



**Capital Asset Realignment for
Enhanced Services (CARES)**

Stage I Summary Report
Site: *White City*

August 2005

This report was produced under the scope of work and related terms and conditions set forth in Contract Number V776P-0515. PricewaterhouseCoopers' work was performed in accordance with Standards for Consulting Services established by the American Institute of Certified Public Accountants (AICPA). PricewaterhouseCoopers' 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 or any financial or other information or on internal controls of the Department of Veterans Affairs.

The VA has also contracted with another government contractor, S&S Construction/ACG Joint Venture to develop re-use options for inclusion in this study. The contractor issued its report, *Phase 2 Interim PwC Deliverable – White City*, and as directed by the VA, PricewaterhouseCoopers has included information from their report in the following sections in this report: Real Estate Market and Demographic Overview, Environment, Re-Use Options and Development and specific Re-Use options. PricewaterhouseCoopers 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 S&S Construction/ACG Joint Venture.

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.

OVERVIEW AND CURRENT STATE

Statement of Work

Team PwC is assisting the VA in identifying 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 at the study sites.

The White City study will develop a comprehensive capital plan to meet the forecasted need for domiciliary beds from the White City area and the referral needs of the other VISNs. The study will also develop a re-use plan as a part of the site options presented. The re-use plan will identify the most likely potential re-use for available property identified through the capital planning process.

Summary of Market

The White City Southern Oregon Rehabilitation Center and Clinics (SORCC) are located in White City, Oregon, six miles north of Medford. The VA SORCC is part of VISN 20, which comprises five markets: Alaska, Inland North, Inland South Idaho, South Cascades, and Western Washington market. White City is in the South Cascades market.

The South Cascades Market contains approximately 105,648 enrolled veterans. Over the next 20 years, the number of enrolled veterans in Priority Groups 1-6 is expected to increase by 15%, from 75,183 to 86,382.

Projected utilization for healthcare services at the SORCC appears to vary over the next 20 years, which presents both opportunities and challenges. Overall, the demand for inpatient services, specifically domiciliary, declines over the projected study period. The expected utilization of outpatient mental health services appears also to decrease, except for a slight increase in services to the homeless and day treatment services. These changes in enrollment and utilization drive the need to right-size facilities to meet demand for healthcare services over the projection period.

Summary of Current Services Provided

The SORCC is VA's only free-standing Rehabilitation Center. It serves as a regional and national resource for underserved special populations (e.g., homeless, chronically mentally ill, and substance abuse). The SORCC provides residential treatment in psychiatry, addictions, medicine, bio-psychosocial, physical, vocational rehabilitation, primary outpatient medical and mental health care. The SORCC maintains several program affiliations including those with Oregon Health Sciences University, Portland State University, and Rogue Community College. Both the White City VA SORCC and Klamath Falls Community-Based Outpatient Clinic (CBOC) offer primary outpatient medical and mental healthcare to over 11,000 enrolled veterans living in southern Oregon and northern California. The SORCC is listed to have 831 authorized beds, although currently operating 500 beds.

Summary of Current Facility Condition

The SORCC campus is a 145 acre site consisting of 61 buildings. Many of the buildings were built over 55 years ago, dating 1941 to 1949. They total 795,275 Building Gross Square Feet (BGSF), the largest of which is Building 201, the Primary Care Clinic (27,011 BGSF). The buildings are arranged in a grid pattern, in a park-like setting and have well maintained brick exterior walls with composition single roofs. Buildings are generally two-story brick structures. The storage areas of the property are developed with one-story wood and shingle buildings, some of which date back to the Fort White era.

The buildings have received facility ratings in the range of ‘2’ and ‘3’ based on the VA Capital Asset Index, which is generally acceptable for the mainly residential buildings on campus. Mechanical systems are generally reported to be in poor condition and the buildings require seismic/structural upgrades. There are no listed historical buildings or parcels located on the campus

VA’s plan for its existing and any new facilities at White City is to reduce the overall footprint on the campus, while redeveloping the most attractive parcels on the campus. Under the VA’s Current Construction Program, the domiciliary functions will continue in the current and renovated facilities at the center of the site.

Figure 1: Map of Campus with Re-Use Rankings

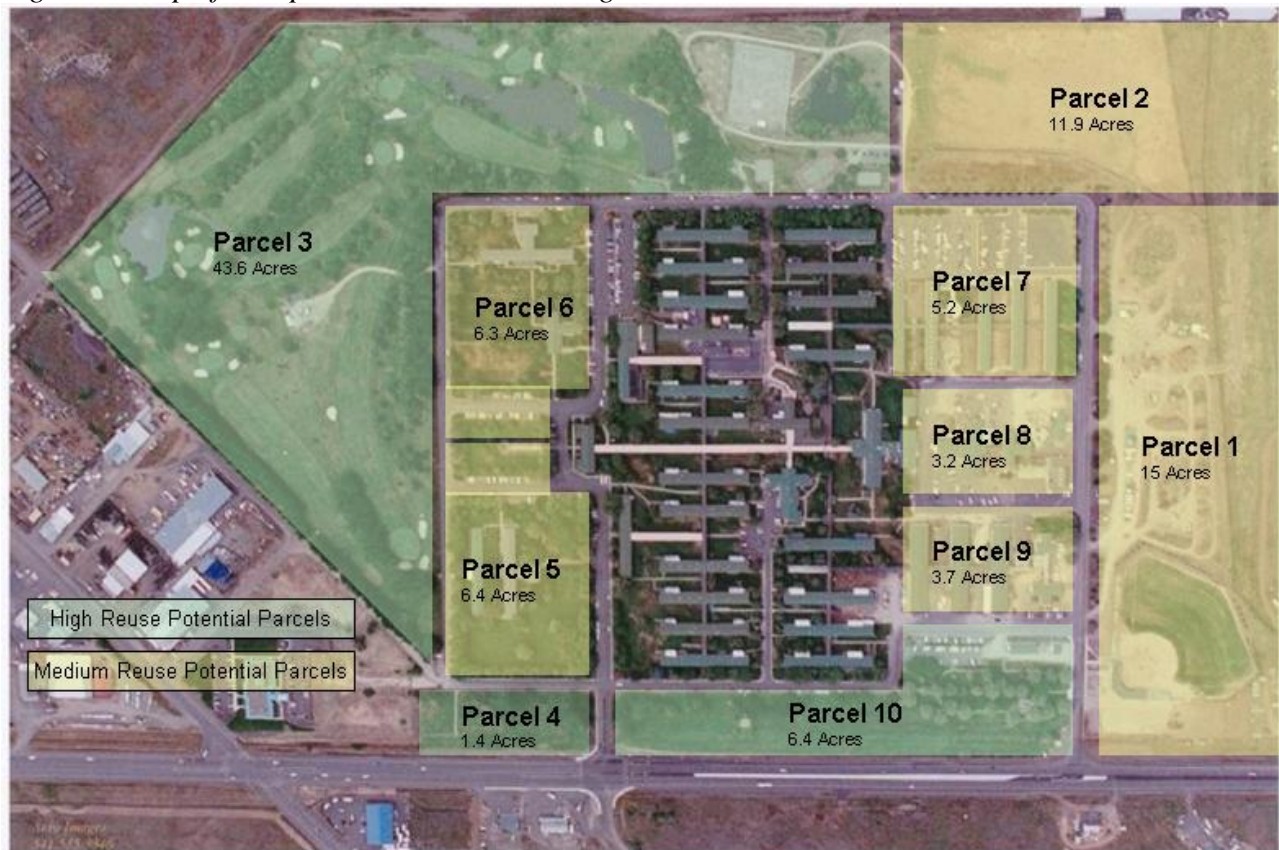
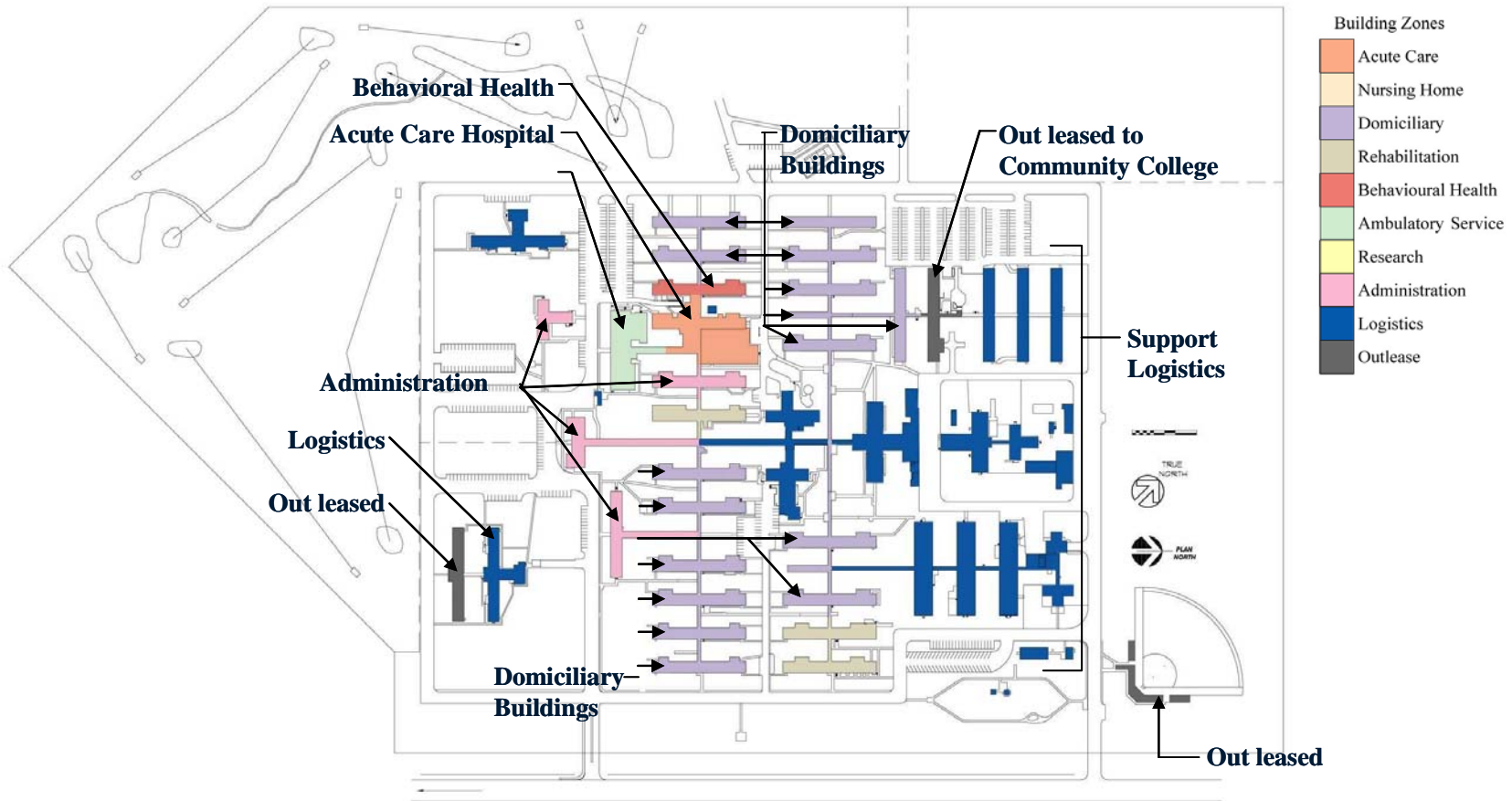


Figure 2: Site Map for White City



Real Estate Market Assessment

According to S&S Construction/ACG Joint Venture, the SORCC site is located along a major commercial corridor in Southeastern Oregon. The campus is surrounded primarily by industrial land, with the supply of land plentiful and demand for land and buildings not as robust as in major urban markets. Portions of the campus front on Highway 62, a major commercial thoroughfare that connects Medford to its northern suburban communities of White City and Eagle Point.

White City is predominately zoned for industrial uses and contains hundreds of acres of vacant land zoned for industrial uses. Development of surrounding properties along Highway 62 is moving toward the SORCC campus. As adjacent communities build out and major thoroughfare frontage becomes more expensive or scarce, the commercial corridor in the VAMC's immediate neighborhood will be developed.

The industrial product in White City consists mainly of corrugated metal structures, many of which are located in industrial parks or industrial development districts. The office product in the Medford and White City markets consists mainly of Class B office space, with over 7.6 million square feet of Class B office space. Most of that square footage is located outside of a central business district. Supply and demand appear to be balanced, resulting from steady growth in employment requiring this type of space.

In terms of the residential market, prices continue to increase for both vacant lots and improved single-family properties. New construction continues, as additional phases of existing developments break ground, connecting one residential community to another. While this occurs, vacant land and underutilized land (with older mobile homes) is being converted to densely developed housing developments. Local market sources indicate that the market for multifamily housing in White City is minimal and that this type of residential product would be ill-received. Several sizable vacant parcels zoned for multifamily development exist in White City, but little multifamily development has occurred.

There is a range of senior housing types from nursing homes to senior assisted living facilities to condominiums or apartments targeting senior citizens. There appears to be demand in White City for housing that caters to the elderly. One such facility, Laurel Care, opened in White City this year. Additionally, the Housing Authority of Jackson County has expressed interest in sponsoring more of this type of development on White City VAMC property. The senior population in Southern Oregon is growing and will fuel demand regionally in the near-term.

It is reported that sizable retail properties (those that could support a big box retailer or grocery store) are in high demand regionally. The increase in population and areas of disposable income drive this demand. An example of such demand is the new Super Wal-Mart, to be located in Eagle Point. Although there are smaller Wal-Marts, a super store will be opened to capture the demand for retail services. Small retail parcels with desirable road frontage are still in demand, but there is an abundance of available parcels along Highway 62 and other regional roadways.

Overall demand in the hospitality market is low with several hoteliers in the Medford area exiting the business because oversupply of rooms is driving down occupancy and revenues. Without tourism and business travel, the market for room nights is limited. In addition, another driver of hotel demand in some markets can be proximity to hospitals where long-stay patients are receiving care. Sources in the Medford market do not think that White City VAMC will create such demand in the near or mid-term.

BUSINESS PLAN OPTION DEVELOPMENT

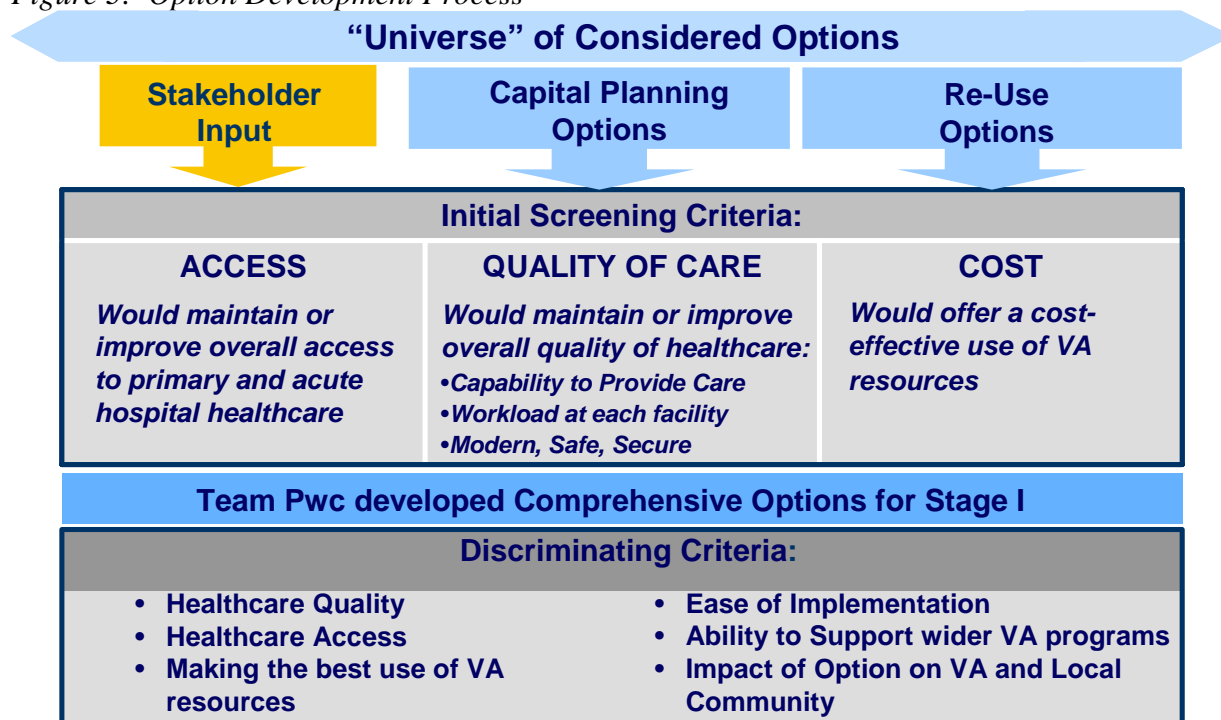
Option Development Process

Team PwC, in collaboration with the S&S Construction/ACG Joint Venture, developed a set of comprehensive BPOs to be considered for the White City SORCC. A comprehensive BPO at White City is defined as consisting of a single capital option (CP) and at least one re-use option (RU). Therefore, the formula for a comprehensive BPO would be:

$$\text{Comprehensive BPO} = \text{CP option} + \text{RU option}$$

A multi-step process was employed in the development and selection of these comprehensive BPOs to be further assessed. Initially, a broad range or “universe” of discrete and credible capital planning options and associated re-use options were developed by the teams. These options were tested against the agreed-upon initial screening criteria of access, quality, and cost. The capital and re-use options that passed the initial screenings were then further considered to be potential capital and re-use options to comprise a comprehensive BPO. The teams utilized an internal panel of experts to provide professional judgment and industry experience to select the most appropriate combinations of capital planning and re-use options to create a set of comprehensive BPOs. All of the comprehensive BPOs were then further assessed at more detailed level according to set of discriminating criteria.

Figure 3: Option Development Process



Stakeholder Concerns

Limited stakeholder correspondence was received between January 1, 2005 and June 30, 2005. The 24 comments received included: comment forms (paper and electronic), letters, written and oral testimony. The greatest amount of written and electronic input was received from veterans and veteran’s family members.

Stakeholders who submitted written and electronic input indicated that their top two key concerns centered on maintaining the current services and facility and the effect of the CARES process on research and educational programs. Stakeholders who contributed oral testimony at the Local Advisory Panel (LAP) public meeting also indicated the key concerns related to maintaining the current services/facility and the effect of this capital planning and re-use evaluation process on research and education currently offered at the facility.

Table 1: Definitions of Stakeholder Concerns

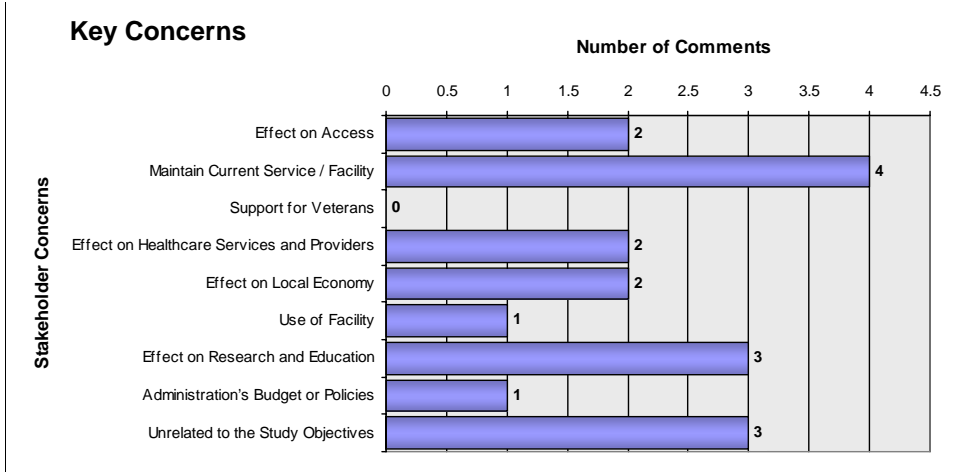
Stakeholder Concern	Definition
Effect on Access	Involves a concern about traveling to another facility or the location of the present facility.
Maintain Current Service/Facility	General comments related to keeping the facility open and maintaining services at the current site.
Support for Veterans	Concerns 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.

Figures 4 & 5: Analysis of Stakeholder Key Concerns

VA CARES BUSINESS PLAN STUDIES
 STAKEHOLDER INPUT ANALYSIS REPORT
 White City Study Site

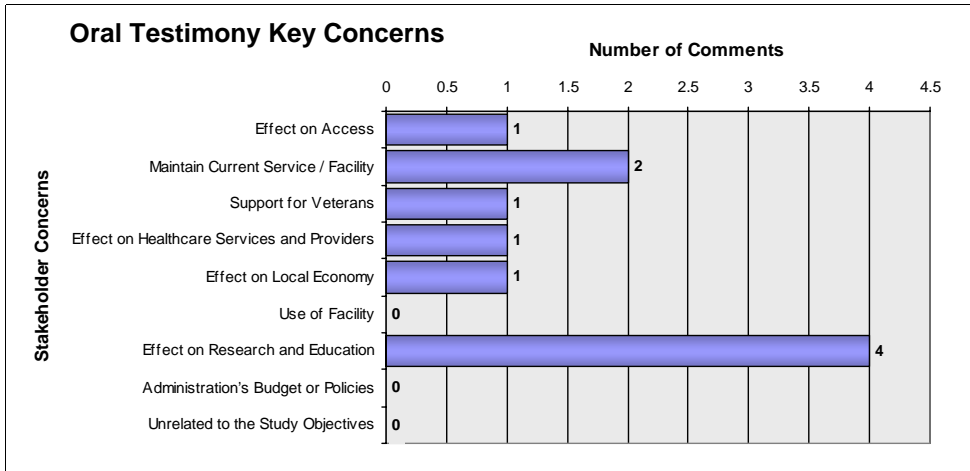
**Analysis of Written and Electronic Inputs
 (Written and Electronic Only):**

The breakout of “Key Stakeholder Concerns” regarding the White City study site is as follows*:



**Analysis of Oral Testimony Input Only
 (Oral Testimony at LAP Meeting):**

The breakout of “Key Stakeholder Concerns” that were expressed during Oral Testimony for the White City study site is as follows*:



* Note that totals reflect the number of times a "key concern" was raised by a stakeholder. If one stakeholder addressed multiple "key concerns", each concern is included in the totals.

COMPREHENSIVE BUSINESS PLANNING OPTIONS

Baseline Option

The Baseline is the BPO under which no significant changes occur in either the location or type of services provided in the study site. In the Baseline BPO, the Secretary’s Decision and forecasted long-term healthcare demand forecasts and trends, as indicated by the demand forecasted for 2023, are applied to the current healthcare provision solution for the study site.

Specifically, the Baseline BPO is characterized by the following:

- Healthcare continues to be provided as currently delivered, except to the extent healthcare volumes for particular procedures fall below key quality or cost effectiveness threshold levels.
- Capital planning costs allow for current facilities to receive such investment as is required to rectify any material deficiencies (e.g. in safety or security) such that they would provide a safe healthcare delivery environment as required in the Secretary’s Decision.
- Life Cycle capital planning costs allow for on-going preventative maintenance and life-cycle maintenance of major and minor building elements.
- Re-use plans use such vacant space in buildings and/or vacant land or buildings as emerge as a result of the changes in demand for services and the facilities in which they reside.

The capital investments for White City focus on the consolidation of services in a smaller site footprint of renovated and enhanced buildings to achieve a “right sizing” of facilities to meet projected demand for healthcare services. Baseline capital investments include the necessary investments to assure a modernized, safe and secure environment without any new construction. In the baseline, essentially all services are consolidated, over time, into the center cluster of buildings. Underutilized buildings (245, 249, 250, 242 and 243) of the campus are vacated.

Options Not Selected for Assessment

The following options were also considered but were not selected for assessment as a component of a comprehensive BPO:

Table 2: Options Not Selected for Assessment

Label	Description	Screening Results
Demolish campus and replace with new facility	Build a new facility on the White City campus, demolish entire existing campus.	Option was rejected due to the extensive costs of replacement that would not be mitigated by the limited re-use potential, based on market conditions and demand for the White City campus
Contract DOM Services	Contracting current DOM services to other providers and demolishing the campus for alternative redevelopment and re-use.	Option was rejected as it did not correspond with the Secretary’s Decision and alternative sources of comparable domiciliary care are not available in the market

Comprehensive BPOs to Be Assessed in Stage I

The comprehensive BPOs incorporate capital and re-use option components as previously described. The combinations of capital and re-use options were formulated to determine the most appropriate options for the site. They will be more thoroughly assessed according to the discriminating criteria in the subsequent sections. The following describes each of the BPOs and the support for their selection.

Table 3: Comprehensive BPOs for Assessment

BPO Designation	Label	Description	Support for BPO Selection
<p>BPO 1</p> <p>Comprising: CP-1</p>	<p>Baseline</p>	<p>Healthcare continues to be provided as currently delivered, except to the extent healthcare volumes for particular procedures fall below key quality or cost effectiveness threshold levels. Current facilities receive such investment as is required to rectify any material deficiencies (e.g. in safety or security). On-going preventative maintenance and life-cycle maintenance of major and minor building elements. Re-use plans use vacant space in buildings and/or vacant land or buildings as a result of the changes in demand for services and the facilities in which they reside.</p>	<ul style="list-style-type: none"> ▪ All existing services remain on campus, in consolidated facilities for which appropriate investments to render them modern, safe, and secure are implemented. ▪ Recurring maintenance costs for Buildings 245, 249, 250, 242, and 243 will be eliminated. ▪ Smaller cluster of buildings enhances continuity of care ▪ Supports the potential re-use/redevelopment of vacant parcels (1, 2, 3, 4, 5, 6, and 7. ▪ Existing uses on Parcels 1, 2, 3, 4, 5, 6, and 7 enhance patient rehabilitation and care. ▪ The general grounds and particularly the golf course provide opportunities for landscape golf course maintenance training.
<p>BPO 2</p> <p>Comprising: CP-2A/ RU-1-10</p>	<p>Phased Domiciliary Renovations and Addition for Ambulatory Care – Minimal New Construction</p>	<p>Expand outpatient care facility to meet demand. Demolish and replace buildings that require major seismic upgrades. Replace the existing boiler plant, maintenance shops, warehouses, and facilities group into a new centralized and efficient building. Renovate all existing facilities for continued use based on site location and expected level of upgrades to extend their useful life.</p>	<ul style="list-style-type: none"> ▪ Meets stakeholder concerns by keeping all services on current grounds and provides new facilities for outpatient services. ▪ Replaces some of the aging and inefficient facilities with new buildings. ▪ Permits the re-use/redevelopment of parcels 1, 2, 3, 4, 5, 6, 7, 8, 9, and 10. ▪ Eliminates recurring maintenance costs for Buildings 225, 226, 227, 228, 229, 230, 231, 232, 233, 234, 235, 239, 240, 242, 243, 245, 249, 250, 259, 262, 265, 266, and 270. ▪ The consolidation into a smaller cluster of buildings enhances continuity of care. ▪ Potentially could close golf course and extended grounds to a veteran’s use

BPO Designation	Label	Description	Support for BPO Selection
			<ul style="list-style-type: none"> pending re-use applications. ▪ Existing uses on Re-use Parcels 1, 2, 3, 4, 5, 6, and 7 enhance patient rehabilitation and care. ▪ The general grounds, and particularly the golf course, provide opportunities for landscape golf course maintenance training.
<p>BPO 3</p> <p>Comprising: CP-2B/ RU-1-10</p>	<p>Phased Domiciliary Replacements and Renovations; and Addition for Ambulatory Care – Moderate New Construction</p>	<p>Expand outpatient care facility to meet demand. Demolish and replace buildings that require major seismic upgrades. Replacing the existing boiler plant, maintenance shops, warehouses, and facilities group into a new centralized and efficient building. Renovate existing facilities for continued use based on site location and expected level of upgrades to extend the useful life. Replace existing facilities based on building assessment and expected level of upgrades to extend their useful life.</p>	<ul style="list-style-type: none"> ▪ Meets stakeholder concerns by keeping all services on current grounds and provides new facilities for outpatient services. ▪ Replaces some of the aging and inefficient facilities with new buildings. ▪ Permits the re-use/redevelopment of parcels 1, 2, 3, 4, 5, 6, 7, 8, 9, and 10. ▪ Eliminates recurring maintenance costs for Buildings 213, 214, 215, 216, 217, 218, 221, 225, 226, 227, 228, 229, 230, 231, 232, 233, 234, 235, 240, 241, 242, 243, 245, 248, 249, 250, 251, 256, 259, 260, 262, 264, 265, 266, and 270. ▪ The consolidation into a smaller cluster of buildings enhances continuity of care. ▪ The right-sized facilities reduce the total number of buildings occupied and will provide efficient floor plates/unit sizes for the domiciliary services. ▪ Existing uses on Re-use Parcels 1, 2, 3, 4, 5, 6, and 7 enhance patient rehabilitation and care. ▪ The general grounds, and particularly the golf course, provide opportunities for landscape golf course maintenance training.

ASSESSMENT SUMMARY

Table 4: Assessment Summary

Assessment Summary	BPO 2	BPO 3
Healthcare Access	↔	↔
Healthcare Quality		
Modern, safe, and secure environment	↑	↑
Meets forecasted need	↑	↑
Cost Effectiveness		
Operating cost effectiveness	--	--
Level of capital expenditure anticipated	--	--
Level of re-use proceeds	↑	↑
Cost avoidance opportunities	--	--
Overall cost effectiveness	--	--
Ease of Implementation		
Riskiness of BPO implementation	↓	↓
Wider VA Program Support		
DoD sharing	↔	↔
One-VA Integration	↔	↔
Special Considerations	↔	↔

Evaluation System for BPOs

The evaluation system below is used to compare each BPO to the Baseline BPO.

Table 5: Evaluation System for BPOs

Rating for all categories except cost and overall evaluation	
↑	The BPO has the potential to provide a slightly improved state than the Baseline BPO for the specific discriminating criteria (e.g. access, quality, etc)
↔	The BPO has the potential to provide materially the state as the Baseline BPO for the specific discriminating criteria (e.g. access, quality, etc)
↓	The BPO has the potential to provide a slightly lower or reduced state than the Baseline BPO for the specific discriminating criteria (e.g. access, quality, etc).
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 than the Baseline BPO (>5%)
↓↓	The BPO has the potential to require slightly higher operating costs than the Baseline BPO (>10%)
↓↓↓	The BPO has the potential to require slightly higher operating costs than the Baseline BPO (>15%)
Level of capital expenditure anticipated (based on results of initial capital planning costs)	
↓↓↓↓	Very significant investment required relative to the Baseline BPO (≥ 200%)
↓↓	Significant investment required relative to the Baseline BPO (121% to 199%)
-	Similar level of investment required relative to the Baseline BPO (80% to 120% of Baseline)
↑↑	Reduced level of investment required relative 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 Baseline (+/- 20% of Baseline)
↑↑	Higher level of Re-use proceeds compared to Baseline (e.g. 1-2 times)
↑↑↑	Significantly higher level of Re-use proceeds compared to 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 in the Baseline BPO
↑↑↑↑	Very significant savings in essential capital investment in the Baseline BPO
Overall Cost effectiveness (based on initial NPC calculations)	
↓↓↓↓	Very significantly higher Net Present Cost relative to the Baseline BPO (>1.15 times)
↓↓↓	Significantly higher Net Present Cost relative to the Baseline BPO (1.10 – 1.15 times)
↓↓	Higher Net Present Cost relative 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 relative to the baseline (90-95% of Baseline)
↑↑	Significantly lower Net Present Cost relative to the Baseline BPO (85-90% of Baseline)
↑↑↑↑	Very significantly lower Net Present Cost relative to the Baseline BPO (<85% of Baseline)

Acronyms

AMB	Ambulatory
BPO	Business Plan Option
CBOC	Community Based Outpatient Clinic
CIC	CARES Implementation Category
DoD	Department of Defense
IP	Inpatient
LAP	Local Advisory Panel
OP	Outpatient
MH	Mental Health
VA	Department of Veterans Affairs
VACO	VA Central Office
VAMC	Veterans Affairs Medical Center
VISN	Veterans Integrated Service Network

Definitions

CARES (Capital Asset Realignment for Enhanced Services) – a planning process that evaluates future demand for veterans’ healthcare services against current supply and realigns VHA capital assets in a way that results in more accessible, high quality healthcare for veterans.