Financial Analysis of VA Black Hills Proposed Reconfiguration

Part I: Background
Part II: Capital Cost Analysis
Part III: Operating Cost Analysis
Agenda

- Introductions
- Guiding Principles
- Overview of Reconfiguration Proposal
- Summary of Activities-to-Date
- Financial Analysis of Reconfiguration Proposal
- Summary
Guiding Principles

• Assure Veterans access to high quality and safe health care close to home
• Recruit and retain skilled clinical staff
• Good financial stewardship of VA resources
• Conduct a process that considers input from and the impact on Veterans, employees, the community and other stakeholders
• Be mindful of historic preservation and environmental impact considerations
Veteran Population
South Dakota, Northern Nebraska and Eastern Wyoming

54,993 South Dakota Enrolled Veterans
3 VA Medical Centers
12 Community Based Outpatient Clinics
3 Vet Centers
The Case for Change

- Declining Total Veteran Population and Veterans Treated
- New Veterans Choosing to Live Further from Existing VA Medical Centers
- Significant Challenges in Maintaining Safe, High Quality and Accessible Care
- High Operating Costs

Data Sources: VHA Office of Policy and Planning, VHA Support Service Center, VA Financial Management System
### Proposed Service Re-configuration and Phased Transition Plan for Hot Springs

#### TODAY

<table>
<thead>
<tr>
<th>Outpatient</th>
<th>Primary Care</th>
<th>Mental Health</th>
<th>Limited Specialty Care</th>
<th>Dialysis</th>
<th>Lab, Pharmacy, X-ray</th>
<th>Urgent Care</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inpatient</td>
<td>Hospital</td>
<td>Nursing Home</td>
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<td></td>
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<tr>
<td>Domiciliary</td>
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</tbody>
</table>

#### PHASE ONE
**1-2 YEARS**

<p>| <strong>Maintain Outpatient at HS Campus</strong> |</p>
<table>
<thead>
<tr>
<th>Primary Care</th>
<th>Mental Health</th>
<th>Limited Specialty Care</th>
<th>Dialysis</th>
<th>Lab, Pharmacy, X-ray</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Close Inpatient</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hospital</td>
<td>Nursing home</td>
<td>Urgent care</td>
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</tbody>
</table>

**Purchase care at Fall River and other community hospitals**

#### PHASE TWO
**2-4 YEARS**

<p>| <strong>Transition Outpatient Care to a CBOC in HS</strong> |</p>
<table>
<thead>
<tr>
<th>Primary Care</th>
<th>Mental Health</th>
<th>Expanded Specialty Care</th>
<th>Dialysis</th>
<th>Lab, Pharmacy, X-ray</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Build or Lease new VA-staffed CBOC co-located with a community partner or free-standing</strong></td>
<td></td>
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</tr>
<tr>
<td><strong>Inpatient</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Same as Phase One</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Domiciliary</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Build in Rapid City</td>
<td></td>
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<td></td>
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</table>

#### PHASE THREE
**3-5 YEARS**

<table>
<thead>
<tr>
<th>Outpatient</th>
<th>No change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inpatient</td>
<td>No change</td>
</tr>
<tr>
<td>Domiciliary:</td>
<td></td>
</tr>
<tr>
<td>Open in Rapid City</td>
<td></td>
</tr>
</tbody>
</table>

**Lead National Historic Preservation Act and environmental impact processes to identify and pursue alternatives for Hot Springs campus through public, private and non-profit partnerships.**
Summary of Activities-to-Date

- **Correspondence**
  - 25,511 invitations to Town Hall meetings mailed
  - 19,991 informational letters to Veterans mailed

- **13 News Releases**

- **Freedom of Information Act**
  - 28 requests to date completed

- **Meetings**
  - Public Town Halls: 15 events with ~1,926 attendees
  - Employee Town Halls: 6 with ~ 679 attendees
  - Stakeholder Meetings: ~45 with ~370 attendees

- **Feedback Received**
  - 748 Town Hall comment cards
  - 305 Letters, phone calls, emails

The period for public comment and submission of alternate proposals closes June 30, 2012
VA Black Hills Reconfiguration Proposal

PART II: CAPITAL COST ANALYSIS
Capital Cost Analysis
VA Proposed Re-configuration

• Process
  – VISN 23 requested independent evaluation of multiple options by Jones Lange LaSalle, Inc., recognized experts in real estate capital cost analysis
  – Components analyzed using 30-year life-cycle cost – standard OMB process
  – Components were grouped into various alternatives that compare total 30-year life-cycle cost based on acquisition method and location

• Proposed Re-configuration
  – Multi-specialty Outpatient Clinic (MSOC) in Rapid City
  – Community Based Outpatient Clinic (CBOC) in Hot Springs
  – Residential Rehabilitative Treatment Program (RRTP) in Rapid City and/or Hot Springs
## Lower Cost Alternatives

New Construction alternatives result in lower 30-year life-cycle cost

**MSOC**: Multi-Specialty Outpatient Clinic  
**CBOC**: Community Outpatient Clinic  
**RRTP**: Residential Rehabilitation Treatment Program

<table>
<thead>
<tr>
<th>Alternative</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hot Springs</strong></td>
</tr>
<tr>
<td>1a</td>
</tr>
<tr>
<td>1a(1)</td>
</tr>
<tr>
<td>2a</td>
</tr>
<tr>
<td>3a</td>
</tr>
</tbody>
</table>
## Higher Cost Alternatives

Renovation and leasing alternatives result in higher 30-year life-cycle cost

**MSOC**: Multi-Specialty Outpatient Clinic  
**CBOC**: Community Based Outpatient Clinic  
**RRTP**: Residential Rehabilitation Treatment Program

<table>
<thead>
<tr>
<th>Alternative</th>
<th>Hot Springs</th>
<th>Rapid City</th>
<th>30 Year Life Cycle Cost ($ millions)</th>
</tr>
</thead>
</table>
| **2d**      | Renovate Building #12 for CBOC  
Renovate Existing DOM for 100-Bed RRTP | Lease MSOC | $258,189 |
| **3c**      | Renovate Building #12 for CBOC  
Renovate Existing DOM for 24-Bed RRTP | Build MSOC  
Build 76-Bed RRTP | $261,668 |
| **3d**      | Renovate Building #12 for CBOC  
Renovate Existing DOM for 24-Bed RRTP | Lease MSOC  
Lease 76-Bed RRTP | $264,429 |
Modern VA Domiciliary

Aerial view of VA Pittsburgh Domiciliary

VA Pittsburgh Domiciliary
Modern VA CBOC

VA CBOC in Waterloo, IA
VA Black Hills Reconfiguration Proposal

PART III: OPERATING COST ANALYSIS
Operating Cost Analysis

• Process
  – Analysis compares FY11 operating expenses of the VABHHCS to the projected post implementation operating expenses
  – All figures are FY11 costs originating from VHA’s cost accounting system (DSS), reconciled to expenses recorded in VA’s Financial Management System (FMS)
  – All projected post implementation costs are unadjusted for inflation
  – Analysis points are by budget object series class

• Proposed Re-configuration
  – Analysis performed on capital reconfiguration option 1A
Operating Expenses
($ thousands)

VA Black Hills Health Care System

- $26.3M total net projected reduction equal to 15.3% decrease from FY11
- $14.1M of total projected reduction is indirect expenses
  \[ \text{Indirect} = \text{Expenses in Medical Facilities and Medical Support & Compliance Appropriation} \]
- $12.1M of total projected reduction is direct expenses
  \[ \text{Direct} = \text{Expenses in Medical Services Appropriation} \]
- Ratio of Indirect/Total changes from 20% to 14%
Projected Annual Operating Cost Changes by Expense Class ($26.3M) ($ thousands)

<table>
<thead>
<tr>
<th>Expense Class</th>
<th>Change</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel Services (51% Direct, 49% Indirect)</td>
<td>-$20,438</td>
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</tr>
<tr>
<td>Purchased Care (in Community)</td>
<td>$5,155</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td>-$50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comms., Util., Rent</td>
<td>-$539</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>-$1,189</td>
<td></td>
<td></td>
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<tr>
<td>Travel</td>
<td>-$1,198</td>
<td></td>
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<tr>
<td>Contracts</td>
<td>-$3,064</td>
<td></td>
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<tr>
<td>Supplies &amp; Materials</td>
<td>-$4,883</td>
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</tbody>
</table>

Total = $26,207
Full-Time Equivalent Employees (FTEE)

- Dedicated and respected workforce
- No Reduction-in-Force (RIF)
- Voluntary Early Retirement Authority (VERA) and Voluntary Separation Incentive Program (VSIP) will be requested
- Attrition over time
Purchased Care in the Community
($ thousands)

- Increase driven by more care purchased in the communities
- Better access to care closer to home
- Reduces drive time
- Strengthens local partnerships and helps sustain healthcare in highly rural areas
Availability of Community Care Providers

- Improving Access for Rural Veterans
- Total Veteran Population in Highlighted Counties: 9,549
- Veterans who used Hot Springs from Highlighted Counties (FY11): 4,316
  - South Dakota: 1,780
  - Nebraska: 2,441
  - Wyoming: 95
Summary

• Independent capital cost analysis indicates alternatives 1a and 1a(1) are the most cost effective
  o Build new MSOC and RRTP in Rapid City, SD
  o Build or Lease new CBOC in Hot Springs, SD

• Operating cost analysis of the above alternatives estimates annual net cost avoidances of $26.3m post-implementation of the proposal

• Improves Veterans’ access to care

• Supports high quality, safe patient care in state-of-the-art health care facilities
Discussion/ Questions