PVA
PARALYZED VETERANS
OF AMERICA

Statement of

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Before the

House Committee on Veterans' Affairs

Regarding

VA Health Care Budget Medical Modeling
And
The Independent Budget

June 23, 2005

Mr. Chairman, Ranking Member Evans and members of the Committee, Paralyzed Veterans of America (PVA) appreciates this opportunity to present our views and experience on the methodology used in formulating the annual recommendations contained in *The Independent Budget* for funding veterans' programs and services. In

general, I will keep my remarks centered on the major budget accounts supporting the provision of VA medical care.

The first *Independent Budget* was published 19 years ago. Former VA Chief Medical Director, and Surgeon General of the Navy, retired Vice-Admiral, Donald Custis, M.D. suggested that the four veterans' service organizations, AMVETS, Disabled American Veterans, Paralyzed Veterans of America and Veterans of Foreign Wars form a unique partnership to develop and publish yearly VA budget views and estimates. The resulting Independent Budget should be used, he strongly felt, to demonstrate the actual financial needs of VA health care and other programs in the face of Administration budget requests and Congressional appropriations that were far too often influenced more by political considerations and the changing pressures of federal budget policy than by objective medical budget modeling.

Under Admiral Custis' leadership, PVA took the primary role, as it does today, in developing the annual budget recommendations for VA medical care accounts utilizing the professional services of health policy analysts and budgeters in our Health Policy and Government Relations programs.

The Independent Budget presents a "full budget model." It is the same model that VA uses at the beginning of its annual budget process attempting to assess what its current costs are in providing health care, and what, based on many different factors, its projected full need will be in the coming fiscal year. The VA and the Administration

generally abandon this process at this point in the give and take of the several budget submissions and budget pass backs to VA with instructions from the Office of Management and Budget to trim and sculpt the following year's request to meet overall federal budget growth guidelines, restrictions and VA legislative and policy directives. At this point the VA budget leaves the arena of pure budget modeling and enters the long road through the Congressional budget and appropriations process, as being shaped by "what the freight will bear" in the competition for funding with all other domestic discretionary programs.

The *IB* does not take that course. It simply takes the amount of the current year appropriations and adds to each account assumptions regarding inflation and salary increases to arrive at a current services estimate for the upcoming year. This current services estimate uses budget object classifications to more accurately tailor percentage increases. The current services baseline is a commonly understood concept in Congress. In fact, the Congressional Budget Office, (CBO) is mandated by law to treat discretionary spending in what is essentially a current services model (called a "current law" model).

Under the 1985 Act (Balanced Budget and Emergency Deficit Control Act of 1985) CBO must assume that the most recent year's budget authority is provided in each future year budget, adjusted using specific price indexes to offset projected inflation and to allow for such factors as cost-of-living adjustments for federal workers. (CBO "Economic

and Budget Issue Brief," June, 2005, "What is a Current-Law Economic Baseline," Table 1).

Therefore, a current services estimate, or a current law estimate, provides a baseline that presents a theoretical value of what it would cost to provide the same level of services in the following year as was provided in the current year. From that point, the *IB* presents an estimate as to the cost of individual recommendations found within the document such as increased FTEs, increased patient loads, and changes to current policies. These changes, a normal part of any rational budget process, are rarely completely documented or accounted for in final VA budget and appropriations.

Recent changes in the VA accounting structure, budget presentations and appropriations models have changed the actual budgeting format for final appropriations. What used to be called the Medical Care line item has now been divided into four parts: Medical Services, Medical Management, Medical Facilities and Medical and Prosthetic Research. The *IB* has adjusted to this change, although the transition has not always been easy to split what was once a single account into scores of VA budget object classifications including the minutia of personnel, travel, communications, printing, equipment, supplies, grants, collections, maintenance, leases, transfers, etc. and put them back together in four categories rather than just one. However, it can be done.

I am attaching a White Paper, "*The Independent Budget* – Methodology Used in Creation of Independent Budget Recommendations," prepared and submitted to the Committee at the request of the Chairman earlier this year. The paper provides additional technical detail as to how we assess the impact of annual wage and salary increases as well as formulas for estimating the affect of general inflation and other specialized inflation indices on VA budget accounts.

In closing, PVA, on behalf of the other *Independent Budget* veterans' services organizations, believes we can present and defend the full funding methodology that provides our annual recommendations. By contrast, any similar medical model that VA itself might put forward in initial recommendations for the following fiscal year becomes muddied in the actual ensuing budget and appropriations process that follows. VA and OMB must negotiate throughout the year over what those numbers mean. The final version of the budget that the Administration brings forward every year in February is only a composite of what the Department needs and what any administration would like to see it have. Overall budget increase requests are artificially skewed, claiming so-called "increases" that are only unrealistic management efficiencies tagged onto the budget as "increases." Budgets are inflated by equally unachievable third party collections. Administrations inflate budgets with additional "increases" from savings or legislative initiatives well known to be politically unattainable. In terms of real requests for real additional appropriations most administrations submit budgets on the cheap; they use no real medical model, and leave it to the Congress to try to make the fix. Sometimes this happens, and some times it does not, depending on the political and

fiscal will in the House and Senate. In tight budget situations House and Senate appropriators often have to submit to the same "parlor games," shifting funds from one VA account to another to put the best face on a lack of overall availability of new dollars. The end result has no reality to the actual need, cost and demand for health care services. And, from year to year, with the uncertainty of the budget and appropriations process, VA managers and the veterans they serve have little assurance that full support for their programs will be there when they need that support.

In finding a better way, *The Independent Budget* VSOs can only come to the realization that the current budget system is flawed, unscientific, and does not meet the true needs of the veteran population. For this reason, we endorse a new approach that will apply a realistic medical model to a guaranteed funding base that will support veterans' health care services to the extent veterans need them and when veterans need them. Such a system is good public policy, and good medicine.

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

THE INDEPENDENT BUDGET

A Budget for Veterans by Veterans

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Methodology Used in Creation of *Independent Budget* Recommendations

Generally, for *Independent Budget* recommendations, we take the amount of the current year appropriation (in this case FY 2005) and add to each account assumptions regarding inflation and wage and salary increases in order to arrive at a current services estimate for the upcoming year (in this case FY 2006). This current services estimate uses budget object classifications to more accurately tailor percentage increases. A current services estimate merely provides a snapshot of what resources are needed in the upcoming year to meet the same needs as the current year. In certain accounts we have estimated to the best of our ability additional costs attributable to specific *Independent Budget* recommendations in order to arrive at the *Independent Budget* recommended amount. In certain VBA subaccounts included within the GOE account, we have taken a three-year average of reimbursable amounts and subtracted these from initial inflated amounts in order to come up with a "current services" estimate. For Medical Care, the *Independent Budget* estimates for Medical Administration and Medical Facilities accounts are the current services estimates; for Medical Services, estimates for the enrollment of Priority 8 veterans, increased demand, and an additional amount for specialized services and programs were added to the current services estimate in order to arrive at the *Independent Budget* recommended amount. All *Independent Budget* recommendations are for appropriated dollars only.

For the FY 2006 *Independent Budget*, in the area of wage and salary increases, we have taken the current year increase of 4.5 percent, and annualized this amount with the estimated FY 2006 increase of 3.5 percent. This amount is slightly higher than the Administration's estimate of 3.1 percent for "Federal pay raises, military" contained in the Economic Assumptions Table in the Analytical Perspectives volume of the FY 2006 budget submission. This same volume for FY 2005 estimated this increase at 4.15 percent, which underestimated the FY 2005 amount by .35 percent. It is necessary to annualize this increase due to the operation of the fiscal year as compared to the calendar year. Since FY 2006 will contain one fewer compensable day than FY 2005 (as noted in OMB Circular A-11 (2004) Section 32-5), we have also subtracted a suitable percentage from this annualized percentage amount to reflect this (FY 2006 contains a total number of compensable hours of 2,080 as compared to a FY 2005 total of 2,088, necessitating a decrease of .38 percent). For *Independent Budget* recommendations calling for increased FTE, we have taken average compensation amounts listed in the current year (FY 2005) budget submission, increased by the wage and salary percentage increase, and multiplied this average by the number of proposed FTE. Although this method perhaps under-estimates these costs, it provides us with a rough estimate in order to cost various recommendations.

As for general inflation, we have estimated a 3.5 percent increase over the course of the fiscal year, and for medical inflation a 5.2 percent increase. The general inflation estimate is slightly higher than the percentage increase in Consumer Price Index –All Urban (CPI-U) over the course of the last twelve months as reported by the Bureau of Labor Statistics on January 19, 2005. This amount is listed as 3.3 percent, for the twelve-month period ending December, 2004. The Administration has estimated a 2.3 percent increase for calendar-year 2006 (see the Economic Assumptions Table in the Analytical

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Perspectives volume of the FY 2006 budget submission). It should be noted that in its 2005 budget submission, the Administration estimated the 2004 calendar-year rate of inflation at 1.4 percent, nearly 2 percentage points lower than the percentage increase as reported by the Bureau of Labor Statistics. The slight increase over the 2004 percentage change represents concerns over the effect of energy costs and dollar valuation over the course of FY 2006. The medical inflation estimate reflects increasing percentage increases over the last two years and the absence of any macroeconomic or microeconomic rationale to slow or reverse this trend.

As you can see, *The Independent Budget* recommendations are indeed conservative estimates, and do not even begin to address the impact of previous budgetary shortfalls on the VHA. If these shortfalls were to be addressed, the *Independent Budget* recommendation would be substantially higher.

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Doug Vollmer, PVA Associate Executive Director for Government Relations, began his employment with PVA on July 1, 1979. Upon receipt of an undergraduate degree from Northwestern University in 1967, Doug entered the U. S. Navy and was commissioned in May 1968. He served in Vietnam with the River Patrol Forces and as a liaison officer with elements of the 5th Special Forces from November 1968 to October 1969. This service was followed by twenty months on the staff of the Assistant Chief of Staff for Intelligence, CINCPACFLT after which he returned to civilian life. Prior to joining PVA he received a Masters Degree from the University of Hawaii and pursued post-graduate study at the University of Maryland. During his twenty-six years at PVA, Doug has been involved with a broad range of veterans and disability rights issues of concern to PVA's members. He was named Associate Executive Director for Government Relations in 1989. Doug and his wife Scottie live in Washington, DC, they have a son, Zachary, who is currently a student in New York City.

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Information Required by Rule XI 2(g)(4) of the House of Representatives

Pursuant to Rule XI 2(g)(4) of the House of Representatives, the following information is provided regarding federal grants and contracts.

Fiscal Year 2005

Court of Appeals for Veterans Claims, administered by the Legal Services Corporation — National Veterans Legal Services Program— $228,000 (estimated).
Paralyzed Veterans of America Outdoor Recreation Heritage Fund – Department of Defense -- $1,000,000.

Fiscal Year 2004

Court of Appeals for Veterans Claims, administered by the Legal Services Corporation — National Veterans Legal Services Program— $228,000 (estimated).

Fiscal Year 2003

Court of Appeals for Veterans Claims, administered by the Legal Services Corporation — National Veterans Legal Services Program— $228,803.