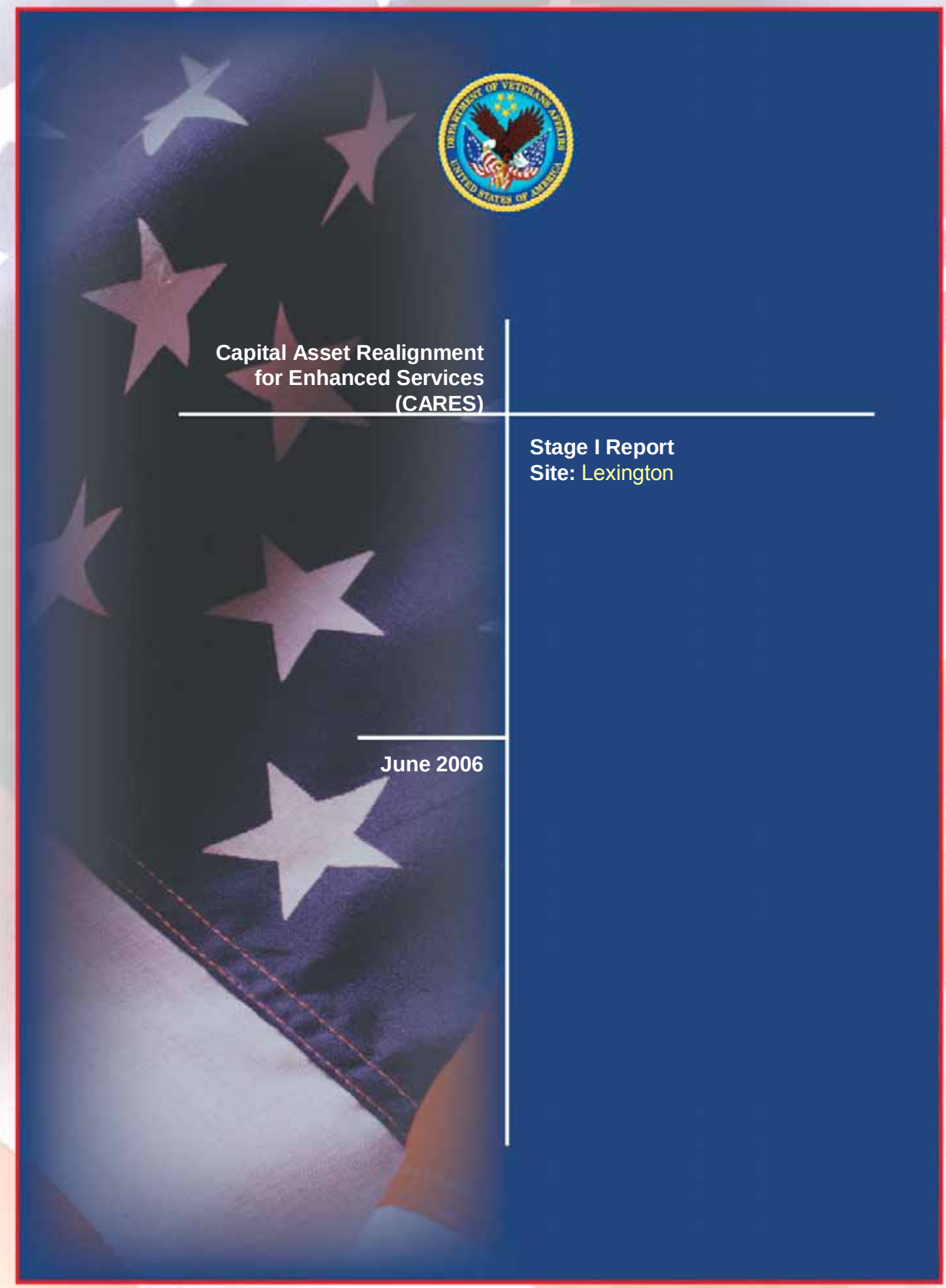


Capital Asset Realignment for Enhanced Services (CARES)

Stage I Report
Site: Lexington

June 2006

This report was produced under the scope of work and related terms and conditions set forth in Contract Number V776P-0515. PricewaterhouseCoopers LLP's (PwC's) work was performed in accordance with Standards for Consulting Services established by the American Institute of Certified Public Accountants (AICPA). PwC's work did not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls or other attestation service in accordance with standards established by the AICPA. Accordingly, we do not express an opinion or any other form of assurance on the financial statements of the Department of Veterans Affairs (VA) or any financial or other information or on internal controls of VA.

VA has also contracted with another government contractor, Pruitt Group EUL, LLC, to develop re-use options for inclusion in this study. Pruitt Group EUL, LLC issued its report, *Enhanced Use Lease Property Re-use/Redevelopment Plan Phase One: Baseline Report, Veterans Affairs Medical Center, Lexington, KY,* and as directed by VA, PwC has included information from its report in the following sections in this report: Recent and Planned Capital Improvements, Outleased Areas/Use Agreements, Real Estate Market, and Re-Use Potential. PwC was not engaged to review and, therefore, makes no representation regarding the sufficiency of nor takes any responsibility for any of the information reported within this study by Pruitt Group EUL, LLC.

This report was written solely for the purpose set forth in Contract Number V776P-0515 and, therefore, should not be relied upon by any unintended party who may eventually receive this report.

Table of Contents

1.0 Introduction

CARES (Capital Asset Realignment for Enhanced Services) is the Department of Veterans Affairs' (VA's) effort to produce a logical, national plan for modernizing healthcare facilities. The objective is to identify the optimal approach to provide current and projected veterans with healthcare equal to or better than is currently provided in terms of access, quality, and cost effectiveness, while maximizing any potential re-use of all or portions of the current real property inventory owned by VA. The Secretary's Decision Document of May 2004 called for additional studies in certain geographic locations to refine the analyses developed in Phase I of the CARES planning and decision-making process. Team PricewaterhouseCoopers (Team PwC) is assisting VA in conducting VA CARES Business Plan Studies at 17 sites around the United States as selected by the Secretary, which include site-specific requirements for Healthcare Delivery Studies, Capital Plans, and Re-use Plans.

The Lexington Veterans Affairs Medical Center (VAMC) is one of the CARES study sites and includes capital planning and re-use planning studies, but not healthcare delivery. The Lexington VAMC is comprised of two divisions, the Cooper Drive Division, herein referred to as the Cooper Drive campus, and the Leestown Division, herein referred to as the Leestown campus. In accordance with the Statement of Work, Team PwC has studied the Leestown campus only. The Secretary's Decision Document of May 2004 makes the following decisions for Lexington VAMC:

- The Secretary will not consider consolidation of the Leestown campus at Cooper Drive, but VA will pursue opportunities to reduce the footprint of the Leestown campus.
- While the mission of the Leestown campus will remain unchanged, the Master Plan will propose an efficient, cost-effective, and appropriately sized footprint that will reduce vacant and underused space on the campus.
- The Master Plan will consider enhanced use lease opportunities and will ensure that any plan for alternate use or disposal of VA property serves to enhance the Department's mission.

2.0 Purpose of this Report

The CARES studies are being performed in three stages: an initial planning phase and two phases centered on option development and selection. This report presents the results of Stage I (option development). In Stage I, Team PwC develops and assesses a broad range of potentially viable business plan options (BPOs) that meet the forecast healthcare needs for the study sites. Based upon an initial analysis of these BPOs, Team PwC recommends up to six BPOs to be taken forward for further development and assessment in Stage II. VA decides which BPOs should be studied further in Stage II. During Stage II, a more detailed assessment is conducted including a financial analysis with refined inputs and consideration of second-order impacts such as the implications on the community. After Stage II, Team PwC recommends a single BPO to the Secretary.

Stakeholder input from veterans, veterans advocates, and the community play an important role in BPO development and assessment. A Local Advisory Panel (LAP) has been established at

each study site to ensure veterans' issues and concerns are heard throughout the study process. Veterans' and other stakeholder views are presented at a series of public meetings and through written and electronic communication channels.

Team PwC has prepared this report in accordance with the CARES Business Plan Studies Methodology and Statement of Work (SOW) for the CARES studies. The SOW calls for submission in Stage I of a range of BPOs that are at the concept stage and represent feasible choices that have the potential to meet VA objectives. In Stage II, Team PwC will further develop selected BPOs into technical data driven analyses and a recommended primary BPO.

3.0 Site Overview

The Lexington VAMC is located in Lexington, KY and is 71 miles from Louisville, Kentucky, and 89 miles from Cincinnati, Ohio. It is part of Veterans Integrated Service Network (VISN) 9, which comprises four markets: Northern Market, Eastern Market, Central Market and Western Market. The Lexington VAMC is in the Northern Market.

Current Healthcare Provision

The two divisions of the Lexington VAMC include a 107-bed tertiary care medical center, a 20-bed psychiatric residential rehabilitation treatment program (PRRTP), and a 59-bed nursing home. It is fully accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO). The veteran population in the primary service area is estimated at more than 92,000.

The Leestown campus is located five miles from the Cooper Drive campus. This campus provides nursing home care, including hospice and respite services, a psychiatric residential rehabilitation treatment program and primary care and other outpatient mental health modalities including substance abuse treatment. Other VISN-level administrative functions are also housed there.

The Cooper Drive campus is located adjacent to the University of Kentucky Medical Center. Acute medical, neurological, surgical, psychiatry, and inpatient services are provided at the Cooper Drive campus. Outpatient primary care and specialty service care including ambulatory surgery are also provided at the Cooper Drive campus.

The Lexington VAMC operates a CBOC in Somerset, Kentucky which provides primary care services to veterans in southern Kentucky and northern Tennessee. VAMC management has advised Team PwC that the medical center is planning on opening CBOCs in Morehead and Hazard, Kentucky in future years. There is also consideration being given to CBOCs in Berea and London, Kentucky.

.

Facilities

The Leestown campus is situated on a well maintained 135-acre parcel in the city of Lexington, and within Lexington-Fayette County. The Leestown campus is located on Leestown Road, a major connector to downtown Lexington. Four gates access the property from Leestown Road on the north perimeter of the property. Only Gate 2 is currently active. Gate 4 provides access as needed for delivery vehicles.

The Leestown campus contains 52 buildings totaling approximately 705,000 building gross square feet (BGSF). Building 1, the main building, is in the center of the campus and houses administration, support services and an outpatient clinic. The buildings are described in Table 1 and the distribution of buildings is depicted in Figure 1. A "ring" of five buildings encircles a recreation yard west of Building 1. The ring of buildings is connected by above-grade or at-grade pedestrian corridors. The primary clinical functions in this portion of the site are nursing home and behavioral health. There is some administrative and leased space in these buildings as well. Two of these buildings are primarily vacant. The campus has a power plant and engineering shops which are located in the south central portion.

Several buildings are eligible for inclusion on the National Register of Historic Places, but none are listed in the Register. These are Buildings 1, 2, 3, 4, 5, 6, 7, 8, 12, 16, 17, 25, 27, 28, and 29, plus the flagpole. The topography features undulating grasslands with scattered mature trees. There are two shallow water streams penetrating the site from the south. While not in a flood plain, it is reported that both overflow their banks periodically.

The current parking available on site is more than adequate for the current use. It is comprised of one large paved surface parking area near the center of the campus, a small paved surface area adjacent to the Main Building, service vehicle parking areas in proximity to the boiler plant, and a few scattered parking spaces in proximity to other buildings on campus. The vacant residential buildings on the eastern portion of the site have detached garages adjacent to each structure.

Figure 1: Existing Building Distribution

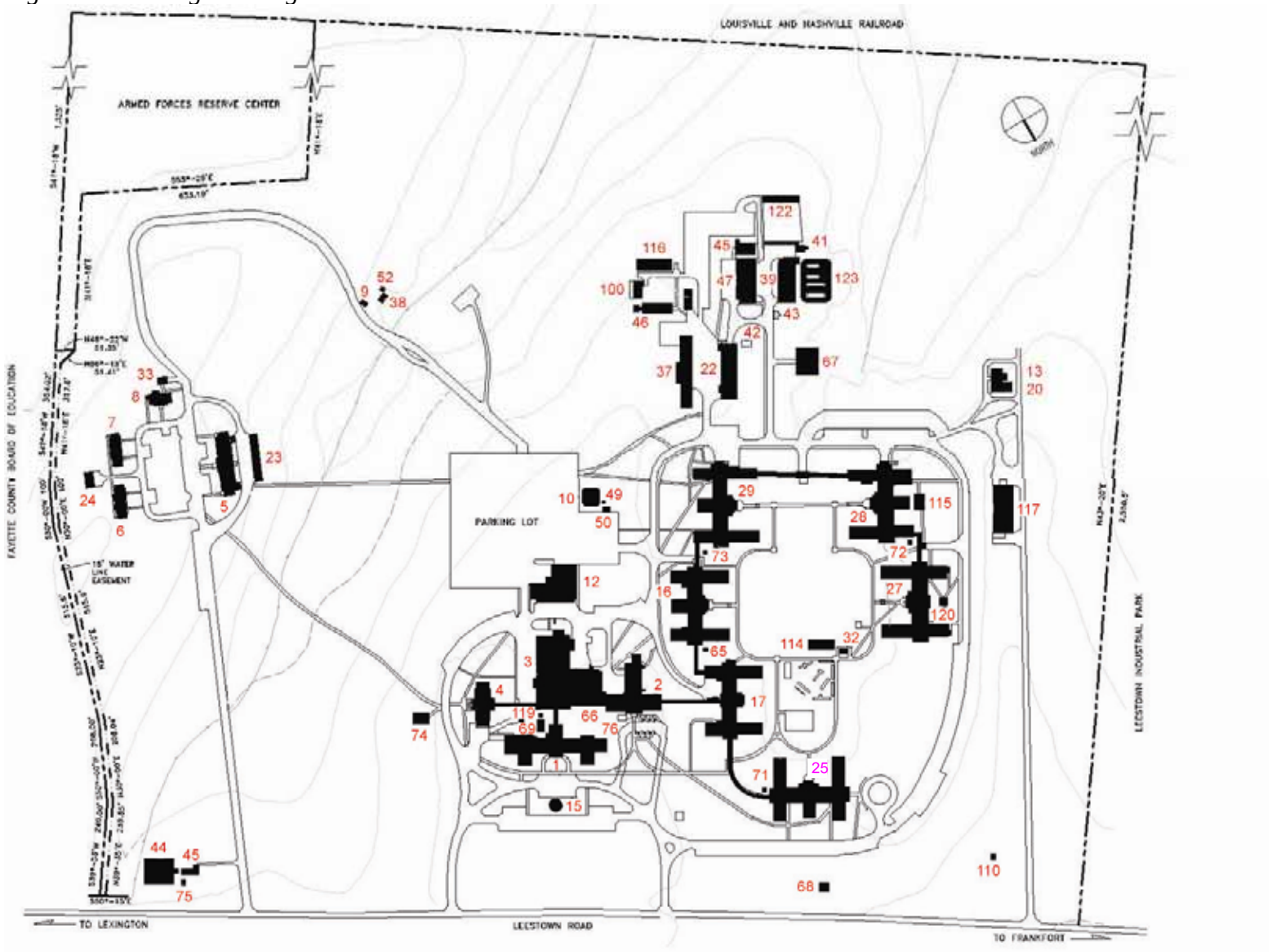


Table 1: Existing Departmental Distribution by Building *

Building	Floor	Function	Year Built	Year Renovation	Floors	Building Total GSF
1		Clinical, Outpatient, Admin.	1930		5	76,018
	Ground	Pathology; Prosthetics; Medical Administration; VSO/Vet Assistance; Police/Security				
	1	Police/Security; Nursing Service Administration; Human Resources; ACS-Specialty Care; Director's Suite; Chaplain				
	2	Pharmacy; ACS-Primary Care				
	3	ACS-Specialty Care; Social Work				
	4	Medical Administration; Nursing Service Administration; Hospital Based Home Care; Social Work				
2		Canteen/Vacant	1931		3	37,409
3		Kitchen, Pharmacy, Warehouse	1931	1989	3	47,008
4		Education	1932		2	12,314
5		Administration, Reference Lab	1931		3	24,003
6		Duplex Quarters-leased office space	1930		3	7,558
7		Duplex Quarters-leased office space	1930		3	7,558
8		Vacant Quarters-leased office space	1933		4	5,121
9		Sewage Pump House	1931			467
12		Warehouse	1931	1982	1	9,333
15		Flag Pole (Leestown Division)				
16		Nursing Home Care	1937	1995	3	70,976
17		SAC/Admin	1937		3	66,478
20		Vacant Storage	1936		1	2,553
22		VRT Clinic (CWT)	1948		2	8,519
23		Vacant 12-Car Garage	1959		1	2,811
24		Vacant 4-Car Garage	1933		1	901
25		NP Infirmary	1942		3	53,368
27		Nursing Home Care	1948	1996	3	50,859
28		Intermediate Care	1948		3	78,375
29		Psychiatric Nursing	1948		3	80,577
32		Recreational Storage, Pt. Toilet	1956		1	232
33		Single Garage	1955		1	329
37		Vocational Rehab. Therapy	1948		1	6,464
38		Sewage Pumping Station	1948		0	796
39		Boiler Plant	1951			8,304
41		Engineering Lock Shop	1951		1	985
45		Pump House	1951			1,049
46		Greenhouse	1954		1	2,873
47		Engineering Shops	1954		1	5,079

* Source: VA Capital Asset Inventory Database

Building	Floor	Function	Year Built	Year Renovation	Floors	Building Total GSF
48		Grounds/Transportation	1957		1	1,283
49		CCTV Equipment	1960			57
52		Mechanical	1963		0	96
67		Chiller Plant	1977			4,298
68		Switching Station	1977			754
69		Generator/Switchgear	1977			640
71		Emergency Generator	1977			192
72		Emergency Generator	1977			192
73		Emergency Generator	1977			192
74		Outdoor Recreation Shelter	1978			1,189
75		Backflow Valves	1985			120
100		VRT Horticulture, Multipurpose	1963		1	1,475
112		Furniture Repair Shop	1953		1	1,857
113		Mechanical	1953			168
115		Shelter for Senior Citizens Park	1968		0	1,186
116		Gas Meter House	1968			144
117		Storage Warehouse	1972		1	6,247
118		VRT Storage	1972		1	3,000
120		Patients' Recreation Shelter	1968			1,186
122		Equipment Storage Shed	1975			1,950
125		Patient Smoking Shelter	1995			311
CC		Connecting Corridor	1948			9,700

Seismic Considerations

Veterans Health Administration (VHA) directives establish policy on the seismic safety of VHA buildings; thereby ensuring that VA provides adequate life-safety protection to veterans, employees, and other building occupants. Sixteen buildings have seismic “non-exempt” status. Facilities that are identified with seismic non-exempt status in the VA Capital Asset Inventory (CAI) database will require renovation as part of the routine maintenance program (where an option recommends retaining the structure) or vacation/demolition (where an option recommends vacation/demolition). Buildings listed as seismic non-exempt are 1, 2, 3, 5, 16, 17, 22, 25, 27, 28, 29, 37, 39, 49, 52 and 100.

Determination of specific structural deficiencies for the brick buildings on campus is outside the scope of this study. Typically, detailed material testing and structural analysis are conducted to determine if structural upgrades are possible for these types of masonry buildings. For the purposes of this study, it is assumed that some of the brick buildings can be upgraded, based on the two-story height and corresponding relatively low lateral forces. Access to construction drawings of previous structural and/or seismic upgrades performed on site will be provided by VA as part of Stage II work. These drawings, as well as additional detailed structural analysis, are required to definitely validate the assumption that the buildings can be upgraded.

Facilities Condition

The majority of the buildings on the Leestown campus were constructed between 1930 and 1950 and while well maintained, have exceeded their useful life for clinical and support functions.

Assessments have been performed by VA of the main patient care buildings; building scores range from 2.2 to 3.8 on a scale of "5" for critical values such as accessibility, code, functional space, and facility conditions.[*] The extent of renovation varies by option. However, with no buildings (as assessed) holding an average score greater than 4.0, all buildings that are proposed for renovation will require a high level of renovation to achieve the modern, safe, and secure status as defined for this project. Upgrades to comply with current VA standards and applicable building codes will be necessary even for the buildings that rate relatively high on codes since the rating covers only Life Safety code issues and not issues such as modifications to accommodate single bed rooms, private bathrooms accessible from within a patient room, and similar patient environment issues. The floor-to-floor heights and floor plate configurations severely restrict the ability to renovate these buildings efficiently to achieve the modern, safe, and secure standards as defined in this study. However, the non-acute nature of the services (primarily outpatient care, behavioral health, and nursing home care) to be provided on this campus will allow for options that consider renovation to all or portions of the existing buildings with supplemental new construction where required. It should also be noted that there is no projected future need for slightly more than half of the existing space on this campus.

The summary of the asbestos containing materials (ACM) report provided by VA indicates “the ACM at the Leestown facility, while extensive, does not present significant health risks at present”. Abatement of ACM will be required where present in proposed renovation areas of each option. The primary area of abatement concern during renovation will be pipe insulation (as stated in the report).[+]

Environment [≠]

There are no obvious environmental issues which would preclude the Leestown campus from further consideration under the Enhanced Use Lease Program based on our review. Issues related to asbestos containing materials and lead would be abated as a part of the construction process for potential re-use. The campus has been very well managed from an environmental perspective, and compliance with Federal and State permitting requirements appears to be in very good order. However, per the report provided by VA, the suspected wetland areas should be flagged to determine their size and future development implications and the former coal storage silo and associated lower levels should be evaluated for respirable coal dust particulates and carcinogenic chemicals (e.g., polycyclic aromatic hydrocarbons) that might present a health and safety concern to the boiler plant staff.

---

[*] Ibid.

[+] The Pruitt Group EUL, LP. *Enhanced Use Lease Property Re-use/Redevelopment Plan Phase One: Baseline Report. Veterans Affairs Medical Center, Lexington, Kentucky, May 16, 2005*

[≠] Ibid.

Outleased Areas/Use Agreements

There are several lease agreements at the Leestown campus. Various state offices and programs lease the second floor of Building 25. Two offices on the first floor of Building 1 are leased. The Volunteers of America lease the second floor of Building 29 for a transitional housing program for homeless veterans. The second floor of Building 17 is leased to a veterans' organization. It is unlikely that any of the current leases will affect the re-use options.

Current and Forecast Investment Requirements

VA has identified $167 million in ongoing maintenance and $56 million in periodic maintenance cost, for a total of $223 million.

Summary of Current Surplus / Vacant Space

On the eastern side of the Leestown campus is a collection of vacant residential buildings. There is considerable vacant space (all or portions of 22 buildings) on the campus. The CAI database indicates that there is currently more than 250,000 square feet of vacant building space on the campus.

Campus space requirements for the planning horizon of 2023 compared to the baseline year of 2003 indicates an overall campus surplus of 364,000 square feet. This is primarily due to the abundance of vacant buildings resulting from earlier decisions to locate the majority of services at the VA Cooper Drive campus.

There is a projected increase in space required for ambulatory services on campus resulting from the Secretary's Decision to relocate three outpatient clinics from the Cooper Drive campus and consolidate with the one existing clinic on the Leestown campus. The workload values and associated area projections indicate this direction.

There are several vacant residential buildings in the western portion of the site that are not suitable for renovation (based on the projected type of services to be provided on this campus). There are also two vacant clinical buildings and various support buildings on the western portion of the campus.

Re-Use[*]

This section describes the real estate market and re-use potential of the Leestown campus.

[*] Ibid.

Real Property

The Leestown campus is surrounded by light industrial, distributional, educational and correctional facilities. A major national company has a distribution facility across the street from the campus; a light industrial park is located adjacent to the campus; and new single family residential developments are being constructed within a mile of the site.

The Leestown campus is located near the intersection of New Circle Road and Leestown Road. This location provides relatively good access to other major roads in the Lexington area, including Interstate 75.

Re-use opportunities for the Leestown Campus are favorable given the site's location on a primary Lexington thoroughfare and a generally positive market. Lexington-Fayette Urban County had a 2000 population of 260,512 and experienced substantial population growth (15.6%) between 1990 and 2000. The surrounding seven-county area grew by 18% during the same period.

There has been a significant increase in the amount of residential building permits filed, with the majority of these permits being for single family dwellings. Both the number of home sales and average home sales prices have been increasing, indicating strong demand.

Office development in Lexington has occurred primarily downtown and in an area in the Southwest portion of the city zoned for office use. This is an area in which there has been significant residential development in the last few years. Office condominiums in the 15,000 – 20,000 square feet range have been increasing in popularity with small users taking advantage of attractive interest rates. The downtown office vacancy rate is 12.72% and the suburban office vacancy rate is 13.56%. There are no new large office developments scheduled to deliver in 2005.

The retail market in Lexington is healthy with several national retailers entering the market. Given the limited amount of land zoned for retail, regional malls experience an extremely low vacancy rate. Retail is primarily concentrated downtown and in specific corridors of the city zoned for retail. Many existing shopping center owners are redeveloping or adding pads on to existing sites.

Regulatory Environment

The majority of the Leestown campus area is zoned I-1, which is light industrial. This zone is intended for manufacturing, industrial, and related uses not involving a potential nuisance in terms of smoke, noise, odor, vibration, heat, light, or industrial waste. Any proposed developments in this area, according to the Lexington-Lafayette zoning ordinance, should consider the relationship of the development to the surrounding land uses and to the adequacy of the street system to serve the anticipated traffic needs.[*]

[*] Lexington-Fayette Urban County Government, Division of Planning, Zoning Ordinance, pg. 8-69. ftp://ftp.lfucg.com/Planning/ZoningOrdinance/Art08.pdf.

Key Observations from Other Government Contractor

The site and market characteristics of Leestown campus indicate prospects of likely demand for alternative re-use in a variety of forms. Existing enhanced-use leases, current leases or planned projects will not likely affect the options. Historic issues should not fundamentally limit the re-use options.

Favorable economic conditions and market demand exist locally for site re-use with various property types. Mixed use at the site is viable, though characteristics of individual parcels may favor or disfavor particular re-use types. Re-use of existing buildings is viable in principle, especially for uses that are similar to the Leestown campus' current activities. However, adaptive uses will be limited in variety and burdened with some costs for modernization or adaptive remodeling.

Consolidating any continuing VA use into a concentrated area on the site is desirable in that it creates maximum available contiguous space for re-use; whether in existing buildings, vacant land, or some combination of each. A re-use parcel positioned with visibility and direct traffic access to Leestown Road will have advantage over any interior positioned parcel for most new-development uses.

Potential for Non-VA Re-use/Redevelopment

Figure 2 illustrates the parcels of land on the current Leestown campus. (Note that these parcels will be referenced in the BPO Development section of this report and in the corresponding re-use options for assessment in Stage I.) Parcels have been identified as discrete portions of the campus with relatively unique characteristics based on location, topography and, importantly, re-use/redevelopment potential.

Figure 2: Map of Campus Parcels

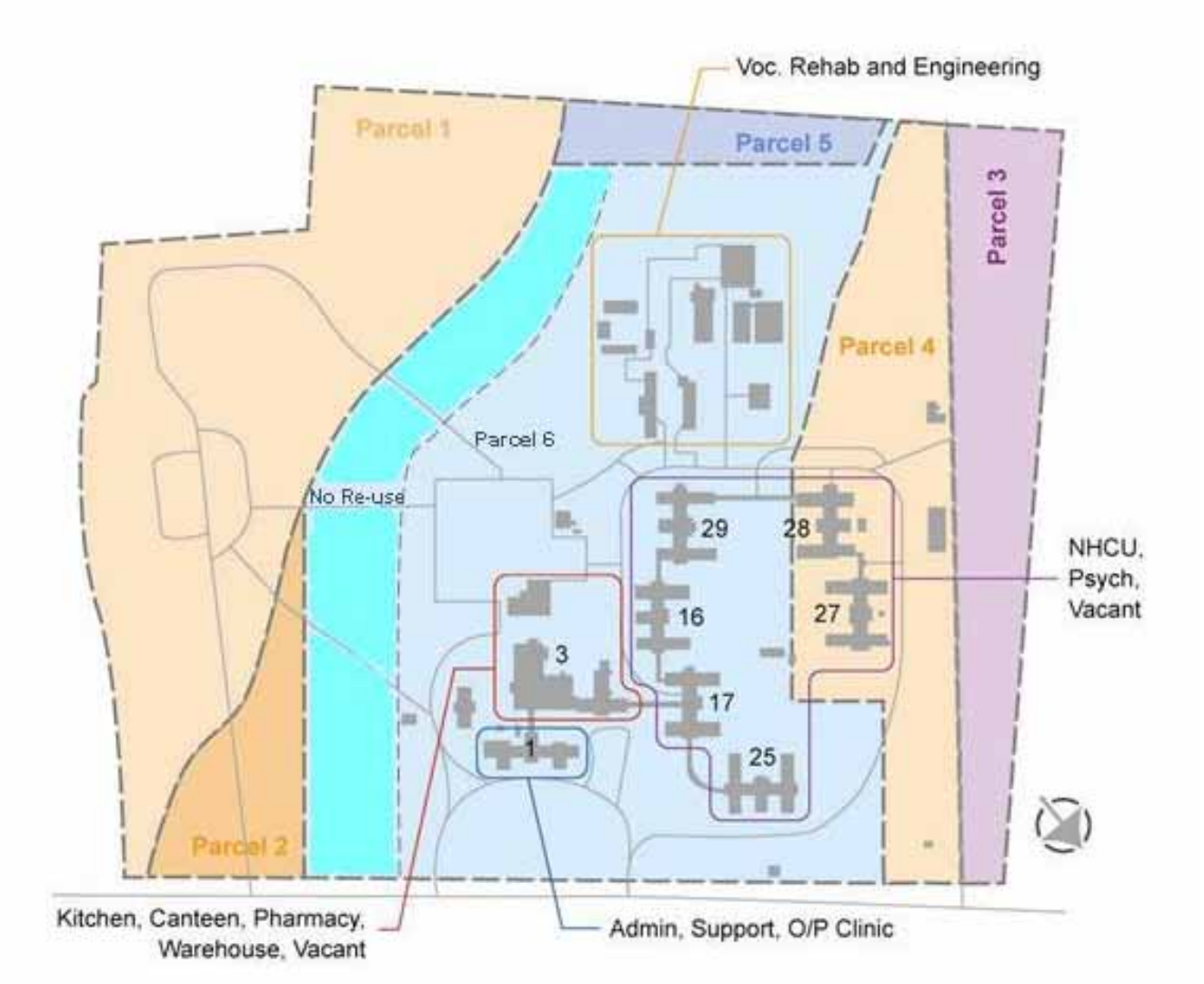


Table 2 identifies the parcels for potential re-use. The parcels have been identified based on both the existing vacant land of the Leestown campus and the changed footprint of the campus structures based on implementation of the capital planning options prepared by Team PwC.

Table 2: Re-use Options, Leestown Campus

Name	Description	Acreage	Re-use Potential
Parcel 1	Irregularly shaped parcel containing open rolling landscape, as well as a collection of vacant residential buildings comprising the eastern edge of the campus. A portion of this parcel is subject to a 60' offset from Leestown Rd to	29.5	Light industrial, distribution, residential (primarily single family), potential institutional (education or healthcare)

Name	Description	Acreage	Re-use Potential
	accommodate a potential road expansion and a 150' security buffer.		
Parcel 2	An irregularly shaped parcel in the northeastern part of the campus adjacent to Leestown Road A portion of this parcel is subject to a 60' offset from Leestown Rd to accommodate a potential road expansion and a 150' security buffer.	4.8	Light industrial, distribution, residential (primarily single family), potential institutional (education or healthcare)
Parcel 3	A narrow parcel comprising the entire western edge of the campus A portion of this parcel is subject to a 60' offset from Leestown Rd to accommodate a potential road expansion and a 150' security buffer.	11.1	Light industrial, distribution, residential (primarily single family), potential institutional (education or healthcare)
Parcel 4	Adjacent to Parcel 3 and extending from Leestown Road to the southern edge of the campus; contains Buildings 27 and 28. A portion of this parcel is subject to a 60' offset from Leestown Rd to accommodate a potential road expansion and a 150' security buffer.	16.7	Light industrial, distribution, residential (primarily single family), potential institutional (education or healthcare)
Parcel 5	A small parcel located on the south central edge of campus	4.0	Light industrial, distribution, residential (primarily single family), potential institutional (education or healthcare)
Parcel 6	The main campus with all of the patient care and support buildings; parcel extends from Leestown Road along the southern edge of the campus. A portion of this parcel is subject to a 60' offset from Leestown Rd to accommodate a potential road expansion and a 150' security buffer.	44.9	Light industrial, distribution, residential (primarily single family), potential institutional (education or healthcare)

For a site this large with multiple buildings, there is an array of potential development options, depending on the users interested. Vacant buildings are available for re-use. The entire site and buildings, minus property to be used for VA's operations, could be developed under a lease to a single entity. This would be the simplest option for VA but may not be possible if there is not a single entity interested. Alternatively, the property could be sub-divided and re-used and/or redeveloped by multiple entities. Potential sub-divisions could include the following:

- Primarily vacant land, including the West Campus parcel;
- Land with buildings as an assemblage, including the main campus parcel and the Vo-Tech Road parcel; and
- Individual buildings, including those buildings with high and medium potential for redevelopment.

4.0 Overview of Healthcare Demand and Trends

Veteran enrollment and utilization for healthcare services was projected for 20 years, using 2003 data as supplied by VA as the base year and projecting through 2023. Projected utilization data presented below is based upon market demand allocated to the Leestown campus. The following section describes these long-term trends for veteran enrollment and utilization for healthcare services at the Leestown campus.

Enrollment Trends

The Leestown campus is located in the Northern Market of VISN 9. The Northern Market (Table 3) contains approximately 118,000 enrolled veterans. Over the next 20 years, the number of enrolled veterans in Priority Groups 1-6 (veterans with the greatest service-connected needs) is expected to increase by 1% to approximately 85,000 while the number of enrolled veterans in Priority Groups 7-8 is expected to decline by 59%, from approximately 34,000 to approximately 14,000. The enrollment forecast for Priority 7-8 veterans assumes an annual enrollment fee and the continued freeze on new Priority 8 enrollment.

Table 3: Projected Veteran Enrollment for the Northern Market by Priority Group

Fiscal Year	Enrolled 2003	Projected 2013	% Change (2003 to 2013)	Projected 2023	% Change (2003 to 2023)
Priority 1-6	83,882	94,765	13%	84,460	1%
Priority 7-8	33,712	16,382	-51%	13,832	-59%
Total	**117,594**	**111,147**	**-5%**	**98,292**	**-16%**

Utilization Trends

Utilization was analyzed for those CARES Implementation Categories (CICs) for which the Leestown campus has projected demand. A summary of utilization data is provided for each CIC in the following tables. Inpatient utilization is measured in number of beds, while both ambulatory and outpatient mental health utilization is measured in number of clinic stops. A clinic stop is a visit to a clinic or service rendered to a patient.

Considering overall demand for inpatient and outpatient services (Table 4), total inpatient bed need is expected to increase by 51% over the 2003- 2023 time period. Total outpatient stops (including radiology and pathology), are forecast to rise 100% over the next 20 years.

Table 4: Outpatient Utilization Summary

Lexington	2003 Actual	2013 Projected	2023 Projected	% Change (2003 to 2013)	% Change (2013 to 2023)	% Change (2003 to 2023)
Total Clinic Stops *	54,125	117,087	108,399	116%	-7%	100%

Overall, the number of nursing home and residential rehabilitation and domiciliary patients (Table 5) at the Leestown campus is projected to increase by 51% over the next 20 years. This increase is a result of a VA planning decision to add 30 residential rehabilitation and domiciliary beds (20 as of 2005 and 30 as of 2007) at the Leestown campus. Due to another VA planning decision, nursing home beds will remain constant at 59 beds for the duration of the forecast period.

Table 5: Projected Utilization for Inpatient CICs for the Leestown Campus

CIC	2003 Actual Beds	2013 Beds Needed	2023 Beds Needed	% Change (2003 to 2013)	% Change (2013 to 2023)	% Change (2003 to 2023)
Nursing Home	59	59	59	0%	0%	0%
Residential Rehab and Domiciliary	0	30	30	NA	0%	NA
Total	**59**	**89**	**89**	**51%**	**0%**	**51%**

With regard to ambulatory services (Table 6), the Leestown campus primarily provides primary care and related specialties services. Utilization for this CIC is approximately 18,000 stops in 2003, and is projected to increase to approximately 76,000 stops by 2013. This trend will be followed by a decrease in demand between 2013 and 2023 to approximately 69,000 stops. The increase in demand is projected to occur in 2011 as primary care ambulatory services are shifted from the Cooper Drive campus to the Leestown campus. The Cooper Drive campus has no land for expansion, and does not have sufficient parking for the number of patients it treats. The Secretary's Decision requires the shift of patients to the Leestown campus, which has sufficient vacant clinical space and land to provide parking for these patients. Projected demand for eye clinic remains relatively constant through the 20-year timeframe, while demand for surgical and related specialties drops dramatically. The majority of that workload will be performed at the Cooper Drive campus. Rehabilitation medicine is held constant due to a VA planning decision.

* Total clinic stop volume includes radiology & pathology data.

Table 6: Projected Utilization for Ambulatory CICs for the Leestown Campus

CIC	2003 Actual Stops	2013 Projected Stops	2023 Projected Stops	% Change (2003 to 2013)	% Change (2013 to 2023)	% Change (2003 to 2023)
Eye Clinic	7,094	6,531	6,555	-8%	0%	-8%
Surgical and Related Specialties	4,370	454	418	-90%	-8%	-90%
Primary Care & Related Specialties	18,348	76,391	69,010	316%	-10%	276%
Rehab Medicine	477	477	477	0%	0%	0%
Total	**30,289**	**83,853**	**76,460**	**277%**	**-9%**	**252%**

The behavioral health CIC accounts for the majority of outpatient mental health services (Table 7) provided at the Leestown campus. This CIC accounted for approximately 23,000 stops in 2003. Demand projections show that there will be a 38% increase in behavioral health clinic stops over the next 20 years. Projected demand for community mental health residential care shows a steady decrease between 2003 and 2023; however, this represents a small portion of the total outpatient mental health workload.

Table 7: Projected Utilization for Outpatient Mental Health CICs for the Leestown Campus

CIC	2003 Actual Stops	2013 Projected Stops	2023 Projected Stops	% Change (2003 to 2013)	% Change (2013 to 2023)	% Change (2003 to 2023)
Behavioral Health	22,606	32,260	31,306	43%	-3%	38%
Community MH Residential Care	1,230	974	633	-21%	-35%	-49%
Total	**23,836**	**33,234**	**31,939**	**39%**	**-4%**	**34%**

In summary, the analysis of the projected enrollment and utilization data highlights several opportunities and challenges for the Leestown campus. The transfer of primary care and related specialty workload from the Cooper Drive campus requires that appropriate facilities be constructed or renovated. Similarly, the increase in outpatient mental health utilization requires expansion of existing space to serve this larger workload. The addition of PRRTP beds also requires that the Leestown campus be right-sized and reconfigured to meet the revised requirements for this inpatient workload. Additionally, the significant costs involved in renovating current facilities present an added impetus to create a plan for the most effective use of building space that is more than twice what will be needed to care for veterans in 2023.

The space requirements to deliver the projected volume of healthcare services in a modern, safe, and secure environment were calculated using Team PwC's capital planning methodology. The Leestown campus currently has over 250,000 square feet of vacant space and despite the future shift of outpatient workload from the Cooper Drive campus and the expanded residential rehabilitation and domiciliary beds, a significant amount of vacant space will remain. Projected workload volumes through 2023 indicate a 52% decrease in building area need resulting in an increase of vacant space to 364,000 square feet. It is expected that some of this surplus building stock will not be cost effective to retrofit to a modern, safe, and secure environment.

The majority of buildings on campus were constructed between 1930 and 1950. While all buildings on campus are well maintained, the useful life of these building for providing clinical services has been exceeded. The floor-to-floor heights and floor plate configurations severely restrict their ability to renovate these efficiently to achieve the modern, safe, and secure definitions as defined in this study.

The non-acute nature of the services (primarily outpatient care, behavioral health and nursing home care) to be provided on this campus will allow for options that consider renovation to all or portions of the existing buildings with supplemental new construction additions where required. Phasing of the renovation sequence for options that involve significant sustained use of existing buildings will be complex due to the existing (efficient) proximity of departments and building configuration.

Modernized space is required to address projected increases in demand for primary and related specialty ambulatory care services in an appropriate setting. Surplus buildings are available to accommodate the ambulatory services as well as the additional residential rehabilitation and domiciliary beds. BPOs will consider current clinical inventory and the impacts of changes in demand on the space requirements for these services.

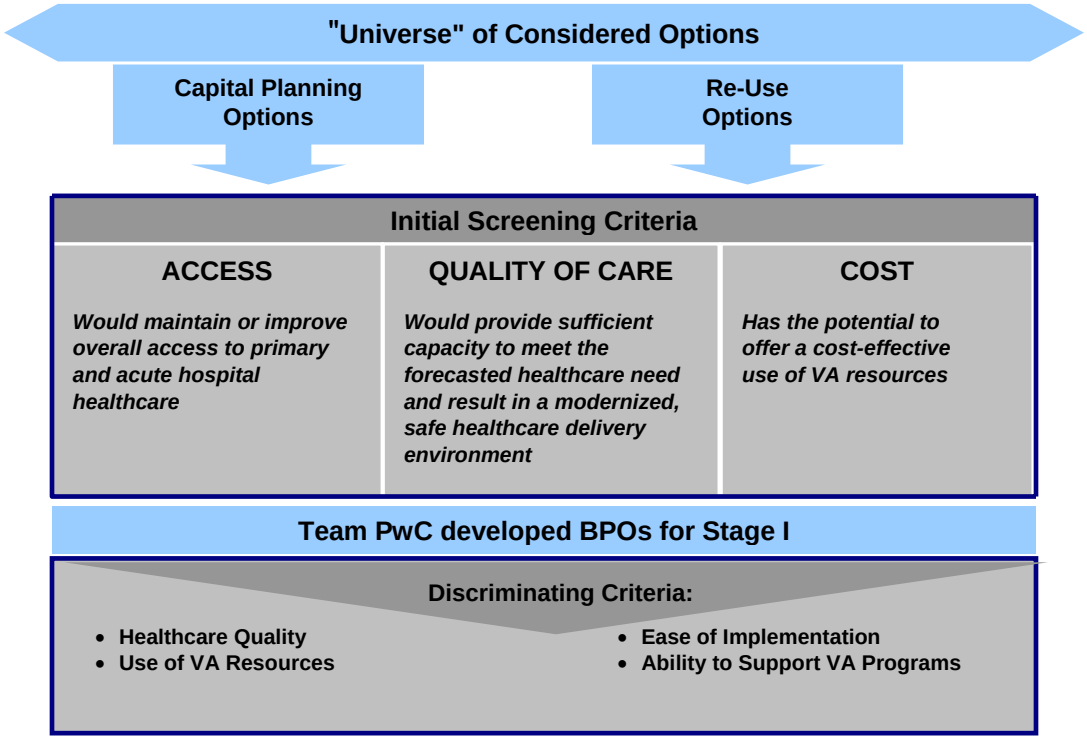
5.0 Business Plan Option Development Approach

Options Development Process

Using VA furnished information, site tours and interviews, as well as stakeholder and LAP member input, Team PwC developed a broad range of discrete and credible capital planning options and associated re-use options. Each capital planning option that passed the initial screening served as a potential component of BPOs. A review panel of experienced Team PwC consultants, including capital planners and real estate advisors considered the assessment results and recommended the BPOs. Each of the BPOs was then assessed at a more detailed level according to a set of discriminating criteria.

The following diagram illustrates the complete options development process:

Figure 3: Options Development Process



Initial Screening Criteria

Discrete capital planning options were developed for the Lexington and were subsequently screened to determine whether or not a particular option had the potential to meet or exceed the CARES objectives. The following describes the initial screening criteria that were used during this process:

- **Access**: *Would maintain or improve overall access to primary and acute hospital healthcare* – No capital planning study sites involve relocation of healthcare services unless directed by the Secretary's Decision Document, May 2004. If relocation of healthcare services is directed by the Secretary, the relocation would be reflected in the baseline BPO. Although the baseline BPO may result in a change to access from the current state, the CARES methodology states that all options should be compared to the baseline BPO. Therefore, access should be maintained for all capital options as compared to the baseline. Drive-time analysis was not performed to measure impact on access to care for capital planning study sites.

- **Quality of Care:** *Would provide sufficient capacity to meet the forecasted healthcare need and result in a modernized, safe healthcare delivery environment that is compliant with existing laws, regulations, and VA requirements* – This was assessed by consideration of whether the option provides sufficient capacity (space) to meet the CIC workload requirements. Additionally, the physical environment proposed in the option was considered and any material weaknesses identified in VA's space and functional

surveys, facilities' condition assessments, and seismic assessments for existing facilities, and application of a similar process to any alternative facilities proposed.

- **Cost**: *Has the potential to offer a cost-effective use of VA resources* – This was assessed as part of Team PwC's initial cost effectiveness analysis. A 30-year planning period was used in the cost effectiveness analysis. Any option that did not have the potential to provide a cost effective physical and operational configuration of VA resources as compared to the baseline failed this test.

Discriminating Criteria

After passing the initial screening, BPOs were developed and the following discriminating criteria were applied to assess the overall attractiveness of the BPO.

- **Healthcare Quality** – These criteria assess the following:
  - If the BPO can ensure the forecasted healthcare need is appropriately met.
  - Whether each BPO will result in a modernized, safe, and secure healthcare delivery environment.

- **Use of VA Resources** – These criteria assess the cost effectiveness of the physical and operational configuration of the BPO over a 30-year planning horizon. Costs were assessed at an "order of magnitude" level of analysis in Stage I. Detailed costing will be conducted in Stage II. These criteria include:

  - Operating Cost Effectiveness: The ability of the BPO to provide recurring/operating cost increases or savings as compared to the baseline.
  - Level of Capital Expenditures: The amount of investment required relevant to the baseline based on results of initial capital planning estimates.
  - Level of Re-use Proceeds: The amount of re-use proceeds and/or demolition/clean-up cost based on results of the initial re-use study.
  - Cost Avoidance: The ability to obtain savings in necessary capital investment as compared to the baseline BPO.
  - Overall Cost Effectiveness: The initial estimate of net present cost as compared to the baseline.

- **Ease of Implementation** – These criteria assess the risk of implementation associated with each BPO. The following major risk areas were considered:

  - Reputation
  - Continuity of Care
  - Organization & Change
  - Legal & Contractual
  - Compliance
  - Security
  - Political
  - Infrastructure
  - Financial
  - Technology
  - Project Realization

- **Ability to Support VA programs** – These criteria assess how the BPO would impact the sharing of resources with DoD, enhance One-VA integration, and impact special considerations, such as DoD contingency planning, Homeland Security needs, or emergency need projections.

Operational Costs

The objective of the cost analysis in Stage I is to support the comparison of the estimated cost effectiveness of the baseline with each BPO. The Study Methodology calls for an "order of magnitude" level of analysis in Stage I and detailed costing in Stage II. The total estimated costs include operating costs, initial capital planning costs, re-use opportunities, and any cost avoidances. The operating costs for the baseline and each BPO are a key input to the financial analysis for Stage II. Operating costs considered for the Stage I analysis include direct medical care, administrative support, engineering and environmental management, and miscellaneous benefits and services.

The baseline operating costs were provided to Team PwC by VA. The 2004 costs were obtained from the Decision Support System (DSS), VA's official cost accounting system. This information was selected for use because DSS provides the best available data for identifying fixed direct, fixed indirect, and variable costs. The data can be rolled up to the CIC level and the data is available nationally for all VAMCs and CBOCs. These costs are directly attributable costs and generally do not reflect the total costs of the operation.

The costs were obtained for each facility within the study scope and were aggregated into the CICs. The costs were categorized as total variable (per unit of care), total fixed direct, and total fixed indirect costs. The definition of each cost category is as follows:

- Total Variable (Direct) Cost: The costs of direct patient care that vary directly and proportionately with fluctuations in workload. Examples include salaries of providers and the cost of medical supplies. Variable direct cost = variable supply cost + variable labor cost. The cost of purchased care is considered a variable direct cost.

- Total Fixed Direct Cost: The costs of direct patient care that do not vary in direct proportion to the volume of patient activity. The word "fixed" does not mean that the costs do not fluctuate, but rather that they do not fluctuate in direct response to workload changes. Examples include depreciation of medical equipment and salaries of administrative positions in clinical areas.

- Total Fixed Indirect Cost: The costs not directly related to patient care, and, therefore, not specifically identified with an individual patient or group of patients. These costs are an allocation of the total other costs (i.e. not direct costs) associated with the operation of the facility. These costs are allocated to individual medical departments through VA's existing indirect cost allocation process. Examples of indirect costs include utilities, maintenance, and administration costs.

FY 2004 operating costs from DSS were deflated to FY 2003 dollars to create the costs for FY 2003 which is the base date for current cost comparison. These costs (fixed and variable) were then inflated for each year of the study period. Variable costs were multiplied by the forecasted workload for each CIC and summed to estimate total variable costs. Variable costs were also provided by VA for non-VA care. These are based on VA's actual expenses and are used in the BPOs where care is contracted.

These costs are used together with initial capital investment estimates as the basis for both the baseline option and each BPO with adjustments made to reflect the impact of implementation of the capital option being considered. Potential re-use proceeds are added to provide an overall indication of the cost of each BPO.

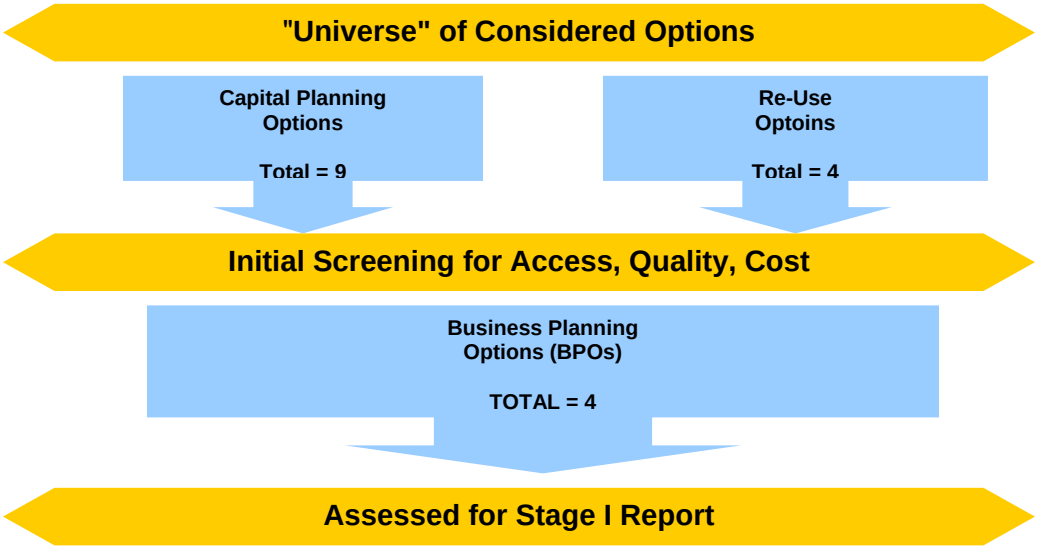
Summary of Business Plan Options

The individual capital planning and re-use options that passed the initial screening were further considered as options to comprise a BPO. A BPO is defined as consisting of a single capital option associated its associated re-use option(s)*. Therefore, the formula for a BPO is:

BPO = Capital Planning option + Re-use option(s)

The following diagram illustrates the final screening results of all alternate BPOs given consideration:

Figure 4: Final Screening Results of Alternate BPOs



* In Stage I, re-use options are described in terms of available re-use parcels, their potential re-use (residential, office, etc.) and their potential re-use value (high, medium, low).

Options Not Selected for Assessment

Five additional options created during the option development process did not pass the initial screening criteria. These are listed in the table below, together with an explanation for their rejection.

Table 8: Capital Options Not Selected for Assessment

Label	Description	Reason(s) Not Selected
Construct new freestanding 65,000 BGSF outpatient building at north portion of campus	Similar to BPO 4 except in alternate location that requires eliminating the access road and Gate 4	Option was rejected due to a lack of space to provide parking in accordance with current security standards and for a lack of convenience for veterans
Construct new freestanding 65,000 BGSF outpatient building on location of existing warehouse building	Similar to BPO 4 except in alternate location	Option was rejected because it is not cost effective to demolish this building without some reduction in the campus footprint
Replacement campus northwest	Similar to BPO 5 except in alternate location	This option was rejected because of complex phasing and limited future flexibility to expand or change campus
Replacement laundry if Louisville VAMC site is vacated	Consider locations on campus for laundry facility	This option was rejected because it did not appear to be cost effective
Construct new outpatient building with parking structure	Similar to BPO 4 except with structure parking rather than surface parking	This option was rejected because it is far more costly to build a parking structure than to construct surface parking

Baseline BPO

Based upon Team PwC's methodology, the baseline BPO advances in the Stage I process. The baseline is the BPO under which there would not be significant changes in either the location or type of services provided at the Lexington campus. In the baseline BPO, the Secretary's May 2004 Decision and forecasted long-term healthcare demand forecasts and trends, as indicated by the demand forecasted for 2023, are applied to the existing healthcare provision solution for the Lexington campus.

Specifically, the baseline BPO is characterized by the following:

- Healthcare continues to be provided as currently delivered as modified by the Secretary's Decision, except to the extent healthcare volumes for particular procedures fall below key quality or cost effectiveness thresholds.
- Capital planning investments rectify any material deficiencies in the existing facilities in order to provide a modern, safe, and secure healthcare delivery environment.
- Life cycle capital costs provide ongoing preventative maintenance and life-cycle maintenance of existing facilities.
- Buildings and/or land that become surplus as a result of changes in demand for healthcare services and/or capital plans for facilities are made available for re-use.

Evaluation System for BPOs

Each BPO is evaluated against the baseline BPO in an assessment table providing comparative rankings across several categories and an overall attractiveness rating. The results of the BPO assessment and the Team PwC recommendation are provided in subsequent sections.

Table 9: Evaluation System Used to Compare BPOs to baseline BPO

Ratings to assess Quality and Ability to Support VA Programs	
↑	The BPO has the potential to provide a slightly improved state compared to the baseline BPO for the specific discriminating criteria (e.g., quality and ability to support VA programs)
↔	The BPO has the potential to provide materially the same state compared to the baseline BPO for the specific discriminating criteria (e.g., quality and ability to support VA programs)
↓	The BPO has the potential to provide a slightly lower or reduced state compared to the baseline BPO for the specific discriminating criteria (e.g., quality and ability to support VA programs)
Operating cost effectiveness (based on results of initial healthcare/operating costs)	
↑↑↑	The BPO has the potential to provide significant recurring operating cost savings compared to the baseline BPO (>15%)
↑↑	The BPO has the potential to provide significant recurring operating cost savings compared to the baseline BPO (>10%)
↑	The BPO has the potential to provide some recurring operating cost savings compared to the baseline BPO (5%)
-	The BPO has the potential to require materially the same operating costs as the baseline BPO (+/- 5%)
↓	The BPO has the potential to require slightly higher operating costs compared to the baseline BPO (>5%)
↓↓	The BPO has the potential to require slightly higher operating costs compared to the baseline BPO (>10%)
↓↓↓	The BPO has the potential to require slightly higher operating costs compared to the baseline BPO (>15%)
Level of capital expenditures estimated	
↓↓↓↓	Very significant investment required compared to the baseline BPO **(≥ 200%)**
↓↓	Significant investment required compared to the baseline BPO **(121% to 199%)**
-	Similar level of investment required compared to the baseline BPO **(80% to 120% of Baseline)**
↑↑	Reduced level of investment required compared to the baseline BPO **(40%-80%)**
↑↑↑↑	Almost no investment required **(≤ 39%)**
Level of re-use proceeds relative to baseline BPO (based on results of initial re-use study)	
↓↓	High demolition/clean-up costs, with little return anticipated from re-use
-	No material re-use proceeds available
↑	Similar level of re-use proceeds compared to the baseline (+/- 20% of baseline)
↑↑	Higher level of re-use proceeds compared to the baseline (e.g., 1-2 times)
↑↑↑	Significantly higher level of re-use proceeds compared to the baseline (e.g., 2 or more times)

Cost avoidance (based on comparison to baseline BPO)	
-	No cost avoidance opportunity
↑↑	Significant savings in necessary capital investment compared to the baseline BPO
↑↑↑↑	Very significant savings in essential capital investment compared the baseline BPO
Overall cost effectiveness (based on initial net present cost calculations)	
↓↓↓↓	Very significantly higher net present cost compared to the baseline BPO (>1.15 times)
↓↓	Significantly higher net present cost compared to the baseline BPO (1.10 – 1.15 times)
↓	Higher net present cost compared to the baseline BPO (1.05 – 1.09 times)
-	Similar level of net present cost compared to the baseline (+/- 5% of baseline)
↑	Lower net present cost compared to the baseline (90-95% of Baseline)
↑↑	Significantly lower net present cost compared to the baseline BPO (85-90% of baseline)
↑↑↑↑	Very significantly lower net present cost compared to the baseline BPO (<85% of baseline)
Ease of Implementation of the BPO	
↑	The BPO has the potential to provide a slightly improved state compared to the baseline BPO based upon the level of impact and likelihood of occurrence of risks to its implementation plan.
↔	The BPO has the potential to provide materially the same state as the baseline based upon the level of impact and likelihood of occurrence of risks to its implementation plan.
↓	The BPO has the potential to provide a slightly lower or reduced state compared to the baseline BPO based upon the level of impact and likelihood of occurrence of risks to its implementation plan.
Overall "Attractiveness" of the BPO Compared to the baseline	
↑↑↑↑	Very "attractive" – highly likely to offer a solution that improves quality and/or access compared to the baseline while appearing significantly more cost effective than the baseline
↑↑	"Attractive" - likely to offer a solution that at least maintains quality and access compared to the baseline while appearing more cost effective than the baseline
-	Generally similar to the baseline
↓↓	Less "attractive" than the baseline - likely to offer a solution that while maintaining quality and access compared to the baseline appears less cost effective compared to the baseline
↓↓↓↓	Significantly less "attractive" – highly likely to offer a solution that may adversely impact quality and access compared to the baseline and appearing less (or much less) cost effective than the baseline

Stakeholder Input: Purpose and Methods

VA determined at the beginning of the CARES process that it would use the Federal Advisory Committee Act (FACA) process to solicit stakeholder input and to provide a public forum for discussion of stakeholder concerns because "[t]he gathering and consideration of stakeholder input in this scope of work is of great importance." According to the Statement of Work, the purpose of the Local Advisory Panel (LAP) appointed under the FACA is to

> provide the Contractor with a perspective on previous CARES local planning products, facility mission and workload, facility clinical issues, environmental factors, VISN

> referral and cross cutting issues in order to assist the Contractor in the refinement of the options the Contractor shall recommend. The Federal Advisory Committee will also provide feedback to the Contractor on proposed options and recommendations.

The LAP is required to hold at least four public meetings at which stakeholders would have an opportunity to present testimony and comment on the work performed by Team PwC and the deliberations of the LAP.

Team PwC also devised methods for stakeholders to communicate their views without presenting testimony at the LAP meetings. Throughout Stage I, a comment form was available electronically via the CARES website and in paper form at the first LAP public meeting. In addition, stakeholders were advised that they could submit any written comments or proposals to a central mailing address, and a number of stakeholders used this method as well.

The time in which stakeholder input was collected during Stage I can be divided into two input periods – Input Period One and Input Period Two. The intent of Input Period One was to collect general stakeholder input to assist in the development of potential BPOs, while Input Period Two allowed stakeholders to comment on the specific BPOs presented at the public LAP meeting. Input Period One started in April 2005 and ended on the day that the comment form with specific BPOs was available for public comment on the CARES website. For both periods, stakeholder input was reviewed and categorized into nine categories of concern which are summarized in Table 10.

For Input Period Two, stakeholders were provided with a brief description of the BPOs and asked to indicate whether they favored the option, were neutral about the option, or did not favor the option. Ten days after the second LAP meeting was held, Team PwC summarized all of the stakeholder views that were received during Input Period Two, and this information is included in this report.

Summarized stakeholder views were available to LAP members for their review and consideration when evaluating BPOs as well as in defining new BPOs.

Table 10: Definitions of Categories of Stakeholder Concern

Stakeholder Concern	*Definition*
Effect on Access	Involves a concern about traveling to another facility or the location of the present facility.
Maintain Current Service/Facility	General comments related to keeping the facility open and maintaining services at the current site.
Support for Veterans	Concerns about the federal government/VA's obligation to provide health care to current and future veterans.
Effect on Healthcare Services & Providers	Concerns about changing services or providers at a site.
Effect on Local Economy	Concerns about loss of jobs or local economic effects of change.
Use of Facility	Concerns or suggestions related to the use of the land or facility.
Effect on Research & Education	Concerns about the impact a change would have on research or education programs at the facility.
Administration's Budget or Policies	Concerns about the effects of the administration's budget or other policies on health care for veterans.
Unrelated to the Study Objectives	Other comments or concerns that are not specifically related to the study.

Stakeholder Input to Business Plan Option Development

Approximately 40 members of the public attended the first LAP meeting held on May 12, 2005 as well as the second LAP meeting held on September 22, 2005. A total of 33 forms of stakeholder input (general comments on the study as well as specific BPOs) were received between April 20 and October 2, 2005. The concerns of stakeholders who submitted general comments not related to specific BPOs are summarized in the Table 11.

Table 11: Analysis of General Stakeholder Concerns (Periods One and Two)

Key Concern	Number of Comments *		
	Oral	Written and Electronic	**Total**
Effect on Access	3	0	**3**
Maintain Current Service/ Facility	1	0	**1**
Support for Veterans	0	0	**0**
Effect on Healthcare Services and Providers	1	1	**2**
Effect on Local Economy	0	0	**0**
Use of Facility	11	1	**12**
Effect on Research and Education	0	0	**0**
Administration's Budget or Policies	2	0	**2**
Unrelated to the Study Objectives	4	1	**5**

* Totals reflect the number of times a key concern was expressed, and not the total of individuals who provided input.

6.0 Business Plan Options

The option development process resulted in a multitude of discrete capital and re-use options, which were subsequently screened to determine whether a particular option had the potential to meet or exceed the CARES objectives (i.e., access, quality, and cost). Overall, there were four BPOs (comprising capital and re-use components) which passed initial screening and were developed for Stage I (see Figure 4).

Each BPO was assessed at a more detailed level according to the discriminating criteria. Each BPO examines renovating and upgrading facilities to modern, safe, and secure standards, while at the same time consolidating the footprint of the campus in order to make surplus land available for potential non-VA re-use (see: Table 12).

Two additional BPOs (BPOs 6 and 7) were proposed by the LAP at the second LAP Public Meeting. These BPOs were variations of Team PwC-proposed BPO 4.

In all BPOs with the exception of BPO 5, nursing home care will remain in Building 16 and PRRTP in Building 29 with necessary renovations occurring to address modern, safe, and secure environment and any changes in workload.

Site plans have been included for the BPOs developed by Team PwC (see Figures 5 through 8). The site plan for the baseline BPO (BPO 1) is the existing site plan (see Figure 1). The site plans are for reference only. They illustrate the magnitude of land and buildings required to meet projected utilization and are not designs.

Table12: Business Plan Options

BPO 1: Baseline
Renovation and maintenance of existing buildings for a modern, safe, and secure healthcare environment. Under this BPO, the lower two floors of existing Buildings 27 and 28 will be renovated to accommodate outpatient workload. Ambulatory workload currently delivered in Building 1 would be relocated to Buildings 27 and 28. Nursing home and mental health facilities residential will be renovated. New surface parking around these buildings would be constructed to accommodate the increased number of patients. Parcels 1, 2, and 5 are available for re-use. Potential re-uses include light industrial, distribution, residential (primarily single family), and potential institutional (education or healthcare)
BPO 2: Renovate Buildings 25 and 17 on the Northwest Corner of Campus
Under this BPO, Buildings 25 and 17 will be renovated to accommodate consolidation of all outpatient workload, including the relocated clinic from Building 1. Certain administrative functions residing in Building 17 would be moved to vacated space in Building 1. The outleases in Building 25 would be relocated and the space made available for clinical services. Nursing home and mental health residential facilities will be renovated. New surface parking around these buildings would be constructed to accommodate the increased number of patients. Parcels 1, 2, 3, and 5 are available for re-use. Potential re-uses include light industrial, distribution, residential (primarily single family), and potential institutional (education or healthcare).

BPO 3: Renovate Buildings 25 and 17 and Construct an Adjacent 30,000 Square Foot Outpatient Building
Under this BPO, Buildings 25 and 17 will be renovated and an adjacent 30,000 square foot building will be constructed to accommodate consolidation of all outpatient workload, including the relocated clinic from Building 1. Certain administrative functions residing in Building 17 would be moved to vacated space in Building 1. Nursing home and mental health residential facilities will be renovated. This BPO differs from BPO 2 in that the outleases in Building 25 remain and the proposed configuration allows for more swing space. New surface parking around these buildings would be constructed to accommodate the increased number of patients. Parcels 1, 2, 3, and 5 are available for re-use. Potential re-uses include light industrial, distribution, residential (primarily single family), and potential institutional (education or healthcare).
BPO 4: Construct a 65,000 Square Foot Outpatient Building on the Central Portion of the Campus
Under this BPO, a 65,000 square foot building will be constructed on the central portion of the campus on Parcel 6 adjacent to the existing main parking area. This would accommodate the consolidation of outpatient workload, including the relocated clinic from Building 1. Certain administrative functions residing in Building 17 would be moved to vacated space in Building 1. Nursing home and mental health residential facilities will be renovated. New surface parking around these buildings would be constructed to accommodate the increased number of patients. Parcels 1, 2, 3, 4, and 5 are available for re-use. Potential re-uses include light industrial, distribution, residential (primarily single family), and potential institutional (education or healthcare).
BPO 5: Replace all Facilities on Vacant Land in the Southeastern Part of the Campus
Under this BPO, an appropriately sized facility to house all clinical and administrative functions would be constructed in the southeastern part of the campus on land which is mostly vacant. Nine smaller buildings, some of which were previously used as quarters for staff, will be demolished to accommodate the building and adjacent parking area. The main part of the campus will be completely vacated and all buildings and land available for re-use. New surface parking around these buildings would be constructed to accommodate the increased number of patients. Parcels 3, 4, 5, and 6 are available for re-use. Potential re-uses include light industrial, distribution, residential (primarily single family), and potential institutional (education or healthcare).
BPO 6: Construct a 65,000 Square Foot Outpatient Building Adjacent to Buildings 17 and 25
This BPO was created during the second LAP meeting and is similar to BPO 4 except for the location of the proposed outpatient building. A 65,000 square foot building will be constructed on the northwestern side of the campus on Parcel 6 adjacent to Buildings 17 and 25. This would accommodate the consolidation of outpatient workload, including the relocated clinic from Building 1. Certain administrative functions residing in Building 17 would be moved to vacated space in Building 1. Nursing home and mental health residential facilities will be renovated. New surface parking around these buildings would be constructed to accommodate the increased number of patients. Parcels 1, 2, 3, 5, and a significant portion of Parcel 4 are available for re-use. Potential re-uses include light industrial, distribution, residential (primarily single family), and potential institutional (education or healthcare).
BPO 7: Construct a 65,000 Square Foot Outpatient Building Adjacent to Buildings 17 and 25; Retain all Land on the West Side of Campus
This BPO was created during the second LAP meeting and is identical to BPO 6 except that Parcels 3 and 4 are excluded from re-use.

BPO Site Plans

Figure 5: BPO 2, Renovate Buildings 25 and 17 on Northwest Corner of Campus

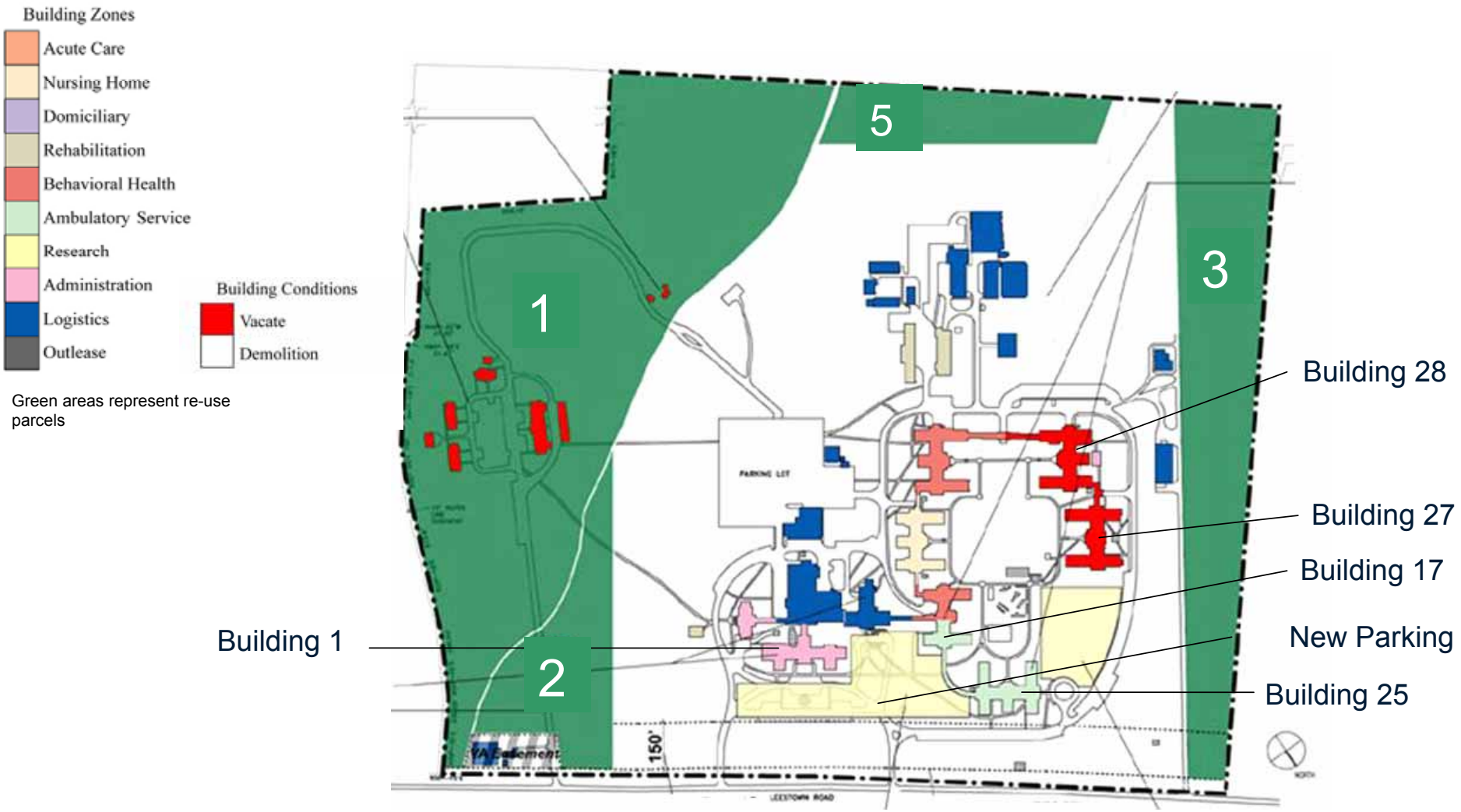


Figure 6: BPO 3 - Renovate Buildings 25 and 17 and Construct an Adjacent 30,000 Square Foot Outpatient Building

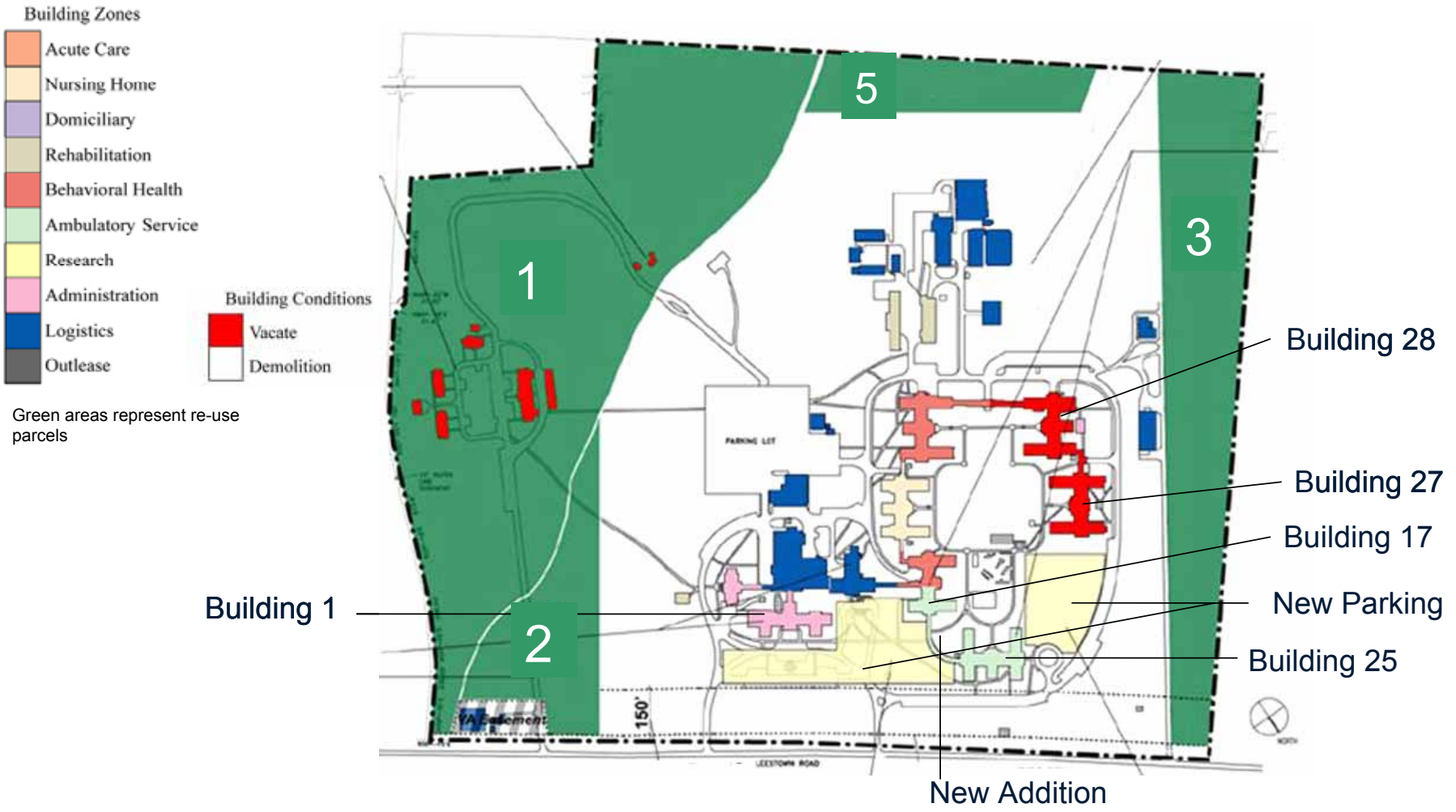


Figure 7: BPO 4 - Construct a 65,000 Square Foot Outpatient Building on the Central Portion of the Campus

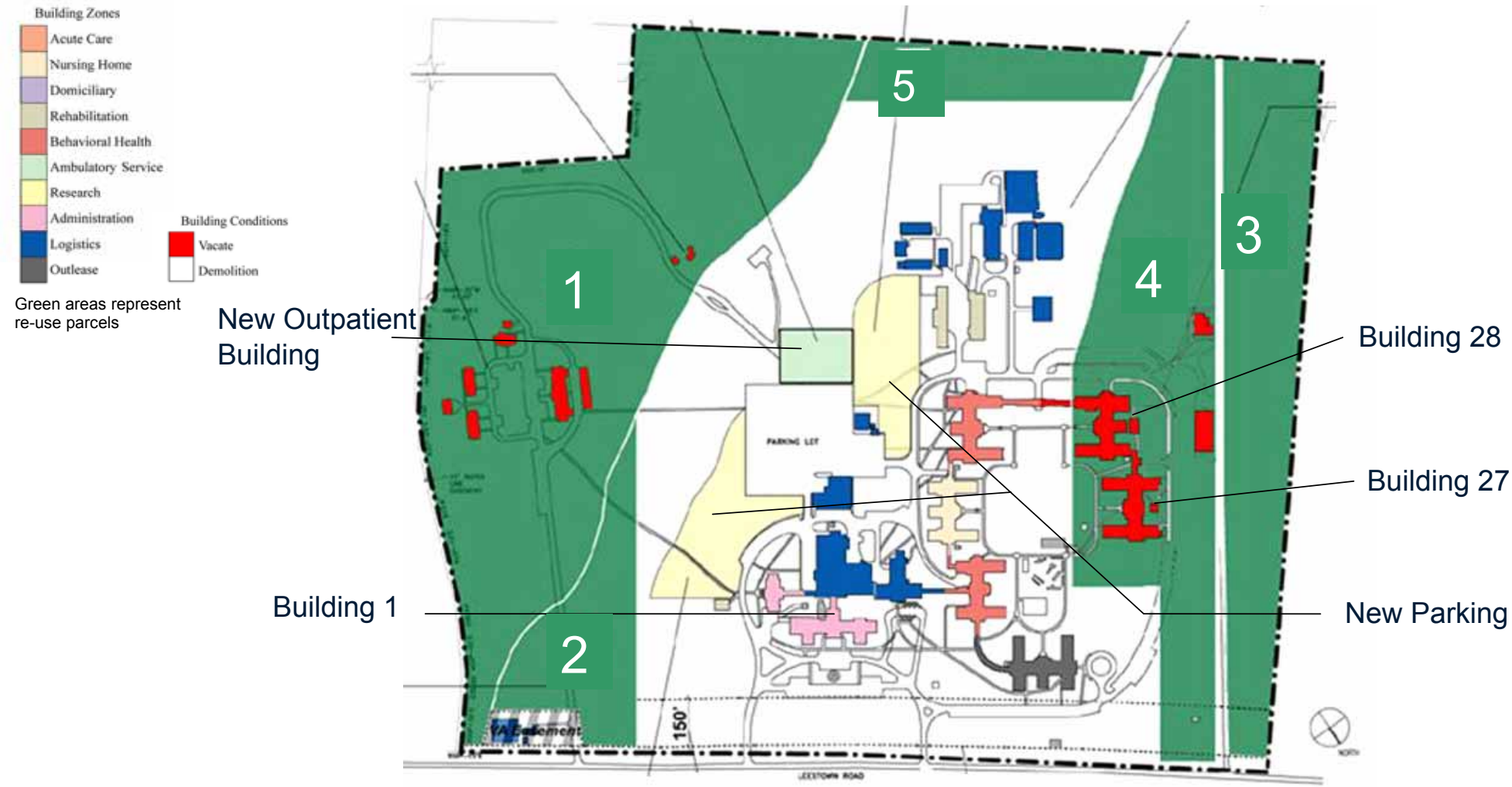


Figure 8: BPO 5 - Replace all Facilities on Vacant Land in the Southeastern Part of the Campus

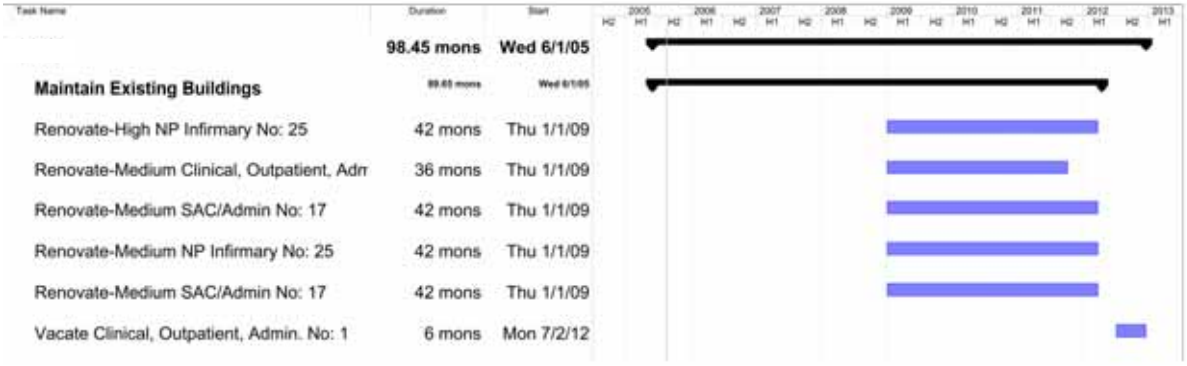
BPO Schedules

The following schedules were developed for the baseline and the alternate BPOs. All schedules are preliminary and tentative.

Figure 9: BPO 1 (Baseline)

Task Name	Duration	Start
	97 mons	**Tue 7/12/05**
Maintain Existing Buildings	97 mons	Tue 7/12/05
Renovate-High Intermediate Care No: 28	42 mons	Thu 1/1/09
Renovate-High Nursing Home Care No: 27	42 mons	Thu 1/1/09
Renovate-Low Intermediate Care No: 28	42 mons	Thu 1/1/09
Renovate-Low Nursing Home Care No: 27	42 mons	Thu 1/1/09
Vacate Clinical, Outpatient, Admin. No: 1	6 mons	Mon 7/2/12

Figure 10: BPO 2 (Renovate Buildings 25 and 17 on the Northwest Corner of Campus



Task Name	Duration	Start
	98.45 mons	**Wed 6/1/05**
Maintain Existing Buildings	98.45 mons	Wed 6/1/05
Renovate-High NP Infirmary No: 25	42 mons	Thu 1/1/09
Renovate-Medium Clinical, Outpatient, Adm	36 mons	Thu 1/1/09
Renovate-Medium SAC/Admin No: 17	42 mons	Thu 1/1/09
Renovate-Medium NP Infirmary No: 25	42 mons	Thu 1/1/09
Renovate-Medium SAC/Admin No: 17	42 mons	Thu 1/1/09
Vacate Clinical, Outpatient, Admin. No: 1	6 mons	Mon 7/2/12

Figure 11: BPO 3 (Renovate Buildings 25 and 17 and Construct an Adjacent 30,000 Square Foot Outpatient Building

ask Name	Duration	Start	Finish
	97 mons	**Tue 7/12/05**	**Fri 12/14/12**
Construct New Buffer for Zone Ambulatory Se	12 mons	Thu 7/1/10	Wed 6/1/11
Construct New New Outpatient Clinics No: NO	36 mons	Thu 1/1/09	Tue 10/4/11
Construct New Surface Parking for Zone Amb	12 mons	Wed 11/3/10	Tue 10/4/11
Maintain Existing Buildings	**97 mons**	**Tue 7/12/05**	**Fri 12/14/12**
Renovate-High NP Infirmary No: 25	24 mons	Thu 1/1/09	Tue 11/2/10
Vacate Clinical, Outpatient, Admin. No: 1	6 mons	Thu 10/20/11	Wed 4/4/12

Figure 12: BPO 4 (Construct a 65,000 Square Foot Outpatient Building on the Central Portion of the Campus

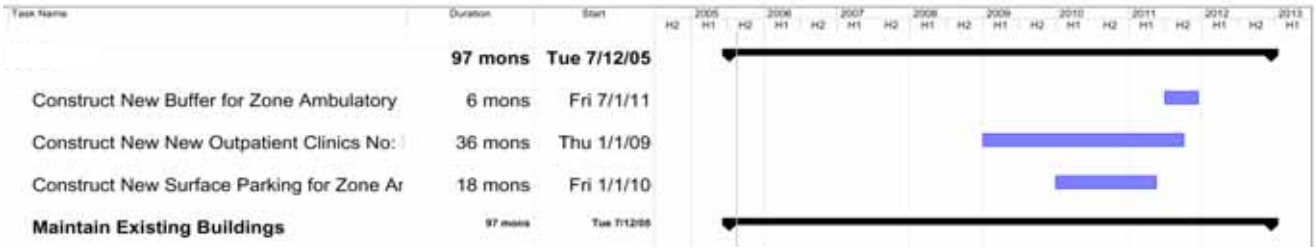
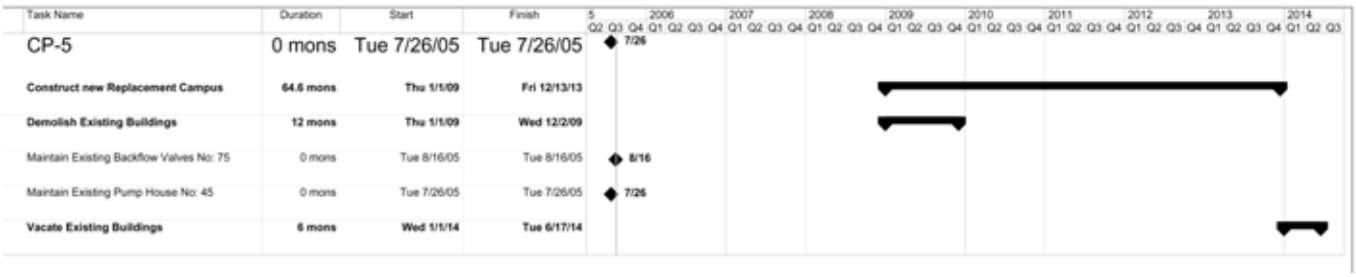


Figure 13: BPO 5 (Replace all Facilities on Vacant Land in the Southeastern Part of the Campus



Assessment Drivers

The Leestown campus of the Lexington VAMC is located five miles from the Cooper Drive campus of the Lexington VAMC. Unlike the Cooper Drive campus which is located on a land-locked site in the heart of downtown Lexington and surrounded by the University of Kentucky campus, the Leestown campus sits on 135 acres with substantial areas of vacant land surrounding the main patient care buildings. The Leestown campus provides nursing home care, inpatient psychiatry services, and ambulatory care including substance abuse treatment, while the Cooper Drive campus is located near the University of Kentucky School of Medicine and provides inpatient tertiary medical and surgical services and ambulatory care. Most of the buildings on the Leestown campus were constructed between 1930 and 1950. While well maintained, the buildings have exceeded their useful life for clinical and support functions.

Enrollment projections for the VISN 9 Northern Market show an increase of 1% between 2003 and 2023 for Priority Groups 1 through 6. Priority Groups 7 and 8 projections show enrollment declining 59% for the same 20-year time period.

These long term healthcare trends for the Leestown campus, together with major drivers were considered for the Leestown study site. These drivers represent factors particularly noticeable at

the Leestown campus that must be balanced in the development and evaluation of business plan options. They are:

1. Healthcare demand at the Leestown campus is increasing.
2. Addressing substantial vacant and underused space provides for better use of VA resources.
3. The level of capital expenditure required over the next 20 years to upgrade facilities to modern, safe, and secure standards is significant.
4. Economic conditions and market demand for real estate are favorable.

These four drivers are described further below.

Healthcare Demand at the Leestown Campus is Increasing – The Leestown campus has projected nursing home demand of 59 beds and inpatient residential rehab and domiciliary demand of 30 beds (20 as of 2005 and 30 as of 2007). The increase of 30 inpatient residential rehab beds combined with the 59 nursing home beds equates to an increase of inpatient beds of 51%. With regard to ambulatory services, an increase in ambulatory stops from 30,289 to 76,460 is projected between 2003 and 2023, a 252% increase. The increase in ambulatory services at the Leestown campus is primarily driven by an increase in primary care services. This CIC is projected at 18,348 stops in 2003. Projected demand shows an increase to 76,391 stops by 2013 followed by a decrease in demand between 2013 and 2023 to 69,010 stops. The increase shown in 2013 is projected to occur in 2011 as primary care ambulatory services are shifted from the Cooper Drive campus to the Leestown campus. In addition, outpatient mental health demand is projected to increase from 23,836 stops to 31,939 stops or 34%.

Better Use of VA Resources – Currently there is approximately 705,000 BGSF at the Leestown campus with more than 250,000 BGSF currently vacant. Based on the projected 2023 workload volumes which includes the shift of outpatient workload from the Cooper Drive campus, there is a need for approximately 340,000 BGSF. This results in substantial vacant and underutilized space that is costly to maintain. Also, based upon the configuration of the buildings and land, significant opportunity exists for consolidation of services.

Operating Cost Effectiveness and Level of Capital Expenditure – The Leestown campus requires significant capital investment to upgrade to modern, safe, and secure standards. Average building condition assessment scores range from 2.2 to 3.8., which means that if the buildings are to continue to be used, they will require a high level of renovation to achieve modern, safe, and secure standards. As a result, the level of capital expenditure required to construct new facilities is not materially different from that required for renovation. Furthermore, renovated facilities will not provide the level of operating efficiencies that would be realized in a new integrated facility.

Re-Use Potential – Analysis of the re-use potential for the Leestown campus indicates that it is reasonably well located for a variety of re-use plans. The campus is located on Leestown Road, a major connector to downtown Lexington, and is less than one mile away from New Circle Road and within close proximity to two interstate highways. The campus is surrounded by light industrial, distribution, educational and correctional facilities. A major national company has a

distribution facility across the street from the campus; a light industrial park is located adjacent to the campus; and new single family residential developments are being constructed within a mile of the site. Favorable economic conditions and market demand exist locally for various potential re-uses, including light industrial, distribution, residential (primarily single family), and institutional (education or healthcare)

Assessment Results

The following section summarizes the results of applying discriminating criteria to each BPO and comparing them to the baseline in accordance with the Evaluation System for BPOs (Table 9). Subsequent sections describe the reactions of the Local Advisory Panel and Stakeholders to these BPOs and Team PwC's overall recommendations for each BPO.

Table 13: Baseline Assessment

Assessment Summary	Baseline
Healthcare Quality	
Ensures forecast healthcare need is appropriately met	There will be no material differences in the accommodation of projected demand. Demand is expected to not exceed site capacity for inpatient and outpatient care and will be accommodated on site through the projection period. The facility is sized to meet the projected patient demand volumes.
Modern, safe, and secure environment	Conditions of buildings on the Leestown campus vary. The baseline improves site safety by addressing seismic deficiencies and bringing buildings up to code.
Use of VA Resources	
Operating cost effectiveness	Renovations to the facilities should improve facility operating costs from the current state. However, given the original design limitations of the existing facilities, renovations to achieve a modern, safe, and secure environment do not realize efficiencies in staffing, supplies, heating, and power, which would be available under new construction alternatives.
Level of capital expenditures estimated	Significant capital expenditure is required to renovate and upgrade facilities to modern, safe and secure standards.
Level of re-use proceeds	Parcels 1, 2 and 5 are available for re-use. A shallow ravine bisects the eastern quadrant of the property, from the northeast corner at Leestown Road to the southwest boundary of the site. Other than this ravine, the re-use of these parcels is not inhibited by topography, environment, zoning, or buildings with historical designation. These parcels could be attractive to a variety of entities. Analysis of the real estate market indicates that the parcels could be attractive for single and multifamily housing (including senior housing assisted living), industrial, and educational and other institutional uses
Cost avoidance opportunities	In the baseline, it is assumed that renovation and periodic recurring maintenance costs for some vacated buildings would be eliminated. The majority of the $223 million identified in the CAI database for facility improvements would be expended.
Overall cost effectiveness	Not applicable for the baseline.

Assessment Summary	Baseline
Ease of Implementation	
Ease of BPO implementation	The baseline BPO presents implementation risk in terms of the following major risk areas: ▪ Continuity of care, since significant renovation of the patient care facilities may disrupt provision of care to patients ▪ Infrastructure, since facilities may present unforeseen environmental, systematic and/or structural issues during renovation ▪ Security, since renovation may not be able to conform the building to all code requirements given physical constraints of the buildings ▪ Project realization, since significant renovations present exposure to delays, budget variances and transition complications.
Ability to Support Wider VA Programs	
DoD sharing	No DoD sharing arrangements are expected in the baseline.
One-VA Integration	The baseline environment does not further One-VA integration nor has any requirement to coordinate with other VA administrations been identified.
Special Considerations	The baseline does not impact DoD contingency planning, Homeland security needs, or emergency need projections.
Overall Attractiveness	Not applicable for the baseline.

Table 14 provides an overall summary of the BPOs assessed for comparative purposes.

*Table 14: BPO Assessment Summary**

Assessment Summary	BPO 2	BPO 3	BPO 4	BPO 5
	Renovate Buildings 25 and 17 on the Northwest Corner of the Campus	Renovate Buildings 25 and 17 and Construct an Adjacent 30,000 Square Foot Outpatient Building	Construct a 65,000 Square Foot Outpatient Building on the Central Portion of the Campus	Replace all Facilities on Vacant Land in the Southeastern Part of the Campus
Healthcare Quality				
Modern, safe, and secure environment	↔	↑	↑	↑
Meets forecasted service need	↔	↔	↔	↔
Cost Effectiveness				
Operating cost effectiveness	—	—	—	↑
Level of capital expenditures estimated	—	—	—	↓↓
Level of re-use proceeds	↑↑	↑↑	↑↑↑	↑↑↑
Cost avoidance opportunities	—	—	—	↑↑
Overall cost effectiveness	—	—	—	↑
Ease of Implementation				
Ease of BPO implementation	↔	↔	↑	↑
Wider VA Program Support				
DoD sharing	↔	↔	↔	↔
One-VA Integration	↔	↔	↔	↔
Special Considerations	↔	↔	↔	↔
Overall Attractiveness	—	—	↑↑	↑↑

* BPOs 6 and 7 are not included in the Assessment Summary Table. They were created during the second LAP meeting at the suggestion of the LAP and, therefore, only the initial screening criteria of access, quality, and cost were applied to determine if the BPOs have the potential to meet or exceed the CARES objectives. If BPO 6 or 7 are selected for Stage II, a more detailed analysis will be completed.

BPO 6: Construct 65,000 Square Foot Outpatient Building Adjacent to Buildings 17 and 25

The initial screening criteria of access, quality, and cost were applied to this new BPO to determine if this BPO, created by the LAP, has the potential to meet or exceed the CARES objectives.

Table 15: Screening Results for BPO 6

Criteria	Screening Result
Access	Since all services will remain on the campus, assume current access levels will be maintained.
Quality	Similar to BPO 4, this BPO improves site safety by bringing buildings up to code. New construction of the outpatient addition provides physical layouts and unit sizes that reflect modern healthcare practice.
Cost	This BPO will likely be similar to BPO 4 in overall cost-effectiveness with similar re-use proceeds. A financial analysis would be required to more properly assess the impact of these factors on the overall cost effectiveness of this BPO.

BPO 7: Construct a 65,000 Square Foot Outpatient Building Adjacent to Buildings 17 and 25; Retain all Land on West Side of Campus

The initial screening criteria of access, quality, and cost were applied to this new BPO to determine if this BPO, created by the LAP, has the potential to meet or exceed the CARES objectives.

Table 16: Screening Results for BPO 7

Criteria	Screening Result
Access	Since all services will remain on the campus, assume access quality levels will be maintained.
Quality	Similar to BPO 4, this BPO improves site safety by bringing buildings up to code. New construction of the outpatient addition provides physical layouts and unit sizes that reflect modern healthcare practice.
Cost	This BPO will likely be similar to BPO 4 in overall cost effectiveness. However, due to the exclusion of Parcels 3 and 4, re-use potential is less than in BPO 4.

Local Advisory Panel and Stakeholder Reactions/Concerns

Local Advisory Panel Feedback

The Lexington LAP consists of six members: Patricia Pittman (Chair); General Les Beavers; Dr. Richard (Dan) Roth; Becky Estep; Ron Spriggs; and Randy Fisher. Two of the members are VA staff, the rest are representatives of the community, veteran service organization, and where appropriate, medical affiliates and the Department of Defense.

At the second LAP meeting on September 22, 2005, following the presentation of public comments, the LAP conducted its deliberation on the BPOs. At that time, the LAP proposed two new BPOs, BPOs 6, and 7. Table 17 presents the results of the LAP deliberations. BPOs that were not seconded did not move on to a formal vote (indicated by "n/a" in the table). BPOs 1, 3, 6, and 7 were recommended by the LAP for further study, while BPOs 2, 4, and 5 were not.

Table 17: LAP BPO Voting Results

BPO	Label	Seconded	Yes	No	Abstain
1	Baseline	Yes	6	0	0
2	Renovate Buildings 25 and 17 on the Northwest Corner of Campus	No	n/a	n/a	
3	Renovate Buildings 25 and 17 and Construct an Adjacent 30,000 Square Foot Outpatient Building	Yes	4	0	2
4	Construct a 65,000 Square Foot Outpatient Building on the Central Portion of the Campus	No	n/a	n/a	
5	Replace all Facilities on Vacant Land in the Southeastern Part of the Campus	No	n/a	n/a	
6*	Construct a 65,000 Square Foot Outpatient Building Adjacent to Buildings 17 and 25	Yes	4	2	0
7*	Construct a 65,000 Square Foot Outpatient Building Adjacent to Buildings 17 and 25; Retain all Land on the West Side of the Campus	Yes	6	0	0

* BPO Added by LAP

The LAP rejected BPO 2 because of concerns about clinics being accommodated within Building 25. The LAP rejected BPO 4 because of concerns about the location of the primary care clinic. The LAP rejected BPO 5 because of concerns over changing the footprint of the Leestown campus and giving up too much land for re-use.

The LAP proposed two new options (BPOs 6 and 7). The reasoning behind BPO 6 was as follows: achieve a more centrally located outpatient clinic on campus by moving the outpatient building in BPO 4 to the location proposed in BPO 3.

The reasoning behind BPO 7 was to preserve the existing footprint of the campus and protect land for future VA use.

Stakeholder Feedback on BPOs

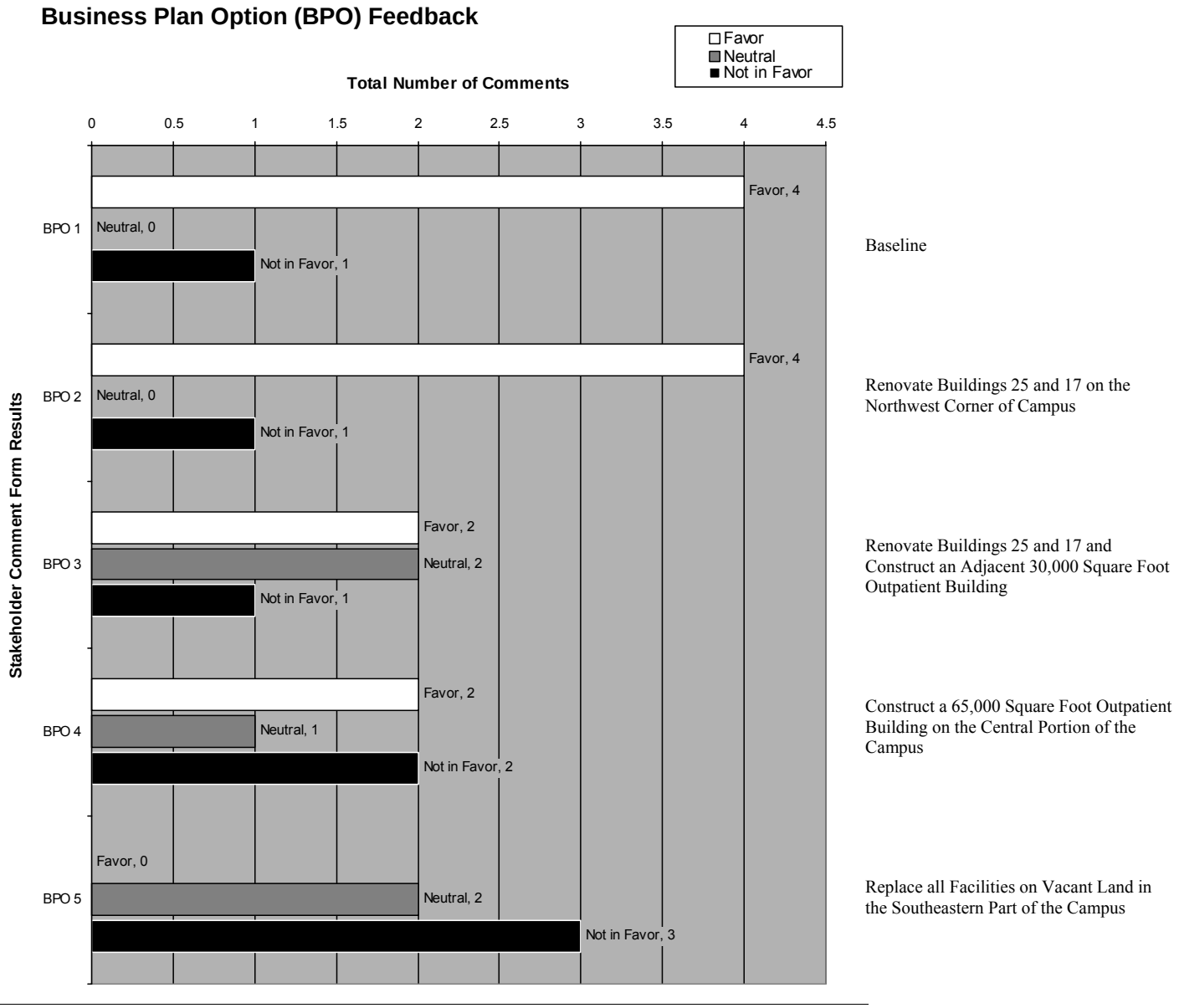
In addition to raising specific concerns, stakeholders were provided with the opportunity to provide feedback regarding the specific BPOs presented at the second LAP meeting. Through the VA CARES website and comment forms distributed at the public meeting, stakeholders were able to indicate if they "favor", are "neutral", or are "not in favor" of each of the BPOs. The results of this written and electronic feedback are provided in Figure 14.

Stakeholders reviewed the BPOs before the second public LAP meeting and were most supportive of the baseline option (BPO 1) that keeps services on site as well as BPO 2 which calls for the consolidation of outpatient services in renovated vacant space. Stakeholders also showed some support for BPO 3 which proposes renovation of buildings and construction of a new outpatient building and BPO 4 which calls for the renovation of buildings and consolidation of outpatient services in a new building. BPOs 6 and 7 emerged as a result of LAP deliberations; therefore, stakeholders did not have the opportunity to provide feedback specific to these BPOs.

Figure 14: Stakeholder Feedback on BPOs [*]

Analysis of Written and Electronic Inputs (Written and Electronic Only):

The feedback received from the Options Comment Forms for the Lexington study site is as follows:



[*] Stakeholder feedback is reflected in this chart only for the BPOs which were presented by Team PwC at the LAP meeting (BPOs 1-5), and not the ones created by the LAP at the second public meeting. Any stakeholder feedback regarding additional options was captured in the open text boxes on the comment forms.

BPO Recommendations for Assessment in Stage II

Team PwC's recommendation of BPOs to be further assessed in Stage II was determined based on several factors. Team PwC considered the pros and cons of each option, together with the results of assessments against discriminating criteria to determine the overall attractiveness of each BPO. Views and opinions of the LAP and oral and written testimony received from veterans and other interested groups were also considered. All of these inputs contributed to the selection of the BPOs to be recommended for further study in Stage II, which are summarized in Table 28 with pros and cons identified for each option.

The BPOs recommended for further study share some key similarities. All of them would provide an attractive solution to upgrading the campus to modern, safe, and secure standards, while right-sizing the campus for future demand.

The BPOs which Team PwC eliminated from further consideration were BPOs 2, 3, and 7. BPO 2 proposes renovating space to meet 2023 demand and modern, safe, and secure requirements. The renovations in BPO 2 do not produce the most effective space configuration, and the lengthy timeframe makes BPO 2 riskier. BPO 3 proposes renovating Buildings 25 and 17 and constructing a new 30,000 square foot outpatient services building which will consolidate all outpatient services. Construction and partial renovation is not the most effective way to address the need for new outpatient space. BPO 7 was proposed by the LAP and involves new construction to provide for outpatient services, renovating necessary space throughout the Leestown campus. BPO 7 does not make all of the vacant parcels available for re-use.

Table 20: BPO Recommendations

BPO	Pros	Cons	Rationale
BPOs Recommended by Team PwC for Further Study			
BPO 1 Baseline	• Renovates necessary space to meet 2023 demand and modern, safe, and secure requirements. • Permits potential re-use/redevelopment of Parcels 1, 2, and 5	• The opportunity to reduce the campus footprint is not fully realized • Operating inefficiencies and higher maintenance costs remain for older, renovated space	• The baseline is the BPO against which all other BPOs are assessed
BPO 4: Construct a 65,000 Square Foot Outpatient Building on the Central Portion of the Campus	• Enables greater consolidation of the campus than in the baseline • New buildings are more efficient to operate • Additional re-use potential is afforded by making Parcels 3 and 4 available for re-use in addition the parcels available in the baseline • Less risk than the baseline in the areas of continuity of care, infrastructure, and security	• Capital expenditure is slightly higher than the baseline	• New outpatient space increases operating efficiency • Higher re-use value than baseline • Accomplishes a reduction in campus footprint
BPO 5: Replace all Facilities on Vacant Land in the Southeastern Part of the Campus	• Maximizes the opportunity to reduce the footprint of the campus through consolidation • New buildings are more efficient to operate • Patient disruption is minimized • Permits potential re-use/redevelopment of Parcels 3, 4, 5, and 6	• Capital expenditure is significant	• Creates a modern and right-sized facility • Addresses the need for a reduced footprint, with the majority of the campus being made available for re-use • Higher re-use value than the baseline
BPO 6: Construct a 65,000 Square Foot Outpatient Building Adjacent to Buildings 17 and 25	Similar advantages as BPO 4	Similar to BPO 4	• New outpatient space increases operating efficiency • Higher re-use value than the baseline

BPO	Pros	Cons	Rationale
BPOs Not Recommended by Team PwC for Further Study			
BPO 2: Renovate Buildings 25 and 17 on the Northwest Corner of Campus	• Enables further consolidation of the campus than in baseline • Additional re-use potential is afforded by making Parcel 3 available for re-use in addition the parcels available in the baseline	• Not easy to implement, since multi-move phasing results in a longer renovation period and greater patient disruption • Operating inefficiencies and higher maintenance costs remain for older, renovated space	• Renovation alone does not produce the most effective space configuration • Lengthy renovation makes the risk of patient disruption greater
BPO 3: Renovate Buildings 25 and 17 and Construct an Adjacent 30,000 Square Foot Outpatient Building	• Enables further consolidation of the campus than baseline • 30,000 BGSF of new construction results in greater operating cost efficiencies than in baseline • Additional re-use potential is afforded by making Parcel 3 available for re-use in addition the parcels available in the baseline.	• Operating inefficiencies and higher maintenance costs remain for older, renovated space	• Lengthy renovation makes the risk of patient disruption greater • Construction and partial renovation is not the most effective way to address the need for new outpatient space
BPO 7: Construct a 65,000 Square Foot Outpatient Building Adjacent to Buildings 17 and 25; Retain all Land on the West Side of Campus	• Same advantages as BPO 6	• Same disadvantages as BPOs 4 and 6, but does not make parcels 3 and 7 available for re-use.	• Retaining parcels 3 and 7 reduces potential re-use proceeds

Appendix A - Assessment Tables

BPO 1: Baseline

Assessment Summary	Baseline
Healthcare Quality	
Modern, safe, and secure environment	There will be no material differences in the accommodation of projected demand. Demand is expected to not exceed site capacity for inpatient and outpatient care and will be accommodated on site through the projection period. The facility is sized to meet the projected patient demand volumes.
Ensures forecast healthcare need is appropriately met	Conditions of buildings on the Leestown campus vary. The baseline improves site safety by addressing seismic deficiencies and bringing buildings up to code.
Use of VA Resources	
Operating cost effectiveness	Renovations to the facilities should improve facility operating costs from the current state. However, given the original design limitations of the existing facilities, renovations to achieve a modern, safe, and secure environment do not realize efficiencies in staffing, supplies, heating, and power, which would be available under new construction alternatives.
Level of capital expenditures estimated	Significant capital expenditure is required to renovate and upgrade facilities to modern, safe and secure standards.
Level of re-use proceeds	Parcels 1, 2 and 5 are available for re-use. A shallow ravine bisects the eastern quadrant of the property, from the northeast corner at Leestown Road to the southwest boundary of the site. Other than this ravine, the re-use of these parcels is not inhibited by topography, environment, zoning, or buildings with historical designation. These parcels could be attractive to a variety of entities. Analysis of the real estate market indicates that the parcels could be attractive for single and multifamily housing (including senior housing assisted living), industrial, and educational and other institutional uses
Cost avoidance opportunities	In the baseline, it is assumed that renovation and periodic recurring maintenance costs for some vacated buildings would be eliminated.
Overall cost effectiveness	Not applicable for the baseline.
Ease of Implementation	
Ease of BPO implementation	The baseline BPO presents implementation risk in terms of the following major risk areas: ▪ Continuity of care, since significant renovation of the patient care facilities may disrupt provision of care to patients ▪ Infrastructure, since facilities may present unforeseen environmental, systematic and/or structural issues during renovation ▪ Security, since renovation may not be able to conform the building to all code requirements given physical constraints of the buildings ▪ Project realization, since significant renovations present exposure to delays, budget variances and transition complications.
Ability to Support Wider VA Programs	
DoD sharing	No DoD sharing arrangements are expected in the baseline.
One-VA Integration	The baseline environment does not further One-VA integration nor has any requirement to coordinate with other VA administrations been identified.
Special Considerations	The baseline does not impact DoD contingency planning, Homeland security needs, or emergency need projections.
Overall Attractiveness	Not applicable for the baseline.

BPO 2: Renovate Buildings 25 and 17 on the Northwest Corner of Campus

Assessment of BPO 2	Impact on Baseline	Description of Impact
Healthcare Quality		
Modern, safe, and secure environment	↔	BPO has the potential to provide materially the same state compared to the baseline because it involves a similar level of renovations.
Ensures forecast healthcare need is appropriately met	↔	There will be no material differences in the accommodation of projected demand. Demand is expected to not exceed site capacity for inpatient and outpatient care and will be accommodated on site through the projection period. The facility is sized to meet the projected patient demand volumes.
Use of VA Resources		
Operating cost effectiveness	—	Results in potentially the same operating costs as the baseline. Consolidation of services will provide for some staffing and other potential efficiencies; other renovated buildings will have equivalent operating costs to the baseline.
Level of capital expenditures estimated	—	Renovation results in similar level of investment required relative to the baseline (80% - 120% of baseline) since the baseline includes a similar level of renovation to accomplish modern, safe, and secure environment and meet the projected patient demand.
Level of re-use proceeds	↑↑	Higher level of re-use proceeds compared to the baseline (e.g., 1-2 times). Additional re-use potential is afforded by making Parcel 3 on the western side of the campus available for re-use
Cost avoidance opportunities	—	As in the baseline, it is assumed that renovation and periodic and recurring maintenance costs for vacated buildings could be eliminated.
Overall cost effectiveness	—	The extent of renovation and upgrades in this BPO is similar to the baseline, resulting in similar operating costs and capital expenditure as the baseline. Re-use proceeds are expected to be somewhat higher than the baseline. Overall, this BPO results in a similar level of net present cost as the baseline.

Ease of Implementation		
Ease of BPO implementation	↔	BPO has the potential to provide materially the same level of risk compared to the baseline. The baseline BPO presents implementation risk in terms of the following major risk areas: ▪ Continuity of care, since significant renovation of the patient care facilities may disrupt provision of care to patients ▪ Infrastructure, since facilities may present unforeseen environmental, systematic and/or structural issues during renovation ▪ Security, since renovation may not be able to conform the building to all code requirements given physical constraints of the buildings ▪ Project realization, since significant renovations present exposure to delays, budget variances and transition complications.
Wider VA Program Support		
DoD sharing	↔	No material impact is expected since no DoD relationships are expected. However, this BPO does not preclude any potential collaboration between VA and DoD.
One-VA Integration	↔	No material impact is expected that would affect One-VA integration since there are no significant VBA or NCA relationships in the baseline which could be disrupted. Furthermore, the BPO neither precludes nor enhances future, potential VBA or NCA relationships.
Special Considerations	↔	No material impact expected in terms of special considerations since the capital plan neither precludes nor enhances DoD contingency planning, Homeland Security needs, or emergency preparedness.
Overall Attractiveness	—	Generally similar to the baseline.

BPO 3: Renovate Buildings 25 and 17 and Construct an Adjacent 30,000 Square Foot Outpatient Building

Assessment of BPO 3	Impact on Baseline	Description of Impact
Healthcare Quality		
Modern, safe, and secure environment	↑	New construction has the potential to provide a slightly improved state as compared to the baseline.
Ensures forecast healthcare need is appropriately met	↔	There will be no material differences in the accommodation of projected demand. Demand is expected to not exceed site capacity for inpatient and outpatient care and will be accommodated on site through the projection period. The facility is sized to meet the projected patient demand volumes.
Use of VA Resources		
Operating cost effectiveness	—	Results in potentially the same operating costs as the baseline. New outpatient construction and consolidation of services will provide for some staffing and other potential efficiencies; other renovated buildings will have equivalent operating costs as the baseline.
Level of capital expenditures estimated	—	Renovation and new construction result in similar level of investment required relative to the baseline (80% - 120% of baseline) since the baseline includes a similar level of capital expenditure to accomplish modern, safe, and secure environment and meet the projected patient demand.
Level of re-use proceeds	↑↑	Higher level of re-use proceeds compared to the baseline (e.g., 1-2 times). Additional re-use potential is afforded by making Parcel 3 on the western side of the campus available for re-use
Cost avoidance opportunities	—	As in the baseline, it is assumed that renovation and periodic and recurring maintenance costs for vacated buildings could be eliminated.
Overall cost effectiveness	—	The limited new construction and the extent of renovation and upgrades in this BPO results in similar operating costs and capital expenditure as the baseline. Re-use proceeds are expected to be somewhat higher than the baseline. Overall, this BPO results in a similar level of net present cost as the baseline.

Ease of Implementation		
Ease of BPO implementation	↔	The BPO presents implementation risk in terms of the following major risk areas: ▪ Continuity of care, since significant renovation of the patient care facilities may disrupt provision of care to patients ▪ Infrastructure, since facilities may present unforeseen environmental, systematic and/or structural issues during renovation ▪ Security, since renovation may not be able to conform the building to all code requirements given physical constraints of the buildings ▪ Project realization, since significant renovations present exposure to delays, budget variances and transition complications.
Wider VA Program Support		
DoD sharing	↔	No material impact is expected since no DoD relationships are expected. However, the BPO does not preclude any potential collaboration between VA and DoD.
One-VA Integration	↔	No material impact is expected that would affect One-VA integration since there are no significant VBA or NCA relationships in the baseline which could be disrupted. Furthermore, the BPO neither precludes nor enhances future, potential VBA or NCA relationships.
Special Considerations	↔	No material impact expected in terms of special considerations since the capital plan neither precludes nor enhances DoD contingency planning, Homeland Security needs, or emergency preparedness.
Overall Attractiveness	—	This BPO provides generally the same quality and cost effectiveness as the baseline, therefore, BPO 3 is generally the same attractiveness as the baseline.

BPO 4: Construct 65,000 square foot outpatient building on the central portion of campus.

Assessment of BPO 4	Impact on Baseline	Description of Impact
Healthcare Quality		
Modern, safe, and secure environment	↑	New construction provides physical layouts and unit sizes that reflect modern healthcare practice.
Ensures forecast healthcare need is appropriately met	↔	There will be no material differences in the accommodation of projected demand. Demand is expected to not exceed site capacity for inpatient and outpatient care and will be accommodated on site through the projection period. The facility is sized to meet the projected patient demand volumes.
Use of VA Resources		
Operating cost effectiveness	—	Results in potentially the same operating costs as the baseline. New outpatient construction and consolidation of services will provide for some staffing and other potential efficiencies.
Level of capital expenditure anticipated	—	Renovation and new construction result in similar level of investment required relative to the baseline (80% - 120% of baseline) since the baseline includes a similar level of capital expenditure to accomplish modern, safe, and secure environment and meet the projected patient demand.
Level of re-use proceeds	↑↑↑	Significantly higher level of re-use proceeds compared to the baseline (e.g., 2 or more times). Additional re-use potential is afforded by making Parcels 3 and 4 available for re-use.
Cost avoidance opportunities	—	As in the baseline, it is assumed that renovation and periodic and recurring maintenance costs for vacated buildings could be eliminated.
Overall cost effectiveness	—	The extent of new construction in this BPO results in similar operating costs and capital expenditure as the baseline. Although re-use proceeds are expected to be significantly higher than the baseline, overall, this BPO results in a similar level of net present cost as the baseline.

Ease of Implementation		
Ease of BPO implementation	↑	Less risky than the baseline because: • Continuity of Care and Infrastructure: Easier to transition patients when the facility is fully operational. Less risk impacting management of facilities during BPO implementation. • Security: New construction will meet all current code requirements.
Wider VA Program Support		
DoD sharing	↔	No material impact is expected since no DoD relationships are expected. However, the BPO does not preclude any potential collaboration between VA and DoD.
One-VA Integration	↔	No material impact is expected that would affect One-VA integration since there are no significant VBA or NCA relationships in the baseline which could be disrupted. Furthermore, the BPO neither precludes nor enhances future, potential VBA or NCA relationships.
Special Considerations	↔	No material impact expected in terms of special considerations since the capital plan neither precludes nor enhances DoD contingency planning, Homeland Security needs, or emergency preparedness.
Overall Attractiveness	↑↑	BPO 4 is attractive compared to the baseline. This BPO is likely to offer a solution that improves quality for a similar net present cost as the baseline.

BPO 5: Replace all facilities on vacant land in the southeastern part of the campus

Assessment of BPO 5	Impact on Baseline	Description of Impact
Healthcare Quality		
Modern, safe, and secure environment	↑	New construction provides physical layouts and unit sizes that reflect modern healthcare practice.
Ensures forecast healthcare need is appropriately met	↔	There will be no material differences in the accommodation of projected demand. Demand is expected to not exceed site capacity for inpatient and outpatient care and will be accommodated on site through the projection period. The facility is sized to meet the projected patient demand volumes.
Use of VA Resources		
Operating cost effectiveness	↑	The BPO has the potential to provide some recurring operating cost savings compared to the baseline BPO (5%). New construction and consolidation of services will provide for greater staffing and other potential efficiencies.
Level of capital expenditure anticipated	↓↓	Significant investment required compared to the baseline BPO (121% to 199%). Construction of an entirely new facility results in a higher level of capital expenditure compared to the baseline.
Level of re-use proceeds	↑↑↑	Significantly higher level of re-use proceeds compared to the baseline (e.g., 2 or more times). Additional re-use potential is afforded by making Parcels 3, 4, and 6 available for re-use.
Cost avoidance opportunities	↑↑	Significant cost avoidance opportunities once the new facility is open since it would no longer be necessary to maintain and renovate the existing buildings.
Overall cost effectiveness	↑	Although this BPO requires significant capital investment, it produces long-term operating cost savings and higher potential re-use proceeds, resulting in lower net present cost compared to the baseline.

Ease of Implementation		
Ease of BPO implementation	↑	• Continuity of Care and Infrastructure: Easier to transition patients when the facility is fully operational. Less risk impacting management of facilities during BPO implementation. • Security: New construction will meet all current code requirements.
Wider VA Program Support		
DoD sharing	↔	No material impact is expected since no DoD relationships are expected. However, the BPO does not preclude any potential collaboration between VA and DoD.
One-VA Integration	↔	No material impact is expected that would affect One-VA integration since there are no significant VBA or NCA relationships in the baseline which could be disrupted. Furthermore, the BPO neither precludes nor enhances future, potential VBA or NCA relationships.
Special Considerations	↔	No material impact expected in terms of special considerations since the capital plan neither precludes nor enhances DoD contingency planning, Homeland Security needs, or emergency preparedness.
Overall Attractiveness	↑↑	BPO 4 is attractive compared to the baseline. This BPO is likely to offer a solution that at least maintains access and quality while lowering operating cost and increasing the level of potential re-use proceeds.

Appendix B - Glossary

Acronyms

AFB	Air Force Base
AMB	Ambulatory
BPO	Business Plan Option
CAI	Capital Asset Inventory
CAP	College of American Pathologists
CARES	Capital Asset Realignment for Enhanced Services
CBOC	Community Based Outpatient Clinic
CIC	CARES Implementation Category
DoD	Department of Defense
FTEE	Full Time Employee Equivalent
GFI	Government Furnished Information
HEDIS	Health Plan Employer Data and Information Set
ICU	Intensive Care Unit
IP	Inpatient
JCAHO	Joint Commission on Accreditation of Healthcare Organizations
OP	Outpatient
MH	Mental Health
MOU	Memorandum of Understanding
N/A	Not Applicable
NFPA	National Fire Protection Association
PTSD	Post Traumatic Stress Disorder

SOW	Statement of Work
VA	Department of Veterans Affairs
VACO	VA Central Office
VAMC	Veterans Affairs Medical Center
VBA	Veterans Benefits Administration
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network

Definitions

Access	Access is the determination of the numbers of actual enrollees who are within defined travel time parameters for primary care, acute hospital care, and tertiary care after adjusting for differences in population and density and types of road.
Alternative Business Plan Options	Business Plan Options generated as alternatives to the baseline Business Plan Option providing other ways VA could meet the requirements of veterans at the Study Site.
Ambulatory Services	Services to veterans in a clinic setting that may or not be on the same station as a hospital, for example, a Cardiology Clinic. The grouping as defined by VA also includes several diagnostic and treatment services, such as Radiology.
Baseline Business Plan Option	The Business Plan Option for VA which does not change any element of the way service is provided in the study area. "Baseline" describes the current state projected out to 2013 and 2023 without any changes to facilities or programs or locations and assumes no new capital expenditure (greater than $1 million). Baseline state accounts for projected utilization changes, and assumes same or better quality, and necessary maintenance for a safe, secure, and modern healthcare environment.

Business Plan Option (BPO)	The options developed and assessed by Team PwC as part of the Stage I and Stage II Option Development Process. A business plan option consists of a credible healthcare plan describing the types of services, and where and how they can be provided and a related capital plan, and an associated reuse plan.
Capital Asset Inventory (CAI)	The CAI includes the location and planning information on owned buildings and land, leases, and agreements, such as enhanced-use leases, enhanced sharing agreements, outleases, donations, permits, licenses, inter- and intra-agency agreements, and ESPC (energy saving performance contracts) in the VHA capital inventory.
CARES Implementation Category (CIC)	One of 25 categories under which workload is aggregated in VA demand models. *(See Workload)*
Clinic Stop	A visit to a clinic or service rendered to a patient.
Clinical Inventory	The listing of clinical services offered at a given station.
Code	Compliance with auditing/reviewing bodies such as JCAHO, NFPA Life Safety Code or CAP.
Community Based Outpatient Clinic (CBOC)	An outpatient facility typically housing clinic services and associated testing. A CBOC is VA operated, contracted, or leased and is geographically distinct or separate from the parent medical facility.
Cost Effectiveness	A program is cost-effective if, on the basis of life-cycle cost analysis of competing alternatives, it is determined to have the lowest costs expressed in present value terms for a given amount of benefits.
Domiciliary	A VA facility that provides care on an ambulatory self-care basis for veterans disabled by age or diseases who are not in need of acute hospitalization and who do not need the skilled nursing services provided in a nursing home.
Enhanced Use Lease	A lease of real property to non-government entities, under the control and/or jurisdiction of the Secretary of Veterans Affairs, in which monetary or "in-kind" consideration (i.e., the provision of goods, facilities, construction, or services of the benefit to the Department) is received. Unlike traditional federal leasing authorities in which generated proceeds must be deposited into a general treasury account, the enhanced-use leasing authority

	provides that all proceeds (less any costs than can be reimbursed) are returned to medical care appropriations.
Good Medical Continuity	A determination that veterans being cared for a given condition will have access to the appropriate array of primary, secondary, and tertiary care services required to treat that condition.
Initial Screening Criteria	A series of criteria used as the basis of the assessment of whether or not a particular Business Plan Option has the potential to meet or exceed the CARES objectives.
Inpatient Services	Services provided to veterans in the hospital or an inpatient unit, such as a Surgical Unit or Spinal Cord Injury Unit.
Market Area	Geographic areas or boundaries (by county or zip code) served by that Network's medical facilities. A Market Area is of a sufficient size and veteran population to benefit from coordinated planning and to support the full continuum of healthcare services. (*See Sector)*
Mental Health Indicators	See the end of this document.
Multispecialty Clinic	A VA medical facility providing a wide range of ambulatory services such as primary care, specialty care, and ancillary services usually located within a parent VA facility.
Nursing Home	The term "nursing home care" means the accommodation of convalescents or other persons who are not acutely ill and not in need of hospital care, but who require nursing care and related medical services, if such nursing care and medical services are prescribed by, or are performed under the general direction of, persons duly licensed to provide such care. Such term includes services furnished in skilled nursing care facilities, in intermediate care facilities, and in combined facilities. It does not include domiciliary care.
Primary Care	Healthcare provided by a medical professional with whom a patient has initial contact and by whom the patient may be referred to a specialist for further treatment. *(See Secondary Care and Tertiary Care)*
Re-use	An alternative use for underutilized or vacant facility space or VA owned land.

Risk	Any barrier to the success of a Business Planning Option's transition and implementation plan or uncertainty about the cost or impact of the plan.
Secondary care	Medical care provided by a specialist or facility upon referral by a primary care physician that requires more specialized knowledge, skill, or equipment than the primary care physician has. *(See Primary Care and Tertiary Care)*
Sector	Within each Market Area are a number of sectors. A sector is one or more contiguous counties. *(See Market Area)*
Stakeholder	A person or group who has a relationship with VA facility being examined or an interest in what VA decides about future activities at the facility.
Tertiary care	High specialized medical care usually over an extended period of time that involves advanced and complex procedures and treatments performed by medical specialists. *(See Primary Care and Secondary Care)*
Workload	The amount of CIC units by category determined for each market and facility by the Demand Forecast.

Mental Health Indicators

Indicator	Description
New Dx Dep - F/U X3 (mdd6n)	Percentage of patients with a new diagnosis of depression who have at least three clinical follow-up visits in the 12 acute periods after diagnosis (current PM)
New Dx Dep - Meds (mdd7n)	Percentage of patients with a new diagnosis of depression who have medication for at least 84 days in the acute treatment period (current PM)
Homeless Dchg Indep (fnct2n)	Percentage of veterans discharged from a domiciliary care for homeless veterans (DCHV), grand and per diem program, or healthcare for homeless veterans community-based contract residential care program to independent living
Screen for Alcohol (sa3)	Percentage of patients screened for high risk alcohol use with the AUDIT-C instrument (past and current PM)
Screen for MHICM (mhc1)	Percentage of psychiatry patients with high utilization of inpatient psychiatry services who are screened for mental health intensive care case management (past and current PM)
Screen for PTSD (ptsd1)	Percentage of all veterans screened for post traumatic stress disorder (PTSD) in the previous 12 months (SI)
SUD Cont of Care (sa5)	Percentage of patients entering specialty substance abuse treatment who maintain continuity of care for at least 90 days (past and current PM)