Statement of
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Mr. Chairman and Members of the Subcommittee, good afternoon. I am pleased to be here today to present the President's 2007 budget proposal for the Veterans Health Administration (VHA). The request for VHA totals $34.3 billion—an increase of $3.5 billion, which represents an 11.3 percent increase over the 2006 estimate including the $2.8 billion from the Medical Care Collections Fund (MCCF). This budget contains the largest dollar increase for VA medical care ever requested by a President.

With the resources requested for Department of Veterans Affairs (VA) in the 2007 budget, we will be able to even further strengthen our position as the nation's leader in delivering accessible, high-quality health care that sets the national benchmark for excellence. Whether compared to other federal health programs or private health plans, the quality of VA health care is unsurpassed.

Quality of Care

VA's standing as the nation's leader in providing safe, high-quality health care is evident and has been well documented. For example:

- in December 2004, RAND investigators found that VA outperforms all other sectors of American health care across a spectrum of 294 measures of quality in disease prevention and treatment;
- the Department's health care system was featured in the January/ February 2005 edition of Washington Monthly in an article titled "The Best Care Anywhere;"
- the May 18, 2005, edition of the prestigious Journal of the American Medical Association noted that VA's health care system has ". . . quickly emerged as a bright star in the constellation of safety practice, with system-wide implementation of safe practices, training programs and the establishment of four patient-safety research centers;"
- the July 18, 2005, edition of the U.S. News and World Report included a special report on the best hospitals in the country titled "Military Might—Today's VA Hospitals Are Models of Top-Notch Care;" and
- on August 22, 2005, The Washington Post ran a front-page article titled "Revamped Veterans' Health Care Now a Model."

It should be noted that for the sixth consecutive year, VA set the public and private sector benchmark for health care satisfaction based on the American Customer Satisfaction Index survey conducted by the National Quality Research Center at the University of Michigan. VA's inpatient index was 83 compared to 73 for the private sector, and our outpatient index was 80 compared to 75 for the private sector.

These external acknowledgments of the superior quality of VA health care when compared to other public and private health plans reinforce the Department's own findings. We use two primary measures of health care quality—Clinical Practice Guidelines Index and Prevention Index. These measures focus on the degree to which VA follows nationally recognized guidelines and standards of care that medical literature has proven to be directly linked to improved health outcomes for patients. Our performance on the Clinical Practice Guidelines Index, an internal accountability measure focusing on high-prevalence and high-risk diseases that have a significant impact on veterans' overall health status, is expected to reach 78 percent in 2007, or a 1 percentage point rise over the 2006 estimate. Similarly, VA's Prevention Index, a set of measures aimed at preventive health care, including immunization, health risk assessments, and cancer screenings, is projected to remain at the estimated 2006 high rate of performance of 88 percent.

Medical Care

The cornerstone of our medical care budget is providing care for veterans who need us the most—veterans with service-connected disabilities; those with lower incomes; and veterans with special health care needs. A key element of this effort is to make sure every seriously injured or ill serviceman or woman returning from combat in Operation Enduring Freedom and Operation Iraqi Freedom receives priority consideration and treatment.

Ensuring a Seamless Transition from Active Military Service to Civilian Life

The President's 2007 budget request provides the resources necessary to help ensure that service members' transition from active duty military status to civilian life is as smooth and seamless as possible. Last year through our aggressive outreach programs, VA conducted nearly 8,200 briefings attended by over 326,000 separating service members and returning Reserve and National Guard members. We will continue to stress the importance of an informed and hassle-free transition for all of our forces coming off of active duty, and their families, and especially for those who have been injured.

As an integral component of our 2007 goals, we will continue to work closely with the Department of Defense (DoD) to fulfill our priority that service members' transition from active duty to civilian life is as seamless as possible. If active duty service members, Reservists, and members of the National Guard served in a theater of combat operations, they are eligible for cost-free VA health care and nursing home care for a period of 2 years after their release from active military

service provided that the care is for an illness potentially related to their combat service. Of the over 433,300 service members who have already separated through July 2005, approximately 119,240 have presented to some aspect of VHA for health care services as well as over 18,700 who have presented to Readjustment Counseling Services (Vet Centers).

There are many other initiatives underway that are aimed at easing service members' transition from active duty military status to civilian life. Within the last year, VA hired an additional 50 veterans of Operation Enduring Freedom and Operation Iraqi Freedom to enhance outreach services to veterans returning from Afghanistan and Iraq through our Vet Centers. They joined our corps of Vet Center outreach counselors hired earlier by the Department to brief servicemen and women about VA benefits and services available to them and their family members. They also encourage new veterans to use their local Vet Center as a point of entry to VA and its services. Our outreach counselors visit military installations, coordinate with military family assistance centers, and conduct one-on-one interviews with returning veterans and their families.

Workload

During 2007, we expect to treat nearly 5.3 million patients including over 100,000 combat veterans who served in Operation Enduring Freedom and Operation Iraqi Freedom.

With the proposed legislative initiatives, the 3.8 million veteran patients in Priorities 1-6 will comprise 79 percent of our total veteran patient population. This will be an increase of 2.1 percent in the number of patients in Priorities 1-6 and will represent the fourth consecutive year during which those veterans who count on us the most will increase as a percentage of all patients treated.

VA continues to adjust our actuarial model to ensure that it accurately projects the needs of veterans from Operation Enduring Freedom and Operation Iraqi Freedom. However, many unknowns can impact the number and type of services the Department will need to provide these veterans, including the duration of the military action, when these veterans are demobilized, and the impact of our enhanced outreach efforts. Therefore, we have made additional investments in key services, such as mental health, prosthetics, and dental care to ensure we will be able to continue to meet the health care needs of these returning veterans and veterans from other eras.

Funding Drivers

There are three key drivers of the additional funding required to meet the demand for VA health care services in 2007:

- inflation;
- the aging of VA's patient population; and
- greater intensity of services provided.

Inflation:
The impact of the composite rate of inflation within the actuarial model increased our resource requirements for medical care by $1.2 billion, or 3.9 percent. This includes the effect of additional funds needed to meet higher payroll costs as well as the influence of growing costs for supplies, as measured in part by the medical Consumer Price Index. This increases VA's cost of doing business regardless of any changes in enrollment, number of patients treated, or initiatives.

Utilization:
VA will experience a significant increase in the utilization of health care services in 2007. The biggest reason is the aging of VA's patient population, which is aging faster than the general population. As our patients age, they become sicker and require more health care services, particularly for chronic diseases. Overall utilization trends in the U.S. health care industry continue to increase and VA is following this trend. However, we should not overlook the fact that there are other key reasons that veterans are displaying an increasing level of reliance on VA health care as opposed to using other medical care options that they may have available. These include the positive experiences that veterans have had in our system, our reputation as a leader in healthcare, and the growing large difference in the out-of-pocket costs between what veterans pay at VA verses elsewhere.

Intensity:
Medical practice patterns throughout the nation have resulted in an increase in the intensity of health care services provided per patient. This is due to the growing use of diagnostic tests, pharmaceuticals and other medical services, particularly for chronic diseases such as diabetes, heart disease, and obesity. This rising intensity of care is evidenced in VA's health care system as well. While this has contributed to higher quality of care and improved patient outcomes, it requires additional resources to provide this greater intensity of services. In addition, VA is expanding access to mental health services that are critical to the health and well-being of our veterans.

The combined impact of inflation, expanded utilization, and greater intensity of services increased our resource requirements for medical care by nearly $1.2 billion.

<u>Proposed Initiatives</u>

The 2007 budget includes two provisions that, if enacted, would help VA meet our primary goal of providing health care to those who need our medical services the most. The first provision would establish an annual enrollment fee of $250 and the second would increase the pharmacy co-payment from $8 to $15 for a 30-day supply of drugs. Both of these provisions would apply only to Priority 7 and 8 veterans who have no compensable service-connected disabilities, who typically have other alternatives for addressing their medical care costs, including

third-party health insurance coverage and Medicare. Prior to implementation of Eligibility Reform legislation in 1997, Priority 7 and 8 veterans were either restricted from VA medical care or only provided care on a case-by-case space available basis. Since that time VA has implemented its national enrollment authority allowing enrollment of veterans in any year that resource levels permitted.

The President's Budget includes similar small incremental fee increases for DoD retirees under age 65 in the TRICARE system.

The 2007 budget also includes a provision to eliminate the practice of offsetting or reducing VA first-party co-payment debts with collection recoveries from third-party health plans. Veterans receiving medical care services for treatment of nonservice-connected disabilities would receive a bill for their entire co-payment. If enacted, this provision would yield about $30 million in additional collections that could be used to provide further recourse for the Department's health care system.

The combined effect of all three policies reduces our need for appropriated funds by $795 million in 2007.

Access to Care

With the resources requested for medical care in 2007, the Department will also be able to maintain its current high performance with regard to access to medical care—93.7 percent of appointments are scheduled within 30 days of the patient's desired date. For primary care appointments, 96 percent will be scheduled within 30 days of the patient's desired date and for specialty care, 93 percent of all appointments will be scheduled within 30 days of the patient's desired date. No veteran will have to wait for emergency care.

VA is also committed to ensuring that no veteran returning from service in Operation Enduring Freedom and Operation Iraqi Freedom has to wait more than 30 days for a primary care or specialty care appointment.

We have achieved improvements in waiting times in primary care and specialty clinics nationwide by developing a number of strategies, to include implementing state-of-the-art appointment scheduling systems, standardizing business processes associated with scheduling practices, and ensuring that clinicians focus on those tasks that only they can perform to optimize the time available for treating patients. To further improve access and timeliness of service, VA will fully implement Advanced Clinic Access, an initiative that promotes the efficient flow of patients, on a national basis. This program optimizes clinical scheduling so that each appointment or inpatient service is most productive. In turn, this reduces unnecessary appointments.

Major Changes in Funding

VA's 2007 request includes over $4.3 billion for long-term care ($229 million more than the 2006 level). I can assure you that the patient and cost projections associated with long-term care have been checked to ensure that they represent our real need in this area. While we aim to expand all types of extended care services, we plan to increase the rate of growth of non-institutional care funding about twice as much as that for institutional care. With an emphasis on community-based and in-home care, the Department can provide extended care services to veterans in more clinically appropriate settings, closer to where they live, and in the comfort of their homes surrounded by their families. During 2007, we will increase the number of patients receiving non-institutional long-term care, as measured by the average daily census, to about 36,700. This represents a 14.4 percent increase above the level we expect to reach in 2006 and a 33.7 percent rise over 2005.

The Department's 2007 request includes nearly $3.2 billion ($339 million over the 2006 level) to provide comprehensive mental health services to veterans. This will help further our effort to improve timely access to these services across the country. These additional funds will help VA achieve the aspirations of the President's New Freedom Commission Report as embodied in VA's Mental Health Strategic Plan and to deliver exceptional, accessible mental health care.

The Department will continue to place particular emphasis on providing care to those suffering from the spectrum of combat stress reactions, ranging from readjustment issues to Post-Traumatic Stress Disorder (PTSD) as a result of their service in Operation Enduring Freedom and Operating Iraqi Freedom. We are firmly committed to providing these veterans the best treatment possible. In December 2005, the Department designated three new centers of excellence in Waco (Texas), San Diego (California), and Canandaigua (New York) devoted to advancing the understanding and care of mental health illness. In addition, we have increased outreach to all veterans of the Global War on Terror.

VA's medical care request includes $1.4 billion ($160 million over the 2006 level) to support the increasing workload associated with the purchase and repair of prosthetics and sensory aids to improve the quality of life for veterans of all combat or peacetime eras.

Medical Collections

As a result of improvements in our medical collections processes and the legislative proposals presented in this budget request, we expect to collect over $2.8 billion in 2007. These collections will substantially supplement the resources available from appropriated sources. In 2005 we collected just under $1.9 billion. The collections estimate for 2007 is 37.9 percent ($779 million) above the 2006 estimate. About 70 percent of the projected increase in collections is due to the legislative proposals (a $250 annual enrollment fee, an increase to $15 in the pharmacy co-payment, and elimination of the practice of offsetting VA first-party co-payment debts with collection recoveries from third-

party health plans). The remaining 30 percent of the growth in collections will result from continuing improvements in billing and collections.

We have several initiatives underway to strengthen our collections processes:

- the Department is implementing a private-sector-based business model pilot, tailored to our revenue operations, to increase third-party insurance revenue and improve VA's business practices. The pilot Consolidated Patient Account Center will address all operational areas contributing to the establishment and management of patient accounts and related billing and collections processes;
- we are working with Centers for Medicare/Medicaid Services contractors to obtain a Medicare-equivalent remittance advice for veterans who are covered by Medicare and are using VA health care services. This project will result in more accurate payments and better accounting for receivables through use of more reliable data for claims adjudication;
- our Insurance Identification and Verification project is providing VA medical centers with an automated mechanism to obtain veterans' insurance information from health plans that participate in the electronic data exchange;
- we are testing the e-Pharmacy Claims software that provides real-time claims adjudication for outpatient pharmacy claims; and
- VA is implementing the Patient Financial Services System pilot that will increase the accuracy of bills and documentation, reduce operating costs, generate additional revenue, reduce outstanding receivables, and decrease billing times.

Medical Research

The President's 2007 budget includes $399 million to support VA's medical and prosthetic research program. This amount will fund more than 2,000 high-priority research projects to expand knowledge in areas critical to veterans' health care needs, most notably research in the areas of mental illness ($51 million), aging ($40 million), health services delivery improvement ($36 million), heart disease ($30 million), central nervous system injuries and associated disorders ($29 million), and cancer ($28 million).

In addition to VA appropriations, the Department's researchers compete and receive funds from other federal and non-federal sources. Funding from external sources is expected to continue to increase in 2007. Through a combination of VA resources and funds from outside sources, the total research budget in 2007 will be almost $1.65 billion, or about $17 million more than the 2006 estimate.

Capital Construction

The 2007 request for construction funding for our medical care program is $457 million—$307 million for major construction and $150 million for minor construction. All of these resources will be devoted to continuation of the Capital

Asset Realignment for Enhanced Services (CARES) program to renovate and modernize VA's health care infrastructure and to provide greater access to high-quality care for more veterans. When combined with the $293 million that was enacted in the Hurricane Katrina emergency funding package in late December 2005 to fund a CARES project for a new hospital in Biloxi, Mississippi, the total CARES funding since the 2006 budget totals $750 million and since the 2004 CARES report amounts to nearly $3 billion.

Information Technology Services

The 2007 request for IT services includes $832 million for our medical care program.

The most critical IT project for our medical care program is the continued operation and improvement of the Department's electronic health record system, a Presidential priority which has been recognized nationally for increasing productivity, quality, and patient safety. Within this overall initiative, we are requesting $51 million for ongoing development and implementation of Health*e*Vet-VistA (Veterans Health Information Systems and Technology Architecture) which will incorporate new technology, new or reengineered applications, and data standardization to continue improving veterans' health care. This system will make use of standards that will enhance the sharing of data within VA as well as with other federal agencies and public and private sector organizations. Health data will be stored in a veteran-centric format replacing the current facility-centric system. The standardized health information can be easily shared between facilities, making patients' electronic health records available to all those providing health care to veterans.

Until Health*e*Vet-VistA is operational, we need to maintain the VistA legacy system. This system will remain operational as new applications are developed and implemented. This approach will mitigate transition and migration risks associated with the move to the new architecture. Our budget provides $188 million in 2007 for the VistA legacy system.

Summary

In summary, Mr. Chairman, the $34.3 billion the President is requesting for VHA in 2007 will provide the resources necessary for the Veterans Health Administration to provide timely, high-quality health care to nearly 5.3 million patients with service-connected disabilities, lower incomes, or special health care needs.

I look forward to working with the members of this committee to continue the Department's tradition of providing timely, high-quality benefits and services to those who have helped defend and preserve freedom around the world.