[Questions for the Record submitted by Chairwoman Wasserman Schultz for Major General Stephen T. Rippe of the Armed Forces Retirement Home follow:]

Trust Fund

Question: The testimony raises questions about the stability of the trust fund, which is the source of your operating budget. The trust fund has been declining because operating costs have exceeded revenue. First, let's talk about the revenue that goes into the trust fund, and then the efforts that you have undertaken to reduce costs.

Answer: The trust fund is intended to be self-sustaining with dedicated sources of revenue, not with appropriated funds from taxpayers. Six dedicated funding streams are identified in the Home's governing statute, chapter 10 of title 24, United States Code. Together these revenue sources totaled $46 million in fiscal year 2018, as follows:

Fines and forfeitures	$ 21,274,000	(46%)
Resident fees	$ 15,648,000	(34%)
Active duty withholding	$ 6,664,000	(14%)
Trust fund interest	$ 1,037,000	(2%)
Leases and property sales	$ 746,000	(2%)
Gifts and donations	$ 649,000	(1%)
Total	$ 46,018,000	

Although the Home is a Federal agency, in many respects it operates like any private sector retirement community or nursing home would: by looking for opportunities to raise revenue and reduce costs. This year we looked at contract labor rates for security and nursing services and determined we could save nearly $1 million by instead hiring Federal employees. Last year AFRH reduced ground maintenance costs by ordering services on demand rather than a fixed schedule, and two years ago focused on reducing food costs by joining a larger Federal contract for raw foods and better tracking demand and consumption levels to reduce wasted food.

On the other hand, the Home is limited by statute and legal settlement to reduce services (and thereby costs) in costly areas where we differ from typical retirement communities, such as 24-hour primary care access and on-demand transportation. Additionally, in fiscal year 2018, AFRH spent $21.4 million on healthcare services for our residents, a third of our budget, yet because of our Federal agency status we receive no financial support from benefit programs our residents have earned: Medicare, Medicaid, TRICARE, and Veterans Health Benefits. The $21.4 million we spend on healthcare is very near the $22 million in general fund support we have received in recent years and request again in fiscal year 2020.

Question: Revenue in the Trust Fund—More than half of the trust fund has come from fines and forfeitures, my understanding is that these are funds levied by the commanding officer under the

UCMJ (Uniform Code of Military Justice). What has been the trend in the fines—it looks like it has been declining steeply since 2009. Why?

Answer: The triennial inspection by the DoD Inspector General conducted in 2017-2018 explored this very question (*see* DODIG-2018-077, "Financial Management and Contract Award and Administration for the Armed Forces Retirement Home"). The decline in this revenue stream from 2010 to 2016 was $15.4 million, or 41.4 percent. The DoDIG report cited the primary cause was a 37 percent reduction in the number of UCMJ courts martial and Article 15 disciplinary actions across all military services over the same period. Tables 3 and 4 on pages 8 and 9 of that report captured the downtrend:

	2010	2011	2012	2013	2014	2015	2016	2017
Fines and forfeitures	$37.2	$36.6	$35.3	$29.7	$28.2	$22.8	$21.8	$21.8
Disciplinary actions	71,847	68,143	60,915	65,402	53,977	54,090	45,260	44,377

$ in millions

While fewer disciplinary actions were cited as the cause of decline in AFRH's fines and forfeitures revenue, the report did not explore the causes of the decline in disciplinary actions. AFRH management believes it was a combination of factors including lower end-strength levels, better conduct, and non-financial punishments. Average fines per case each year are also variable, at $502 over the 7 year window, but ranging from $422 in 2015 to $579 in 2012.

Question: To bring in more revenue, what actions can you take?

Answer: Of the six revenue streams listed earlier, AFRH is focusing its efforts on the three streams directly within its control: resident fees, leases and property sales, and gifts and donations. In 2018 AFRH announced a new cost-based fee structure where residents who can afford to pay for the cost of their care will do so, with increases for existing residents phased in from 2019 to 2023 following guidance from Congress in the 2019 National Defense Authorization Act (NDAA). In that NDAA, AFRH also received an expansion of eligibility factors which will allow the Home to admit spouses, more veterans who served in combat zones or sustained service-connected disabilities, as well as expanded authority to solicit gifts and donations. We are increasing our marketing and outreach efforts to attract new residents and have employed a professional fundraising consultant to develop a fundraising strategy. In May 2018, the General Services Administration released a request for proposals on AFRH's behalf to develop 80 acres of the Home's Washington, D.C. campus for mixed use including residential, retail, office, and hotel. The intent is to generate long-term revenue for the Home from ground leases rather than selling property. Bids were received in September 2018 and are being reviewed, with the goal of selecting a developer in mid-2019 and negotiating a master lease.

While not within its direct control, AFRH leadership has been building relationships with senior enlisted advisors from each of the military services with the goal of garnering consensus and support for an increase in pay withholding from active duty service members from $0.50 per month to $1.00. Such an increase is already authorized in law and requires the Secretary of Defense's action to implement.

The National Guard and Reserves have greatly contributed to our Nation's military efforts, particularly since 9/11; however, today 20-year retirees of the Guard and Reserves are not eligible for admission to AFRH based on their length of service in the military. As part of the all-volunteer force and total force concept, I believe we should open eligibility to members of all components who have achieved 20 or more years of military service. We have been working with the National Guard Bureau on this concept and hope to obtain support for a change in the law this year.

Question: If the fines and forfeitures do not increase, for how long is the trust fund solvent?

Answer: Increased fines and forfeitures are not an element of AFRH's solvency strategy because they are outside of AFRH's ability to control and, as recent history has shown, are unreliable and highly variable. By focusing on enhancing revenue streams it can influence—resident fees, property leases, and donations—AFRH expects to reduce and eventually eliminate the need for appropriations to support operating requirements.

Question: AFRH operations have been supported with $20-22 million in general funds each year since fiscal year 2016, will this increase?

Answer: If our strategies are successful, AFRH expects to reduce and eventually eliminate the need for appropriated support of its day-to-day operations.

Regarding capital investments, since fiscal year 2015, AFRH has operated with a $1,000,000 annual budget for capital construction and renovation. The current appropriations language can be interpreted as only allowing AFRH to spend up to $1,000,000 each year on capital improvements. The balance sheet value of AFRH's property, plant, and equipment was $316 million in fiscal year 2018, which equates to a capital expenditure ratio of only 0.3%. By comparison, a 2016 senior living industry report showed average capital expenditures per unit of $6,151 for continuing care retirement communities nationwide[1]. AFRH expends less than $900 per unit. Outdated and deteriorating facilities have a negative effect on AFRH's ability to attract and retain residents, and low occupancy levels exacerbate our financial problems by reducing fee income and driving higher fixed costs per resident.

[1] "Actual vs. Budgeted Capital Expenditures Per Available Unit by Property Type" (Table 12.7A, p. 85), *State of Seniors Housing 2016,* American Seniors Housing Association.

AFRH has $135 million in deferred maintenance, including $15 million in regulatory-mandated life and safety improvements and $500,000 in recurring expenses on our property development project. Our top five priority projects—all critical to our operations—total $19 million, and our top five most costly projects total $86.3 million.