

STATEMENT OF THE HONORABLE ANTHONY J. PRINCIPI

SECRETARY OF VETERANS AFFAIRS

**FOR PRESENTATION BEFORE THE
HOUSE COMMITTEE ON THE BUDGET**

**HEARING ON FY 2005 BUDGET FOR THE
DEPARTMENT OF VETERANS AFFAIRS**

February 12, 2004

Mr. Chairman and members of the Committee, good afternoon. I am pleased to be here today to present the President's 2005 budget proposal for the Department of Veterans Affairs (VA). The focal point of this budget is our firm commitment to continue to bring balance back to our health care system by focusing on veterans in the highest statutory priority groups.

The President's 2005 budget request totals \$67.7 billion (an increase of \$5.6 billion in budget authority)—\$35.6 billion for entitlement programs and \$32.1 billion for discretionary programs. Our request for discretionary funds represents an increase of \$1.2 billion, or 3.8 percent, over the enacted level for 2004, and supports my three highest priorities:

- provide timely, high-quality health care to our core constituency—veterans with service-connected disabilities, those with lower incomes, and veterans with special health care needs;
- improve the timeliness and accuracy of claims processing;
- ensure the burial needs of veterans and their eligible family members are met, and maintain veterans' cemeteries as national shrines.

The growth in discretionary resources will support a broad array of benefits and services that VA provides to our Nation's veterans. Including medical care collections, funding for the medical care program rises by \$1.17 billion over the 2004 enacted level. As a principal component of our medical care budget, we are requesting \$524 million to begin implementing recommendations stemming from studies associated with the Capital Asset Realignment for Enhanced Services (CARES) program.

We are presenting our budget request using a slightly modified new budget account structure that we proposed for the first time last year. This new structure more clearly presents the full funding for each of the benefits and services we provide veterans. This will allow the Department and our stakeholders to more effectively evaluate the program results we achieve with the total resources associated with each program. I am committed to providing Congress with the information and tools it needs to be comfortable with enacting the change.

Medical Care

The President's 2005 request includes total budgetary resources of \$29.5 billion (including \$2.4 billion in collections) for the medical care program, an increase of 4.1 percent over the enacted level for 2004, and more than 40 percent above the 2001 level. With these resources, VA will be able to provide timely, high-quality health care to nearly 5.2 million unique patients, a total 21 percent higher than the number of patients we treated in 2001.

I have taken several steps during the last year to refocus VA's health care system on our highest priority veterans, particularly service-connected disabled veterans who are the very reason this Department exists. For example, we recently issued a directive that ensures veterans seeking care for service-connected medical problems will receive priority access to our health care system. This new directive provides that all veterans requiring care for a service-connected disability, regardless of the extent of the injury or illness, must be scheduled for a primary care evaluation within 30 days of their request for care. If a VA facility is unable to schedule an appointment within 30 days, it must arrange for care at another VA facility, at a contract facility, or through a sharing agreement.

By highlighting our emphasis on our core constituency (Priority Levels 1-6), we will increase our focus on the Congressionally-identified highest priority veterans. The number of patients within our core service population that we project will come to VA for health care in 2005 will be nearly 3.7 million, or 12 percent higher than in 2003. During 2005, 71 percent of those using VA's health care system will be veterans with service-connected conditions, those with lower incomes, and veterans with special health care needs. The comparable share in 2003 was 66 percent. In addition, we devote 88 percent of our health care funding to meet the needs of these veterans.

While part of our strategy for ensuring timely, high-quality care for our highest priority veterans involves a request for additional resources, an equally important component of this approach includes a series of proposed regulatory and legislative changes that would require lower priority veterans to assume a small share of the cost of their health care. These legislative proposals are consistent with recent Medicare reform that addresses the difference in the ability to pay for health care. We are submitting these proposals for Congress' reconsideration because we strongly believe they represent the best opportunity for VA to secure the necessary budgetary resources to serve our core population. Among the most significant legislative changes presented in this budget are to:

- assess an annual use fee of \$250 for Priority 7 and 8 veterans; and
- increase co-payments for pharmacy benefits for Priority 7 and 8 veterans from \$7 to \$15.

We will work with Congress to enact our legislative proposal to eliminate the pharmacy co-payment for Priority 2-5 veterans, who have fewer means by which to pay for these costs, by raising the income threshold from the pension level of \$9,894 to the aid and

attendance level of \$16,509 (for a single veteran). This would allow about 394,000 veterans within our core constituency to receive outpatient medications without having to make a co-payment.

The 2005 budget includes several other legislative and regulatory proposals that are designed to expand health care benefits for the Nation's veterans. Among the most significant of these is a provision that would give the Department the authority to pay for insured veteran patients' out-of-pocket expenses for urgent care services if emergency/urgent care is obtained outside of the VA health care system. This proposal would ensure that veterans with life-threatening illnesses can seek and receive care at the closest possible medical facility. In addition, we are proposing to eliminate the co-payment requirement for all hospice care provided in a VA setting and all co-payments assessed to former prisoners of war. Currently, veterans are charged a co-payment if hospice care cannot be provided in a VA nursing home bed either because of clinical complexity or lack of availability of nursing home beds.

The President's 2005 budget for VA's medical care program also continues our effort to expand access to long-term care for veterans. This budget includes a legislative proposal to focus long-term care on non-institutional settings by expanding the 1998 average daily census nursing home capacity requirement to include the following categories of extended care services—nursing homes, community residential care programs, residential rehabilitation treatment programs, home care programs, non-institutional extended care services under VA's jurisdiction, and long-term care beds for which the Department pays a per diem to states for services in state homes. As part of this effort, we aim to significantly enhance access to non-institutional care programs that allow veterans to live and be cared for in the comfort and familiar setting of their home surrounded by their family.

We are continuing our work with the Department of Health and Human Services to implement the plan by which Priority 8 veterans aged 65 and older, who cannot enroll in VA's health care system, can gain access to the new "VA Advantage" program. This would allow these veterans to use their Medicare benefits to obtain care from VA. In return, we would receive payments from a private health plan contracting with Medicare to cover the cost of the health care we provide.

In return for the resources we are requesting for the medical care program in 2005, we will continue to aggressively pursue my priority of providing timely and accessible health care that sets a national standard of excellence for the health care industry. During the last 3 years, we have significantly enhanced veterans' access to health care. We have opened 194 new community clinics, bringing the total to 676. Nearly 9 out of every 10 veterans now live within 30 minutes of a VA medical facility. This expanded level of access has resulted in an increase in the number of outpatient visits from 44 million in 2001 to 51 million in 2003, as well as a 26 percent rate of growth in the annual number of prescriptions filled to a total of 108 million last year. To further highlight the Department's emphasis on the delivery of timely, accessible health care, our standard of care for primary care is that 93 percent of appointments will be scheduled within 30

days of the desired date and 99 percent of all appointments will be scheduled within 90 days. For appointments with specialists, the comparable performance goal is 90 percent within 30 days of the desired date.

As I mentioned earlier Mr. Chairman, a key component of our overall access goals is the assurance that veterans seeking care for service-connected medical problems will receive priority access to health care. In addition, we have dramatically reduced the number of veterans on the waiting list for primary care. We will eliminate the 6-month waiting list no later than April 2004.

VA's health care system continues to be characterized by a coordinated continuum of care and achievement of performance outcomes that improve services to veterans. In fact, VA has exceeded the performance of private sector and Medicare providers for all 18 key health care indicators, from diabetes care to cancer screening and immunizations. The Institute of Medicine has recognized the Department's integrated health care system, including our framework for using performance measures to improve quality, as one of the best in the nation. Additionally, VA's quality score based on a survey conducted by the Joint Commission on Accreditation of Healthcare Organizations exceeds the national average quality score (93 versus 91).

We will continue to use clinical practice guidelines to help ensure high-quality health care, as they are directly linked with improved health outcomes. We expect to show improvements in both of our principal measures of health care quality. The clinical practice guidelines index will rise to 71 percent in 2005, while the prevention index will increase to 84 percent.

The 2005 budget includes additional management savings of \$340 million that will partially offset the need for additional funds to handle the increasing utilization of health care resources, particularly among our highest priority veterans who require much more extensive care, on average, than lower priority veterans. We will achieve these management savings through improved standardization policies in the procurement of supplies, pharmaceuticals, and other capital purchases, as well as in other operational efficiencies such as consolidations.

As you may know Mr. Chairman, one of the President's management initiatives calls for VA and the Department of Defense (DoD) to enhance the coordination of the delivery of benefits and service to veterans. To address this Presidential initiative, our two Departments established a high-level Joint Executive Council to develop and implement significant collaborative efforts. We are focusing on three major system-wide issues: (1) facilitating electronic sharing of enrollment and eligibility information for services and benefits; (2) establishing an electronic patient health record system that will allow rapid exchange of patient information between the two organizations by the end of 2005; and (3) increasing the number of shared medical care facilities and staff. The sharing of DoD enrollment and eligibility data will reduce the burden on veterans to provide duplicative information when making the transition to VA for care or benefits. Shared medical information is extremely important to ensure that veterans receive safe and

proper care. VA and DoD are working together to share facilities and staff in order to provide needed services to all patients in the most efficient and effective manner.

Capital Asset Realignment for Enhanced Services (CARES)

The 2005 budget includes \$524 million of capital funding to move forward with the Capital Asset Realignment for Enhanced Services (CARES) initiative, a figure more than double the amount requested for CARES for 2004. This is a multi-year program to update VA's infrastructure to meet the needs of veterans in the 21st century and to keep our Department on the cutting edge of medicine. CARES will assess veterans' health care needs across the country, identify delivery options to meet those needs in the future, and guide the realignment and allocation of capital assets so that we can optimize health care delivery in terms of both quality and access. The resources we are requesting for this program will be used to implement the various recommendations within the National CARES plan by funding advance planning, design development, and construction costs for capital initiatives.

Mr. Chairman, the independent commission that is reviewing our draft CARES plan will be delivering their report to later this afternoon. The commission had originally intended to complete their work by the end of November, but due to the intense interest in this project and the overwhelming volume of information they are faced with examining, their report has been delayed a few months. I look forward to reviewing the commission's analysis and recommendations. We will thoroughly evaluate their report and seriously consider their recommendations before making our final realignment decisions and preparing for the next phase of the CARES program.

Medical and Prosthetic Research

The President's 2005 budget includes total resources of \$1.7 billion to support VA's medical and prosthetic research program. This request is comprised of \$770 million in appropriated funds, \$670 million in funding from other federal agencies such as DoD and the National Institutes of Health, as well as \$230 million from universities and other private institutions. Our budget includes an initiative to assess pharmaceutical companies for the indirect administrative costs associated with the clinical drug trials we conduct for these organizations.

This \$1.7 billion will support nearly 2,900 high-priority research projects to expand knowledge in areas critical to veterans' health care needs—Gulf War illnesses, aging, diabetes, heart disease, mental illness, Parkinson's disease, spinal cord injury, prostate cancer, depression, environmental hazards, women's health care concerns, and rehabilitation programs.

Veterans' Benefits

The Department's 2005 budget request includes \$36 billion for the entitlement costs associated with all benefits administered by the Veterans Benefits Administration (VBA).

Included in this total, is an additional \$2.740 billion for disability compensation payments to veterans and their survivors for disabilities or diseases incurred or aggravated while on active duty. Recipients of these compensation benefits will have increased from 2.3 million in 2001 to over 2.6 million in 2005. The budget includes another \$1.19 billion for the management of these programs—disability compensation; pensions; education; vocational rehabilitation and employment; housing; and life insurance. This is an increase of \$26 million, or 2.2 percent, over the enacted level for 2004.

We have made excellent progress in addressing the Presidential priority of improving the timeliness and accuracy of claims processing. Not only have we hired and trained more than 1,800 new employees in the last 3 years to directly address our claims processing backlog, but the productivity of our staff has increased dramatically as well. Between 2001 and 2003, the average number of claims we completed per month grew by 70 percent, from 40,000 to 68,000. Last year the inventory of rating-related compensation and pension claims peaked at 432,000. By the end of 2003, we had reduced this backlog of pending claims to just over 250,000, a drop of over 40 percent. We have experienced an increase in the backlog during the last few months, due in large part to the impact of the court decision (*PVA v Secretary of Veterans Affairs*) that interpreted the Veterans Claims Assistance Act of 2000 as requiring VA to wait a full year before denying a claim. However, this rise in the number of pending claims will be temporary, and we expect the backlog to be back down to about the 250,000 level by the end of 2004. We thank the Committee for the legislation that eliminated the mandatory 1-year waiting period.

In 2002 it took an average of 223 days to process a claim. Today, it takes about 150 days. We are on track to reach an average processing time of 100 days by the end of 2004 and expect to maintain this timeliness standard in 2005. One of the main reasons we will be able to meet and then sustain this improved timeliness level is that we have reduced the proportion of claims pending over 6 months from 48 percent to just 19 percent during the last 3 years.

To assist in achieving this ambitious goal, VA established benefits delivery at discharge programs at 136 military installations around the country. This initiative makes it more convenient for separating servicemembers to apply for and receive the benefits they have earned, and helps ensure claims are processed more rapidly. Also, the Department has assigned VA rating specialists and physicians to military bases where servicemembers can have their claims processed before they leave active duty military service.

We expect to see an increase in claims resulting from the return of our brave servicemen and women who fought to protect the principles of freedom in Operation Enduring Freedom and Operation Iraqi Freedom. We propose to use \$72 million of the funds available from the war supplemental during 2004 to address the challenges resulting from an increasing claims processing workload in order to assist us in reaching our timeliness goal of 100 days by the end of 2004. We propose to use the remaining \$28 million in 2005 to help sustain this timeliness standard.

At the same time that we are improving timeliness, we will be increasing the accuracy of our claims processing. The 2005 performance goal for the national accuracy rate for compensation claims is 88 percent, well above the 2001 accuracy level of 80 percent.

In support of the education program, the budget proposes \$5.2 million for continuing the development of the Education Expert System. These resources will be used to expand upon an existing prototype expert system and will enable us to automate a greater portion of the education claims process and expand enrollment certification. This initiative will contribute toward achievement of our 2005 performance goals for the average time it takes to process claims for original and supplemental education benefits of 25 days and 13 days, respectively.

In order to make the delivery of VA benefits and services more convenient for veterans and more efficient for the Department, we are requesting \$1.5 million for the collocation and relocation of some regional offices. Some of this will involve housing regional office operations in existing VA medical facilities. In addition, we are examining the possibility of collocations using enhanced-use authority, which entails an agreement with a private developer to construct a facility on Department-owned grounds and then leasing all or part of it back to VA. At the end of these long-term lease agreements, the land and all improvements revert to VA ownership.

In recognition of the fact that the home loan program is primarily a benefit that assists veterans in making the transition from active duty life to veteran status, the 2005 budget includes a legislative proposal to phase in an initiative to limit eligibility for this program to one-time use. Under our proposal, one-time use of the loan program would apply to any person who becomes a veteran after the date this proposed legislation becomes law. Those who are already veterans, or who will achieve veteran status prior to enactment of the proposed law, would retain their eligibility to use the home loan benefit as many times as they need to for a period of 5 years after the law takes effect. Once that 5-year period has passed, they would no longer be able to use this benefit more than once. This legislative proposal does not change eligibility for active duty personnel who would retain the ability to use this benefit as many times as they need it. VA home loans are important for first-time buyers because they require no down payment—making them riskier than other loans. After the first use, home equity can be used to obtain more favorable terms from conventional loans, or through the Federal Housing Administration. Therefore, limiting this benefit to its original intent of one-time use after leaving the military will lower loan volume and risk, save money over the long-term, and coordinate federal programs.

Burial

The President's 2005 budget includes \$455 million for the burial program, of which \$181 million is for mandatory funding for VA burial benefits and payments and \$274 million is for discretionary funding, including operating and capital costs for the National Cemetery Administration and the State Cemetery Grant program. The increase in

discretionary funding is \$9 million, or 3.4 percent, over the enacted level for 2004, and includes operating funds for the five new cemeteries opening in 2005.

This budget request includes \$926 thousand to complete the activation of new national cemeteries in the areas of Detroit, MI and Sacramento, CA. These are the last two of the six locations identified in the May 2000 report to Congress as the areas most in need of a national cemetery. The other four cemeteries will serve veterans in the areas of Atlanta, GA, South Florida, Pittsburgh, PA, and Fort Sill, OK.

With the opening of new national cemeteries and state veterans cemeteries, the percentage of veterans served by a burial option within 75 miles of their residence will rise to 83 percent in 2005. The comparable share was less than 73 percent in 2001.

The \$81 million in construction funding for the burial program in 2005 includes resources for Phase 1 development of the Sacramento National Cemetery (CA) as well as expansion and improvements at the Florida National Cemetery (Bushnell, FL) and Rock Island National Cemetery (IL). The request includes advanced planning funds for site selection and preliminary activities for six new national cemeteries to serve veterans in the following areas—Bakersfield, CA; Birmingham, AL; Columbia/Greenville, SC; Jacksonville, FL; Sarasota County, FL; and southeastern Pennsylvania. Completion of these new cemeteries will represent an 85 percent expansion of the number of gravesites available in the national cemetery system since 2001, almost doubling the number of gravesites during this time period. In addition, the budget includes \$32 million for the State Cemetery Grant program.

In return for the resources we are requesting for the burial program, we expect to achieve extremely high levels of performance in 2005 and to continue our noble work to maintain the appearance of national cemeteries as shrines dedicated to honoring the service and sacrifice of veterans. Our performance goal for the percent of survey respondents who rate the quality of service provided by the national cemeteries as excellent is 96 percent, and our goal for the percent of survey respondents who rate national cemetery appearance as excellent is 98 percent. In addition, we will continue to place emphasis on the timeliness of marking graves. Our performance goal for the percent of graves in national cemeteries marked within 60 days of interment is 82 percent in 2005, a figure dramatically above the 2002 performance level of 49 percent.

Financial Stewardship

We have taken numerous steps during the last few years to improve the efficiency and effectiveness of our business practices in order to help ensure that we fulfill our responsibility to act as sound stewards of the funds with which we are entrusted. Financial management initiatives in areas such as medical care collections, debt management, and procurement reform will continue to increase the resources available for the Department to use in providing services and benefits to veterans. Our sound stewardship of financial resources is demonstrated by the fact that VA has received a clean audit opinion for the last 5 years.

Our projection of medical care collections for 2005 is \$2.4 billion. This total is 38 percent above our estimated collections for 2004 and is more than three times the collections level from 2001. Approximately \$407 million, or 61 percent, of the increase above 2004 is possible as a result of the proposed medical care policy initiatives. In addition, the Department continues to implement the series of aggressive steps identified in our revenue cycle improvement plan in order to maximize the health care resources available for the medical care program. We are establishing industry-based performance and operational metrics, developing technological enhancements, and integrating industry-proven business approaches, including the establishment of centralized revenue operation centers. For example, during the last year we have lowered the share of reimbursable claims receivable greater than 90 days old from 84 percent to 39 percent, and we have decreased the average time to produce a bill from 117 days to 49 days.

The Department has been very successful in strengthening our debt management efforts. At the close of 2003, VA had referred 98 percent (\$221.3 million) of the total delinquent debt eligible for the Treasury Offset Program and 96 percent (\$152.2 million) of the total delinquent debt eligible for Treasury's cross-servicing program. These proportions are dramatically higher than the comparable shares (67 percent and 17 percent, respectively) in 2000. Our Debt Management Center (DMC) collected \$381.7 million in 2003, or about \$63 for every dollar spent on debt collection activities.

We continue to make excellent progress in implementing the recommendations of our Procurement Reform Task Force, as 43 of the 65 recommendations have been completed. By the end of 2004, we expect to implement all of the remaining recommendations. These procurement reforms will optimize the performance of VA's acquisition system and processes by improving efficiency and accountability. We expect to realize savings of about \$250 million by the end of 2004 as a result of these improvement initiatives. This figure will rise after we have completed all 65 recommendations.

As a result of a variety of improved management and business practices to take full advantage of national purchasing opportunities, VA has realized savings of \$1.1 billion in the purchase of pharmaceuticals between 2001 and 2003, \$78 million in the purchase of medical equipment, medical and surgical supplies, and prosthetic equipment, and \$108 million through a national information technology contract.

In December 2001, Public Law 107-103 was enacted to prohibit veterans who are fugitive felons, or their dependents, from receiving certain veterans' benefits. Since that time, the Department has conducted computerized matches between fugitive felon files of law enforcement organizations and VA benefit files. When appropriate, criminal investigators from VA's Office of Inspector General assist law enforcement agencies in apprehending fugitives. In May 2003, 986 fugitive felon cases were mailed to VA regional offices. We have taken action on 420 of these cases, the total value of which is \$6.6 million.

Other Management Improvements

Mr. Chairman, we have made excellent progress during the last year in implementing the President's Management Agenda. Our progress in the financial, electronic government, budget and performance, and DoD/VA coordination areas is currently rated "green." Our human capital score is "yellow" due only to some very short-term delays. However, VA's competitive sourcing rating is "red" because existing legislation precludes us from using necessary resources to conduct cost comparisons of competing jobs such as laundry, food and sanitation service. The Administration will work with Congress to develop legislation to advance this effort that would free up additional resources to be used to provide direct medical services to veterans. We will continue to take the steps necessary to achieve the ultimate goals the President established for each of the focus areas.

During 2005 VA will continue developing our enterprise architecture that will ensure that all new information technology (IT) projects are aligned with the President's E-government initiatives as well as the Department's strategic objectives. The enterprise architecture will help eliminate redundant systems throughout VA, improve IT accountability and cost containment, leverage secure and technologically sound solutions that have been implemented, and ensure that our IT assets are built upon widely accepted industry standards and best practices in order to improve delivery of benefits and services to veterans. One of our primary focus areas in IT will be cyber security. We will concentrate on securing the enterprise architecture and providing continuous protection to all VA systems and networks. This will require purchases of both hardware and software to address existing vulnerabilities.

The Department has developed a comprehensive human capital management plan and has started implementing some of the strategies outlined in this plan. In addition, we are implementing a redesigned performance appraisal system to better ensure that all employees' performance plans are linked with VA's mission, goals, and objectives.

Closing

Mr. Chairman, VA has achieved numerous successes during the last 3 years that have significantly improved service to our country's veterans. We have enhanced veterans' access to our health care services that set the national standard with regard to quality; improved the timeliness of health care delivery; expanded programs for veterans with special health care needs; dramatically lowered the time it takes to process veterans' claims for benefits; and expanded access to our national cemetery system. The President's 2005 budget will provide VA with the resources necessary to continue to improve our delivery of benefits and services, particularly for veterans with service-connected conditions, those with lower incomes, and veterans with special health care needs.

That concludes my formal remarks. I would be pleased to answer any questions.