for the medical care accounts for FY 2014. Moreover, the law also requires a thorough analysis and public report of the Administration's advance appropriations projections by the Government Accountability Office (GAO) to determine if that information is sound and accurately reflects expected demand and costs.

The GAO's responsibility is more important than ever, particularly in light of their findings concerning the FY 2012 budget submission last year. The GAO report that analyzed the FY 2012 Administration budget identified serious deficiencies in the budget formulation of VA. Yet these concerns were not appropriately addressed by Congress or the Administration. This analysis and the subsequent lack of action to correct these deficiencies simply affirm the ongoing need for the GAO to evaluate the budget recommendations of VA.

As for the specific recommendations for advance appropriations for FY 2014 offered by the Administration, considering our concerns about the funding levels provided for FY 2012 and FY 2013, we believe that those estimates may be insufficient to meet the continuing increase in demand for health care services. We are also skeptical of the substantial increase in funding that the Administration calls for in the Medical Support and Compliance account for FY 2014. Given the scrutiny on funding for administrative functions within the VA health care system, we are not certain that this projected increase truly reflects a wise investment in resources.

Lastly, we have serious concerns about the significant reduction in funding projected for Medical Facilities in FY 2014. While we understand that the Administration intends to transfer approximately $320 million in resources and 1,080 FTE from Medical Facilities to Medical Services in FY 2014, this does not fully account for the reduction in funding. The Administration's proposal also reflects a plan to reduce funding for Non-Recurring Maintenance by nearly $300 million as well. This substantial decrease in NRM funding certainly cannot be justified given the massive backlog of maintenance and construction projects that currently exists. This fact is even more troubling given the GAO's findings in its report on advance appropriations last year that identified deficiencies in NRM funding. We encourage the Committee to conduct aggressive oversight to ensure that the Administration is not cutting funding in these critical areas simply as a way to drive down its spending projections.

In the end, it is easy to forget, that the people who are ultimately affected by wrangling over the budget are the men and women who have served and sacrificed so much for this nation. We hope that you will consider these men and women when you develop your budget views and estimates, and we ask that you join us in adopting the recommendations of The Independent Budget.

This concludes my testimony. I will be happy to answer any questions you may have.