

*The COO / CFO Message*

# ENGINEERING TRANSITION



*“I am proud to lead those who live and work at this historic organization.”*

Since 2002, we have been transforming the AFRH, striving to reduce risk, creating an efficient business, and meeting the needs of our residents. FY11 has been no different. This past year was filled with success and change at the Agency as we focused even harder on fine-tuning our business model to promote health and wellness.

As the recently selected COO, it is both an honor and a privilege to serve those who served America. Today I am proud to report the AFRH is doing well. As you review this Performance and Accountability Report (PAR) for FY11, you will see how we are making significant headway and inspiring greater independence for America’s veterans.

**Surveying Highlights**

In the past year, we witnessed the grand opening of the new Gulfport facility. And in Washington, the Scott Project moved rapidly forward with the hard demolition of the old Scott Building. Both of these vital projects are bringing our Person-centered Care and Aging in Place philosophies from vision to reality.

In February I met with AFRH leadership to develop our next five-year Strategic Plan. Our planning session encouraged us to revalidate our Vision, Mission, and Guiding Principles—and to analyze how to make the most positive impact on residents, given our resources and experience. The 2011-2015 Strategic Plan Theme—The Power of Progress—stemmed from our Agency-wide commitment to achieve a person-centered model focusing on resident needs and choices.

We also pledged to minimize risk and increase financial stability through a variety of strategies: reducing our footprint and associated infrastructure, shoring up our facilities, growing our staff, rightsizing our population, seeking energy efficiencies, and fine-tuning contracts through the transition years (while also reducing the scope and requirements of new ones starting in 2013).

For instance, the dining contract decreased by \$2 million, healthcare produced savings of \$1.2 million, and Campus Operations decreased by \$1 million—for a total of more than \$6 million in savings in FY11 alone. And we expect these savings to continue in 2013.



Further, we restructured our Performance Improvement (PI) process focused on high-risk areas and documented key threats to monitor through our Internal Control Board.

To improve resident service, we realigned our population through an effective transfer program to the Independent Living Plus (ILP) Pilot program. We also analyzed and adjusted our staffing for efficiency and efficacy. As management problems emerged, we replaced ineffective managers to ensure team unity. All decisions have proved to be positive moves in enhancing the delivery of resident-centered care.

In the midst of these advances, we experienced a unique event in Washington. In August, a 5.8 magnitude earthquake was followed by a CAT 1 hurricane three days later. Result: the 150-year-old historic Sherman Building and heart of our business operations was closed due to structural damage. Since then, our admin staff has been operating in auxiliary offices.

**Promoting Achievements**

Through our strategic planning we set a course for positive AFRH Trust Fund growth and essential modernization on the Washington campus. \$5.6 million in Trust Fund money was requested and approved to plan a design-build renovation of the Scott Dormitory (coined “the Scott Project.”) Working with DoD, \$70 million was taken from its top line and programmed in our Budget Authority for the Scott Project in 2010.

In tandem with these investments, the AFRH received its 7th annual “unqualified” audit opinion in FY11. This outcome validates our strong controls and sound fiscal management.

Infrastructure-wise, we refocused and improved our AFRH Capital Improvement Plan (CIP), which outlines 10 years’ worth of vital improvements on both campuses. These projects include a smaller footprint in Washington, a focus on Person-centered Care and Aging in Place, plus assessments of the environmental impacts.

Off-campus, we increased interactions with partners such as the National Association of Uniformed Services (NAUS), the Petworth Neighborhood, Armed Forces Foundation, Non Commissioned Officers Association (NCOA), GEICO, Camp Shelby, Keesler Air Force Base, Walter Reed National Medical Center, Virginia Medical Center, and the VA Biloxi, to name a few.

To promote greater health, the AFRH became “smoke-free”. We worked with residents, conducted numerous focus groups, identified smoking areas, and began our effort to build environmentally-controlled smoking shelters.

Further, we underwent assessments by Office of Personnel Management (OPM), our Advisory Board, and CARF<sup>1</sup>. In fact, AFRH-Washington (AFRH-W) received CARF praise for strides in Person-centered Care and rapid staff training. Meanwhile, AFRH-G prepared for its first CARF inspection in the first quarter of FY12.

**Overcoming Challenges**

The AFRH transition is in full swing. Change is not easy—especially for seniors. AFRH-G residents are adjusting to Mississippi, the new building, and its staff. And AFRH-W is in flux as residents experience inconvenience and change during modernization. But, as they say, change is good for the soul. In my first year as COO, I determined our greatest challenges lie in managing expenses during major ongoing projects:

PROJECT	FISCAL CHALLENGE
The Scott Project	maintaining schedule, cost & safety
Gulfport Stand-up	achieving capacity & effective staffing
Sherman	funding for repairs & reconstruction
Washington Master Plan Revival	securing investors & funding

PROJECT	PERFORMANCE CHALLENGE
Person-centered Care	focusing staff, reaching a plateau & altering services
Aging in Place	reducing high care levels and related costs via rightsizing AFRH-W, promoting independence via ILP expansion on both campuses & Scott construction
Information Technology	attaining e-records, networking & video-conferencing
Financial Management	ensuring the Trust Fund stays solvent during expenditures, keeping expenses down & creating revenue from the Washington Master Plan
Gulfport Administration	keeping a cohesive team, ensuring a vibrant organization & maintaining accreditation



Joe Woo (Chief Architect) & Justin Seffins (Facilities Manager) join McManus at the Scott Demolition.

Strong fiscal management of these large-scale projects is vital to safeguarding our assets. Today the Trust Fund is solvent. However, its greatest risk will occur in the transition years (2010-2013) as we continue to stand up operations in Gulfport and transition to a reduced footprint in Washington. Yet, many AFRH infrastructure and facility upgrades, coupled with contract-reduction efforts, will have a direct and positive impact on Trust Fund solvency.

While we recognize negative growth will occur in the transition years as we expense the Scott Project, we expect positive growth to continue again after 2013. We are also reviewing our fee structure and enhancing Agency-level staffing to meet the growing demands of the transition years. As we move toward our vision of economical operations on both campuses, we continue to review and adopt practices that will improve service and nurture Trust Fund growth.

The National Defense Authorization Act (NDAA) for FY02 permitted AFRH through DoD to sell, lease or otherwise dispose of underutilized buildings and property. The NDAA for FY09 altered the language by requiring the AFRH to follow Enhanced Use Lease (EUL) procedures for lease of AFRH property. DoD is currently reviewing the Agency’s development strategy for the 77 acres of development. A decision is expected this calendar year.

In the interim, the AFRH is mothballing unoccupied buildings within the 77 acre development zone, preparing to close the Power Plant and LaGarde facility, developing plans for a new fence around our primary development footprint, renewing relationships with our neighbors, and developing relationships with our new real estate manager (US Army Corps of Engineers) in anticipation of sale/leasing.

**Giving Thanks**

The standup of Gulfport has not been easy on residents or employees. We adjusted to unexpected problems and made necessary changes in staffing. Through this transition, the residents have been very understanding and have remained supportive. Life at AFRH-W has also been challenging for everyone as we entered the Transition Period with displaced services. All was on-track—then the earthquake hit and left a trail of damage in its aftermath. Hence, all programs

now have even more limited space. We moved dining once again into the Fitness Center, so the residents re-named it “Jerry’s Diner” (to honor a staff member in the Fitness Center, which had to move elsewhere). All things considered, the Washington residents are showing great tolerance and appreciation for all we have done.



**Envisioning Tomorrow**

We are experiencing a time of great opportunity and challenges that lead me to believe we have so much to gain. As the COO of our great Homes, I will continue my commitment to resident care, support our staff through great challenges, and seize every opportunity to make life better at the AFRH. I am proud to lead this historic organization and those who live and work here. Each day, I see our good people commit to Person-centered Care and enhance the AFRH. We are on a fast track to have a premier home in Washington by 2013, much like Gulfport, where our veterans will do more than grow old. They will simply grow. As you enjoy this report and discover the storied lives of our residents, you will see how they have inspired so many others to greatness. In turn, we seek to inspire our residents to greater joy and independence for life.

Sincerely,

Steven G. McManus  
 Chief Operating Officer (COO)  
 Chief Financial Officer (CFO)  
 November 15, 2011

<sup>1</sup>Continuing Care Retirement Community

<sup>2</sup>Commission on Accreditation of Rehabilitation Facilities and the Continuing Care Accreditation Commission