

CONGRESSIONAL BUDGET JUSTIFICATION
FISCAL YEAR 2014



MINDFUL
CARE
MEANINGFUL
LIVING



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At AFRH-Washington, three buildings from three different centuries - Sherman (19th), Sheridan (20th), and Scott (21st) - were being renovated in the fall 2012.



APPROPRIATIONS LEGISLATION

ARMED FORCES RETIREMENT HOME

TRUST FUNDS

For expenses necessary for the Armed Forces Retirement Home to operate and maintain the Armed Forces Retirement Home—Washington, District of Columbia, and the Armed Forces Retirement Home—Gulfport, Mississippi, to be paid from funds available in the Armed Forces Retirement Home Trust Fund, \$67,800,000, of which \$1,000,000 shall remain available until expended for construction and renovation of the physical plants at the Armed Forces Retirement Home—Washington, District of Columbia, and the Armed Forces Retirement Home—Gulfport, Mississippi.

Note: P.L. 113-6 was enacted on March 26, 2013 and is reflected in this Budget Justification.

INTRODUCTION

Mindful Care, Meaningful Living

The Armed Forces Retirement Home (AFRH) is proud to present the Congressional Budget Justification for Fiscal Year (FY) 2014.

Since 2002, we have been transforming the AFRH, striving to reduce inefficiencies, enhancing operations, and meeting the needs of our Residents. The AFRH management identified trends in retirement living that are now shaping our philosophy of Person-centered Care (PCC). In a PCC environment, the staff works hard to fulfill each Resident's personal needs in a careful, supportive manner while developing a unique plan of care. This approach helps us deliver meaningful services that are tailored to each individual. The AFRH has made great strides in PCC via renovations and new construction. One example is our adoption of the 'small house' concept that can be seen in our new Gulfport facility. This design choice makes it easier for our staff to provide familial and attentive care to our Residents. Likewise, the new Scott Building in Washington will also share a similar design and philosophy.

Another example of perfecting the PCC experience can be witnessed by the implementation and usage of the Independent Living Plus (ILP) pilot program, which began in February of 2010. At the end of FY 2012, ILP consisted of 89 Residents on both Campuses. The ILP pilot program is an invaluable tool to assist our Residents in Aging-In-Place. The Aging-In-Place philosophy allows Residents to age gracefully without disrupting the lifestyle they have grown accustomed to. This program has served to be very beneficial because we do not have to move the Resident to the LaGarde building (which is not in close proximity to the remainder of the Campus).

Our emphasis on Person-centered Care can be seen throughout our operations. In the inaugural year of the new AFRH Strategic Plan for FY11-15, a strong emphasis was placed on personalizing Resident care. All Resident activities and services embrace this philosophy. In this new culture, we are adjusting to the Residents' preferences. One early victory was evolving dining services so that Residents could have more flexibility as to what they would eat and when they chose to dine (as opposed to set menus and time intervals). With the success of the change in dining services, we are looking to utilize this concept for other services like scheduling health and wellness appointments, performing rehabilitation, and conducting recreation. Likewise, staff training and capital improvement projects also support this movement. Realizing Person-centered Care would not be obtainable without the support of our Staff, the AFRH strives to employ and retain positive employees who care to make a difference in the lives of those we now serve. We are also working toward increasing the number of external stakeholders that attend special events and service. The culmination of this effort should allow the Resident to feel like this is their home and not an institution. Specifically, our culture change aims to provide services and create environments that promote:

- enhanced dignity
- improved privacy
- personal choice
- stronger autonomy
- overall wellbeing
- feelings of control
- daily pleasure, and
- exemplary quality of life.

Beyond great strides in our programs and service, we have also made progress in capital improvements. We pledged to minimize risk and increase financial stability through a variety of strategies. Reducing our footprint and associated infrastructure as well as revitalizing our facilities are major endeavors. The AFRH is committed to "person-centered" residential living. Yet, the physical structures, particularly in Washington, lag behind this vision and must be modified to effectively deliver on this promise.

The Gulfport Facility was rebuilt through Congressional funding after damages from Hurricane Katrina and its grand opening was in October 2010. This building was magnificently designed and constructed via our partnership with General Services Administration. In the summer of FY 2012, Hurricane Isaac enabled our Residents and staff to see the full potential of this wonderful edifice. Hurricane Isaac blew

through AFRH-Gulfport nearly seven years to the day after Hurricane Katrina destroyed the previous AFRH-G Facility. Isaac struck the Gulf coast on the evening of August 28, 2012. Isaac was a slow-moving tropical storm at first, but it ultimately became a Category I hurricane. Katrina, in vivid contrast, made landfall as a Category 3 hurricane. That violent storm from 2005 caused the Gulfport Facility to be evacuated and left severe damage in its wake. This resulted in the closure of AFRH-G for almost five years. This time around, the staff was prepared to face a storm in a building designed for up to a Category 5 hurricane. The new AFRH emergency exercises and hurricane procedures helped the Gulfport community rally into action. In the end, Isaac gave the Gulfport staff and Residents a great opportunity to test their mettle in disaster preparedness. It, also, gave the new building a chance to showcase its abilities to withstand the effects of a major storm.

Even though the Gulfport Facility was able to withstand the hurricane, this campus has capital improvement needs that should be executed in order to fully realize the PCC environment we are trying to obtain. Planning for a comprehensive program of landscape improvements for the AFRH-Gulfport (AFRH-G) Campus began in 2011. The implementation, of these improvements, is embodied in the Master Landscape Plan (MLP), which is contained in AFRH's Capital Improvement Plan (CIP).

AFRH is also developing a MLP for its Washington Campus, which will include projects that encourage Residents and visitors to use more of the property for outdoor physical activities, social gatherings, relaxation, educational experiences, and therapy. Sites featured in the MLP include the historic Scott monument with its splendid view of the US Capitol and the scenic Lakes. The AFRH-Washington (AFRH-W) Campus also has projects underway involving American Disabilities Act (ADA) accessibility requirements, suicide prevention modifications, and signage for visually impaired Residents.

As a Federal Agency, management recognizes that capital improvements are an investment in the future of the AFRH Facilities. While management has created a Long Range Financial Plan to evolve and remain solvent, it must continually integrate its Person-centered Care philosophy and modify plans for each Campus to realize this new vision. The AFRH updated its 10-year CIPs for both Campuses in FY 2012. These Plans include a compilation of various development projects with detailed descriptions, dependencies, compliance requirements, and costs. An additional purpose for these Plans is to align the Long Range Financial Plan with the Agency's new capital improvement needs.

Ongoing projects on both Campuses are coming along excellently. All are on time and within budget. Throughout FY 2012 we began actively engaging Residents and staff to create action plans for transitioning people into the newly renovated Scott Building by February 2013.

In FY11, the AFRH created new strategic goals aligned with AFRH's vision:

- Goal 1: Embrace Resident-centered Care,
- Goal 2: Maintain Exceptional Stewardship,
- Goal 3: Promote Staff-centered Environment, and
- Goal 4: Leverage External Stakeholders

The AFRH has worked for a full year under the FY11-15 Strategic Plan, which embodies the Agency's new Person-centered Care vision. In FY 2012, we updated this Plan to hone objectives in two primary goals: Maintain Exceptional Stewardship and Promote a Staff-centered Environment. The AFRH has made great strides in its performance management throughout the year. Progress was highly visible at both Campuses. On any given day, advances are being made in delivering greater personalized care, gaining staff involvement, expanding community partnerships, executing construction and capital improvements, and overall renewed energy. These successes all directly stem from our new strategy—which continues to guide staff performance and produce top-notch Resident service.

Recognizing the need for key measurements to evaluate operations, AFRH managers are expanding the Performance Improvement program that gauges performances. Performance indicators are established by subject matter experts and vetted by management. The corresponding results are analyzed to ensure that operations that are successful are maintained and areas that need improvement are addressed in a timely manner. In FY 2013, we will be updating of our Strategic Plan as mandated in the Government Performance Results Modernization Act (GPRMA) of 2010.

The 2012 Trust Fund Solvency analysis concludes that the Trust Fund is solvent (given several base case assumptions) which predicates the fact that we constantly evaluate the performance of our operations. Over this past decade, AFRH management has substantially reduced operating costs while taking on several major construction projects. This, too, has kept the AFRH Trust Fund in solvency. Moving forward, one key assumption is that management will be successful in selling or leasing excess acreage on the Campus at AFRH-W. This action will provide a much-needed, substantial boost to the Agency's long-term fiscal solvency. This fiscal solidarity and resourcefulness assisted AFRH in receiving

its eighth annual “unqualified” audit opinion in FY 2012. This outcome validates our strong controls and sound fiscal management.

In addition to our annual audit, we underwent assessments by the Office of Personnel Management, our Advisory Council, and the Department of Defense Inspector General (DoD IG). The DoD IG inspected the Washington Campus in August, 2012. The Gulfport Facility underwent its first DoD IG inspection one month later. Results from the two inspections are forthcoming.

FY 2012 was a year of innovation and unique creativity for the Residents and staff. **Mindful Care** from our staff and volunteers is truly producing **Meaningful Living** for the Residents. Two hundred years ago America’s leaders made a promise to care for its aging Veterans. Now, more than ever, the AFRH and Congress are bound to honor that original Promise, the Home’s heritage and the tradition of the United States military.

This Congressional Budget Justification presents our efforts to hold both Campuses to the highest standards of accountability while strengthening the financial future of AFRH. As we move forward to our vision of a vibrant, economical operation at both AFRH Campuses, we continue to work to use the funding entrusted to us by current and former military personnel efficiently and in their best interests.



Person-centered Care for Residents is provided by dedicated AFRH staff.

STRATEGIC PLAN FRAMEWORK

VISION:

A retirement community committed to excellence, fostering independence, vitality and wellness for Veterans, making it a vibrant place in which to live, work and thrive.

MISSION:

To fulfill our nation's promise to its Veterans by providing a premier retirement community with exceptional residential care and extensive support services.

GUIDING PRINCIPLES:

Person-Centered: "Person-centered Care" is defined as the careful manner in which Resident needs are considered while developing responsive plans of care and delivering meaningful services.

Accountability: We expect our workforce to achieve what we promise to Residents, staff and service partners. To ensure success, we measure progress and provide feedback to our customers.

Integrity: We will strongly uphold the mission of AFRH. We are honest and ethical and deliver on our commitments. We recognize that good ethical decisions require individual responsibility enriched by collaborative efforts.

Workforce Growth: We strive to hire and retain the most qualified people. We maximize their success through training and development as well as maintaining and promoting open communication.

Honor Heritage: We honor the rich history of the US Armed Forces—from our Veterans to our victories, as such; our Campus reflects that military heritage with memorabilia and tributes.

Inspire Excellence: We continuously work to improve each process, service and its delivery, while striving for excellence in all we do. We expect excellence and reward it.

One Vision / One Mission / One Organization: Success depends on our devotion to an unwavering Vision and Mission. Working together in different locations, under various managers and leaders, we maintain a distinct focus to serve our Residents. We collaborate and respond in a unified and single voice.

Strategic Goals

EMBRACE RESIDENT-CENTERED CARE:

Each person will understand each Resident's individual needs and take realistic action to fulfill them within AFRH resources and capabilities.

MAINTAIN EXCEPTIONAL STEWARDSHIP:

Pursue and implement innovative ways to deflect, reduce, and manage costs by maximizing assets, resources, and programs to fulfill needs and wishes of current / future Residents.

PROMOTE A STAFF-CENTERED ENVIRONMENT:

Expand staff knowledge that directly impacts the accountability and efficiency of the Agency, which will in turn empower all employees to be proactive.

LEVERAGE EXTERNAL STAKEHOLDERS:

Harness, cultivate and focus our external stakeholders to become increasingly active participants who are engaged in AFRH operations in each of the next five years.

AFRH Organization

AFRH is a unique Federal Agency that resembles a private sector Continuing Care Retirement Community (CCRC). The Chief Operating Officer is subject to the authority, direction and control of the Secretary of Defense, delegated to the Under Secretary of Defense (Personnel and Readiness) and the Deputy Assistant Secretary of Defense for Military Community and Family Policy. The AFRH Advisory Council helps provide expert experience and knowledge of military and medical related concerns on each Campus.

AFRH is organized in a contemporary business establishment, with a corporate office that manages independent functioning retirement communities in different locations. This arrangement allows the corporate office to make strategic decisions, as well as communicate with Congress, other Federal Agencies and stakeholders.

Using the successful "One Vision, One Mission, One Organization" philosophy for all operations, each Home has an Administrator who reports to the Chief Operating Officer. Each Administrator has the autonomy to make tactical operational decisions, manage the facility and respond to local Resident requirements.



MINDFUL CARE, MEANINGFUL LIVING

FY 2012 Events and Accomplishments

October 2011

AFRH-Gulfport

- October 4: one-year anniversary of the opening of 'new and improved' facility
- Checked in its 500th resident since opening one year earlier (Leslie Crenshaw, US Marines)
- Commission on Accreditation and Rehabilitation Facilities (CARF) survey (first time since opening)
- Valet parking introduced
- Hosted "Cruisin' the Coast" which showcased hundreds of classic automobiles
- Fall Games held for Residents

AFRH-Washington

- US Coast Guard Chief Warrant and Warrant Officers Association and Chief Petty Officers Association on October 5th beautified the entrance into the Ponds.
- Artist Colony vacated and relocated to the Sheridan building due to the earthquake that ravaged the Sherman Building.
- Hosted the 54th Annual Antique Car Show

November 2011

- AFRH received its 7th annual Unqualified Audit Opinion

AFRH-Gulfport

- CARF survey of AFRH-Gulfport results in 5-year accreditation
- Resident "Swap" program began between Campuses which allows Residents to move between Homes if desired
- Celebrated Pearl Harbor Day with Hugh Wingo and Marvin Wescott, both living at AFRH-G, and who served in the Pacific on Dec. 7, 1941
- Hosted the first annual Community Day Open House in honor of our Veterans on Nov. 11
- Pavilions for smokers erected

AFRH-Washington

- CARF survey of AFRH-Washington resulted in 5-year accreditation
- Resident "Swap" program began between Campuses which allows Residents to move between Homes if desired
- Celebrated Pearl Harbor Day with survivors Ed Davis and Francis Stueve, both living at AFRH-W
- November 3, 2011- Held the Groundbreaking ceremony for the new Scott Building
- In-Pensioners from the Chelsea Royal Hospital visited AFRH-W from November 8-15
- Veterans Day Weekend was enjoyed by the Residents due to an outpouring of 400 volunteers to help support projects and assist with activities
- Demolition complete: Last remaining section of the Scott Building came down on November 21

December 2011

- The National Defense Authorization Act for Fiscal Year 2012 (House Report 1540) is signed on December 31, 2011 and creates a single Advisory Council to oversee AFRH. Each Facility head will now have the title of Administrator instead of Director.
- Campaign to Conserve began across all AFRH. This Government-wide initiative focuses on capitalizing on energy efficiencies. The Agency's Facilities Manager is working with the Campus and Residents to come up with a viable plan.

AFRH-Gulfport

- Holiday celebrations held with numerous volunteers and guests

AFRH-Washington

- Construction of the new Scott Building begins
- Holiday celebrations held with numerous volunteers and guests

- Air Force Sergeants Association President visited

January 2012

AFRH-Gulfport

- Successfully completed Non-Appropriated Fund (NAF) audit
- "A Family Affair" party held by Residents to honor AFRH-G staff
- Senior Expo was held to provide information from outside professionals to provide expertise for their areas of concern.

AFRH-Washington

- General Jung, the Chairman, Joint Chief of Staff, Republic of Korea, visited to honor AFRH-W Korean Veterans
- Successfully completed NAF audit
- AFRH Winter Wonderland Fashion at LaGarde

February 2012

- Resident Advisory Council name change to Resident Advisory Committee

AFRH-Gulfport

- Resident's established the AFRH-G Beautification Program
- "Honor Guard" team was established with Hospice Care training to sit with fellow Residents during their final hours

AFRH-Washington

- Resident Ed "Walking Man" Crump was honored for walking 38,000 miles
- Dining Study to enhance Person-centered Care service began

March 2012

- Annual Mardi Gras celebrations were held on both Campuses

AFRH-Gulfport

- GSA Capital Improvements projects were prioritized with input from Residents

AFRH-Washington

- Scott Opening/Transition planning was launched
- Mad Hatters Women's Tea was held
- Additional renovations were completed to the dining facility (previous location for the gymnasium) and coined Jerry's Diner.

April 2012

- AFRH Advisory Council meeting was held in Gulfport on April 19, 2012

AFRH-Gulfport

- Six AFRH-G Residents were invited to the third Mississippi Gulf Coast Honor Flight spending the day at the World War II Memorial in DC
- AFRH-G started a pilot Alternate Work Schedule for select staff members
- Chief Petty Officers Association (Seabees) at the 20th Naval Construction Regiment fix the walking bridge
- Second Annual Senior Prom held
- Residents' Mission Bird House Project began
- Mad Hatters Women's Tea was held

AFRH-Washington

- US Coast Guard Chief Petty Officer Association, Chief Warrant Officer Association and Telecommunications & Information Systems Command work on their continual plans to beautify the pond area
- New Person-centered Dining Concept of Operations adopted
- Annual Resident Volunteer Appreciation Program was held

May 2012

AFRH-Gulfport

- Second Annual Memorial Day Open House welcomed area community members
- AFRH-G received Leadership in Energy and Environmental Design (LEED) Gold certification
- Landscape workshop for Resident input to the Master Landscape Plan was conducted

AFRH-Washington

- Federal funding to mitigate the damages sustained by the August, 2011 earthquake was received
- Memorial Day celebration held in partnership with President Lincoln's Cottage. Wreath laying ceremonies and tours were conducted
- Senior Olympics Games 2012 held
- High school book project was created to feature AFRH-W Korean War Veterans
- Landscape workshop for resident input to the Master Landscape Plan was conducted

June 2012

- AFRH Advisory Council Report for 2011 was presented to AFRH
- COO met with AFRH Managers and Contracting Officer Representatives at offsite focused on Person-centered Care and updates to AFRH Strategy (Goals: Staff and Stewardship)

AFRH-Gulfport

- Safety Day and Evacuation Training held
- Opened six Guest Rooms
- Second Annual Volunteerism Expo, featuring 15 local agencies that need volunteers for their organizations

AFRH-Washington

- Eagle Gate is closed for renovations and Randolph Gate served as temporary entrance
- Poetry and Tea (poetry by Residents delivered with Tea served) event was held
- Began Sheridan Building renovation for Assisted Living and started new construction of dedicated Assisted Living elevator
- Safety evacuation exercise combined with surrounding community was conducted

July 2012

- Large community attendance for the 4th of July commemorations at both Campuses
- Resident Education on the Campaign to Conserve commenced
- Corporate Resources Office (CRO) teambuilding offsite was held

AFRH-Gulfport

- Hurricane Exercise for Residents and Staff was conducted
- First Annual Multicultural Fair day with 15 countries represented was held

August 2012

- Capital Improvement Plan was updated with Master Landscape Plans. Strategic Sustainability Plans were created
- 18 Directives, 11 Notices, and 3 Fact Sheets were updated for the entire Agency

AFRH-Gulfport

- LEED Gold certification plaque was presented
- Hurricane Isaac hit the Gulf Coast and passed through the grounds causing minor damage

AFRH-Washington

- Department of Defense Inspector General (IG) inspection was conducted

September 2012

AFRH-Gulfport

- Department of Defense IG inspection was conducted

AFRH-Washington

- 150th anniversary of the establishment of the Secret Service was commemorated at the President Lincoln's Cottage

AFRH STRATEGY

AFRH leadership emphasizes the importance of performance results. While the AFRH has made great strides in the past decade, the AFRH managers are always actively seeking to improve the organization to provide the very best services to our Resident Veterans.

The true measure of great performance is having it stem from, and tie back to, the AFRH Strategic Plan. From our Key Strategic Performance Goals we have developed Business Plans at the corporate level and for each Campus. These Business Plans yield action plans for each year and are directly linked to staff's performance. Each plan is updated and reviewed by management monthly to ensure solid progress. Each review is linked back to Key Strategic Performance Goals to ensure that all members are fulfilling our vision. Further, each staff is trained annually about our performance management system so they can understand how their personal contribution fits into the larger AFRH strategy. In FY 2012, special emphasis was placed on clearly explaining the key concepts of Person-centered Care in our annual training.

Currently, the AFRH is following the FY 2011-2015 Strategic Plan. The four high performance strategies guide the AFRH to specific targets. During FY 2012, AFRH managers met to expand and strengthen goal areas for Stewardship and Staff. FY 2012 targets, measures and results are shown below.

Goal 1: Embrace Resident-Centered Care: Each person will understand each Resident's individual needs and take realistic action to fulfill them within AFRH resources and capabilities.

Focused Targets

Communication

- Promote Person-centered ideals
- Expand AFRH safety awareness
- Broaden communication capabilities (web, bulletins, public TVs, in-house broadcasting, newspaper)

Staff Training

- Widen Person-centered acumen and skills

Health and Wellness Activities

- Maintain optimum Resident health
 - Shrink footprint to reduce travel
 - Build new pro-health amenities
- Promote independence through ILP Pilot
- Educate Residents about Person-centered Care

Measures Met

- CARF Accreditation: Valid thru FY 2015
- Resident surveys: 72% approval rating
- Resident Assessments for Independent Living Plus, Assisted Living (AL), Long-Term Care (LTC) and Memory Support (MS)

Achievements

AFRH-G

- CARF Accreditation
- Opened Assisted Living and Memory Support units
- ILP Pilot has 43 residents
- Residents 'very satisfied' after 2 years
- Launched Person-centered Care dining in AL, MS and LTC

AFRH-W

- CARF Accreditation
- Finished study to deploy Person-centered Care dining
- ILP Pilot has 46 residents
- Scott Project is in midst of Person-centered Care transition
 - 1950s Scott dorm demolished
 - Broke ground for the new Scott building
 - Residents adjust to relocation of certain activities

Goal 2: Maintain Exceptional Stewardship: Pursue and implement innovative ways to deflect, reduce, and manage costs by maximizing assets, resources, and programs to fulfill needs and wishes of current / future Residents.

Focused Targets

- Reduce costs via outside resources
- Achieve 'In the black' financial status
- Establish metrics for financial objectives
- Create new revenue streams
- Have Person-centered services and environment

Measures Met

- Trust Fund solvency: Solvent in the long run
- Financial Reporting Accuracy: Unqualified Audit Opinion
- Housing for Veterans (Scott Project): On budget and schedule
- Cost avoidance: Planning for the shutdown of Power Plant

Achievements

- Updated CIP with expenditures and long-range financials
- Reported carbon footprint and energy usage via environmental Executive Orders
- Created Strategic Sustainability and Master Landscape Plans
- Achieved LEED Gold for AFRH-G
- Made plans to seek LEED Platinum for AFRH-W Scott
- Broke ground and started building the new Scott
- Completed Food Sustenance Study to reduce food costs
- Achieved Federal Information Security Management Act (FISMA) compliance
- Completed independent power design at AFRH-W, which included a review of the following:
 - North converter for Admission Building and Quarters
 - Sheridan, and
 - Power Plant designed in new Scott
- Evaluated excess acreage at AFRH-W for potential sale
- Began renovation of 19th Century Sherman Building
- Overhauled standard operating procedures and directives Agency-wide

Goal 3: Promote Staff-Centered Environment: Expand Staff knowledge that directly impacts the accountability and efficiency of the Agency, which will in turn empower all employees to be proactive.

Focused Targets

- Push personal initiative and accountability
- Link staff performance to results
- Cultivate workforce beyond training
- Adhere to Federal initiatives

Measures Met

- Mandatory Training: 90% participation
- Employee Satisfaction: 72% of personnel approve of current operations
- Workforce Growth: Staff Action Teams on Stewardship and Staff Goals
- Surpassed goal to execute two initiatives per year

Achievements

- CARF's inspectors noted an increase in Person-centered Care behavior due to increased attention and training
- Initiated more staff / workforce involvement in pursuing their interests
- OPM lauded the AFRH for "Best practices in performance management for a small Agency"
- Person-centered Care training expands Agency-wide
- Small house preparations and training for new Scott are in full gear

Goal 4: Leverage External Stakeholders: Harness, cultivate and focus our external stakeholders to become increasingly active participants who are engaged in AFRH operations in each of the next five years.

Focused Targets

- Amplify engagement with AFRH Advisory Council
- Embrace community partners
- Expand neighborhood presence

Measures Met

- Increased communication with Congressional contacts: quarterly
- Community events were held at each Campus: 2 per year

Achievements

- Congressional contacts:
 - COO held briefings with Staffers and Committees
 - Congressional Representatives for Mississippi visited Campus
 - Received \$14.6 million for earthquake damage repairs
- Community events (AFRH-G):
 - Cruisin' the Coast event (October 2011)
 - Veterans Day Community event (November 2011)
 - Community Open House Memorial Day (June 2012)
- Community events (AFRH-W):
 - Friends of the Home volunteer in LaGarde for Bingo (Ongoing)
 - Annual Antique Auto Show (October 2011)
 - Groundbreaking for the new Scott (November 2011)
 - Joint Friends and AFRH-W Tree Lighting (December 2011)
 - 4th of July Community Day (July 2012)
 - Volunteer Community Appreciation Picnic (August 2012)
 - AFRH and President Lincoln's Cottage co-hosted 150th Anniversary of Lincoln's first summer at the Cottage (September 2012)



Celebrations, renovations, and accomplishments all abound at AFRH throughout the year.

AFRH LOCATIONS

The original notion of an 'asylum' to care for America's former military has evolved over time—the environment and architecture have certainly followed suit. Over the decades, the Home's caretakers have replaced light-duty workshops and working farms with manicured golf courses and scenic walking trails. Large institutions and closed gates were replaced with intimate domiciles and open communities. Our Veterans truly deserve such amenities given their many sacrifices in defending America.

Today, the AFRH is so much more than a shelter—it is a warm, comfortable, and friendly place to call home. We currently have two modern senior living communities: one in Gulfport, MS and one in Washington, DC. Both Campuses feature modern designs and comfortable amenities and healthcare facilities embrace many elements of the new small house concept for modern retirement and resident care. This puts the AFRH one step closer to its vision for a person-centered home.

GULFPORT



AFRH-G Capital Improvement Project aligned the sidewalk in a safer area near the beach entrance.

AFRH-G is located on 47 acres off the Gulf Coast in a relaxed southern setting. Sandy beaches, waterfront views, beautiful sunrises, and a charming town surround our Gulfport Home. In a relaxed southern setting, this Home is situated right on the Mississippi Sound, a dynamic fishing and leisure spot. Residents can drive or take public transport to great restaurants, exciting casinos, friendly neighborhoods, boutique shops, and more. They enjoy surf fishing, great shopping, beach walks, a dip in the pool, or relaxing on their private balcony overlooking the Gulf.

This modern complex has been fully operational for two years. The facility was built through Hurricane Katrina funding and was designed to be an energy-efficient building with modern conveniences. It was also constructed to withstand the effects of a Category 5 hurricane. AFRH-G had its first test in August

2012 when Hurricane Isaac (Category 1) hit the Gulf Coast region. The outcome: this new building proved to be most resilient.

In addition to Gulfport having a phenomenal facility, the staff worked hard to become accredited by CARF in November 2011. This represented the first accreditation received by the Gulfport Facility. The Residents are pleased with the Gulfport personnel as well. This can be witnessed by two years of Resident surveys yielding over 91% satisfaction with recreation services and 85% satisfaction with dining services. In September of 2012, the Gulfport Campus embarked on its first DoD IG inspection. The results of this inspection will be received in FY 2013.

AFRH-G embodies the spirit of Aging-In-Place and offers the Independent Living Plus pilot program. Out of 508 current occupants 43 Residents are enrolled in the Independent Living Plus Pilot program.

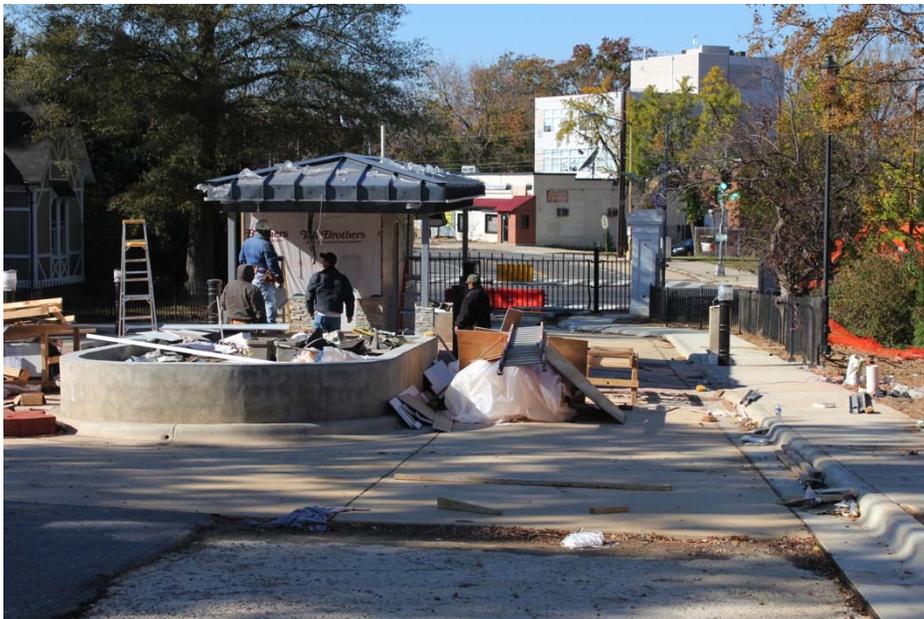
WASHINGTON

AFRH-W encompasses 272 scenic acres in Northwest Washington, DC. Beautiful trees, majestic views, tranquil wildlife, and historic landmarks surround the Washington Home. It is nestled in the heart of our Nation's Capital, a vibrant metropolis. Venture off Campus and you're just minutes from the Metro, bus line, White House, monuments, theaters, museums, pro sports teams, and more.

This community is in a positive transition. Throughout 2012, AFRH-W entered the final phase of the Scott Project, which includes a newly constructed Scott dormitory and vital renovations to the Sheridan Building. An exterior elevator is being added to the 1960's era Sheridan Building to accommodate Assisted Living Residents as we close our LaGarde Building.

Similar to AFRH-G, the Washington Campus has been accredited by CARF. AFRH-W was initially accredited by CARF in 2008 and this recent accreditation will last through 2015. In 2012, the DoD IG conducted surveys of Corporate and AFRH-W. Resident surveys show well over 70% satisfaction with recreation services.

AFRH-W also offers the Independent Living Plus pilot program. Out of 498 current occupants 46 Residents are enrolled in the Independent Living Plus Pilot program.



The main entrance to AFRH-W, the Eagle Gate, underwent a major renovation in the fall 2012.

WASHINGTON SCOTT PROJECT

“The Scott Project” refers to a group of projects necessary to replace the now demolished 1954 Scott Building with a new modern facility that will consolidate residential and health functions in the north end of the Washington Campus. Begun in FY 2010, completion of the construction is slated for FY 2013. The “new” Scott will require less maintenance due to its energy efficient structures built to Leadership in Energy and Environmental Design standards. The design will be compliant with current building codes and the latest standards and practices in senior care design.

Another major benefit of the Scott Project is relocating all of our Residents to a centralized setting where they can be in closer proximity to each other. This option has the advantage of drawing Long-Term Care and Memory Support Residents into the community, instead of keeping them in the remote and isolated LaGarde Building. The “new” Scott will also include a progressive Health and Wellness Center that will include medical, dental and optometry services.

All plans are rooted in the Aging-in-Place philosophy and are financed from the AFRH Trust Fund. This will help our Washington Facility keep pace with the new Gulfport community and bring greater health and wellness to Residents. Under the General Services Administration’s project management, the Scott Project will produce a facility with a similar population to Gulfport.

| | Independent Living | Assisted Living | Memory Support | Long-Term Care | Total |
|------------|--------------------|-----------------|----------------|----------------|-------|
| Gulfport | 476 | 60 | 24 | 24 | 584 |
| Washington | 446 | 60 | 24 | 36 | 566 |

AFRH partnered with General Service Administration (GSA) to manage this project starting in August 2008. GSA implemented projects to demolish the old Scott Building, construct the new facility, provide needed infrastructure, and integrate the new building into the current landscape. These vital projects include:

- Scott Building Replacement
- IT Hub Relocation (completed)
- New Chiller (completed)
- Commons-Sherman Sidewalk Realignment
- New Elevators in Sheridan Building
- Exterior and interior renovations for Assisted Living
- Second Tunnel (LEED Rating – “Gold”)



Artist’s rendering of “new” Scott Building

The AFRH has implemented other critical projects needed to ensure that operations and activities are not hindered due to the transition including creating temporary spaces for administrative and Resident use until the opening of the new building in 2013. These projects include:

- Sherman Building Transition
- Sheridan Building Residence Transition
- Sheridan Building Staff Transition

GSA employed the expertise of a Bridging Design Architect Engineer to expedite the GSA's "Design Excellence" procedures in August 2009. Throughout FY 2010, the engineer worked with the Program of Requirements created during the analysis for the long-range financial plan and developed a conceptual design, which was reviewed in early 2010. The engineer also worked in concert with an engineering firm who served as the Construction Manager on this project. AFRH staff worked with the designers to modify the designs and completed them in August 2010. The Construction Design Build was awarded in January 2011. All conceptual designs were reviewed and approved by the National Capital Planning Commission. The contractor began work in March 2011. According to schedule, the old Scott Building was demolished and laid the foundation for the "new" Scott throughout the 2011 calendar year.

The overarching goal of the Scott Project has been to streamline excessive maintenance costs incurred by the Washington Campus. Repairing the previous archaic infrastructure would simply cost too much and put a damper on the solvency of the AFRH Trust Fund.

New cost savings will come from:

- Closing the old dining facility and its operations
- Decreasing custodial requirements
- Reducing facility maintenance
- Lowering the cost of all utilities
- Eliminate the need for on-campus transport
- Reducing nursing staff by nearly 50%
- Closing the older LaGarde Building

Further this Project propels AFRH towards several positive desired outcomes:

- Reduced footprint by eliminating the usage of 421,050 sq. ft.
- Reduced Population at AFRH-W
- Revamped Strategy for Executing Contracts:
 - reduce the scope of required services
 - set similar costs for each Campus
- Refined AFRH-W Contracts:
 - Facility maintenance
 - Grounds maintenance
 - Dining Services
 - Pharmacy and medical supplies
 - Custodial
 - Transportation
 - Nurse staffing
 - Utilities

√ Savings via ILP that reduces growth of AL



Old Scott's last wall is demolished.



The new Scott rises on open ground.



Scott foundations are put down in early 2012.



Scott takes shape in the summer 2012.



By November 2012, the Sheridan elevator is near completion, the sidewalk is aligned in the historic quadrangle, and the new Scott is ready for interior finishes.

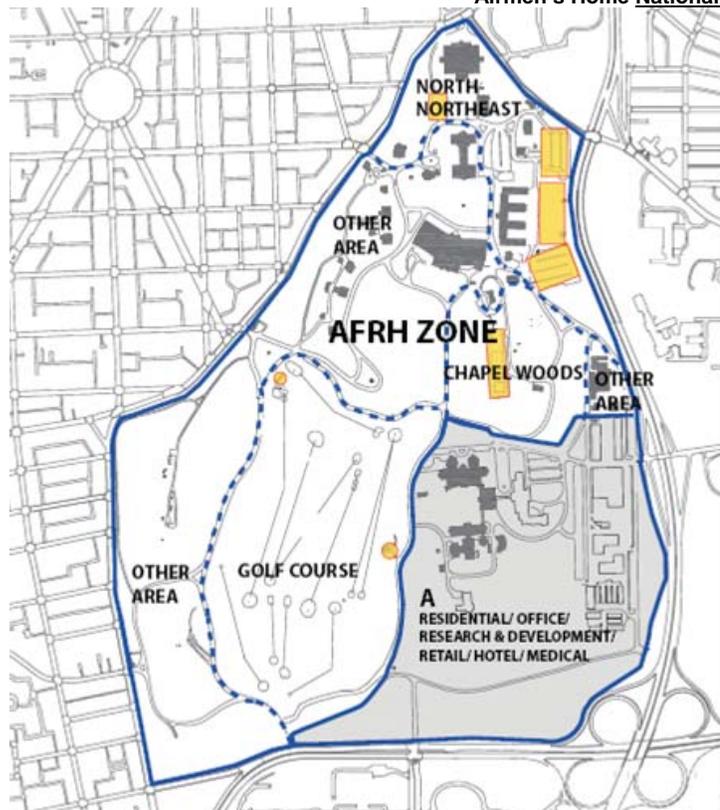
AFRH FINANCIAL DEVELOPMENT PLAN

The National Defense Authorization Act for FY 2002 (as modified by Public Law 111-084) permitted AFRH through DoD to sell, lease or otherwise dispose of underutilized buildings and property. AFRH launched its real estate development plan (previously referred to as the Washington Master Plan) currently known as the AFRH Financial Development Plan. We launched a development plan that served as the basis of the AFRH risk management strategy. The plan was approved by the National Capital Planning Commission in 2008. The focus of this plan is to preserve and improve the Home for Residents, as well as generate additional revenue for the Trust Fund.

In 2008, we started focusing on infrastructure improvements. We mothballed facilities within the 77-acre development zone and closed buildings that no longer served Residents' needs. Additionally, we initiated the shutdown of the Power Plant, the remapping of utility grids, and the revitalization of key historic buildings. With these processes well underway, our focus has shifted to assessing and utilizing the real estate within our operational footprint. AFRH is currently in the process of cultivating a relationship with the Arlington National Cemetery (ANC) to lease or sale the above referenced 77-acres. It is anticipated that this land will be used for additional burial sites and potentially extend the life of the ANC by an additional 50 years. There are also prospective plans to allow ANC to utilize the currently vacant Grant Building as a headquarters for their operations. This affiliation would prove to be beneficial for both AFRH and ANC. It would serve as source of revenue for the AFRH Trust Fund while allowing ANC's operations to expand.

AFRH-Washington Land Study Map

**ANC's United States Soldiers' and
Airmen's Home National Cemetery**



**CHILDREN'S; VETERANS ADMINISTRATION'S;
AND WASHINGTON'S HOSPITALS**

MASTER PLANNING

A focal point of our risk management strategy is to reduce our footprint and optimize our infrastructure. The AFRH Capital Improvement Plan (CIP) supports this strategy by outlining upgrades for both communities. Positive outcomes include a smaller footprint in Washington, reduced environmental impacts, enhanced Person-centered Care and Aging in Place. The AFRH is truly committed to Person-centered Care. Yet, some of the AFRH buildings and services lag behind this vision and must be modified to produce a successful culture change. While the AFRH has created a Long Range Financial Plan (LRFP) to keep track of changing economic forecasts to ensure Trust Fund solvency, management now has specific plans for each Campus to achieve this vision.

The AFRH has developed the CIP to advance our current needs and future goals through capital improvements for both facilities. The projects outlined in the CIP provide Residents with the best possible service in Person-centered Care, while also improving financial performance. Our comprehensive CIP states our timelines, priorities, community projects, as well as our financial plan. While both AFRH communities have different capital improvement needs, the individual Plans for both are linked to the Agency's singular Mission, Vision and Guiding Principles. Being that the Gulfport Campus is relatively new, the vast majority of the projects depicted in the CIP pertains to the capital improvements for the Washington Campus.

In an effort to improve efficiencies and minimize the underutilization of resources, AFRH is working expeditiously to dispose of unused property. This can best be seen through the following examples:

Real Property Study: AFRH should participate with Arlington National Cemetery (ANC) in a study organized by DOD to explore the following:

- Leasing or sale of more than 77 acres from the AFRH to ANC for additional burial sites.
- Remodeling AFRH's Grant Building into the headquarters for the Army National Cemetery Program.
- Transfer by the DC government of Harewood Street to DOD for unification of the property site and additional burial sites at ANC's United States Soldier's and Airman's National Cemetery.

The transfer of the property could provide two positive outcomes: (1) extend the life of ANC; and (2) generate needed revenue to ensure solvency of the AFRH Trust Fund.

AFRH-W Power Plant Phase-Out

The present plant in Washington distributes steam for 272 acres, requires full-time licensed operators and utilizes underground distribution lines. Economies are available for decentralizing these steam heating systems and installing modular systems, which don't require operators, in each of the buildings. First, the fuel costs to provide campus heat can be reduced by as much as 37% by utilizing decentralized heating systems with modern technologies. Second, the steam plant can produce steam at lower levels while maintaining proper operation.

The best transition is an immediate change to distributed heating systems, which will produce the greatest amount of efficiencies. Yet, that would require a capital expenditure. The recommendation is to incorporate new modular heating systems within each new project, including the Scott Project, until the rest of the Campus can be converted and the steam plant may be shut down.

The AFRH will install a new boiler system as part of the decommissioning of the existing heating plant. Operations in the heating plant will be terminated, and the associated converters will be removed.

Phasing out the Power Plant is comprised of the following actions:

- Moving converters from the North Converter Room;
- Installing five new boilers in the Sheridan Building;
- Two additional boilers will be installed to provide steam to all operational space within AFRH-W excluding the Sheridan and the refurbished Scott building;
- The Grant and "Old Security" Building will be mothballed and removed from the system; and
- The existing boilers serving the remainder of the Campus will be replaced.



In an effort to be more efficient, the existing Power Plant will be phased out in FY 2013.

EARTHQUAKE DAMAGE RECOVERY

Activities and administrative offices including Dining Services had been relocated to the Sherman and the Sheridan Buildings from the old Scott. The Washington Residents had grown accustomed to this change when an earthquake struck the area. When the 5.8 magnitude earthquake shook AFRH-W in August 2011, several historic buildings were severely damaged. This meant that dining and other activities that had been relocated to Sherman now had to find a home in the Sheridan dormitory. Dining settled into the former Fitness Center with meals being transported from the kitchen in the LaGarde Building, home of Healthcare Services. Residents fondly named the new dining area "Jerry's Diner" after the Fitness Center Director, Jerry Carter, who had to reposition all the fitness equipment throughout the Sheridan.

Congress and the President provided \$14.6 million to support our efforts in revitalization and restoring our Campus to its previous condition. The Sherman building completed in 1857 sustained the most damage. Since it is a monumental piece of our footprint, we are grateful for funding to restore the Sherman and all of the other historical buildings that were affected.



The Sherman building which suffered significant damage is under renovation.

CURRENT CHALLENGES

Accreditation and Inspection

With the National Defense Authorization Act (NDAA) of FY 2008, the AFRH was required to secure and maintain accreditation by a nationally recognized civilian entity for every aspect of each facility (including medical, dental and nursing care, pharmacy, independent living and assisted living). The AFRH maintains a national accreditation and must be inspected annually. In the years the accrediting entity does not inspect, the DoD IG assesses the Agency. AFRH-G was inspected for the first time both by CARF and the DoD IG with very positive outcomes.

The Commission on Accreditation and Rehabilitation Facilities (CARF) is the premier accrediting body for Continuing Care Retirement Communities (CCRCs). CARF helps ensure that retirement homes fulfill their promise of quality care to seniors. The AFRH achieved this accreditation in September, 2008 for a 5-year period ending in 2013. CARF performed inspections (Corporate and Campus) in September, 2010 for AFRH-W and for both AFRH-G and AFRH-W in 2011. Although there were no findings, written recommendations emphasized Person-centered Care, safety, breaking down silos, and more definitive guidelines for resident transitions. The new accreditation extends to 2015 for all of AFRH.

CARF did not inspect AFRH in FY 2012. To adhere to legislative requirements, the Department of Defense (DoD) Inspector General (IG) inspection team reviewed Corporate as well as both Campuses in August and September of 2012. Results are not available yet and will be reported in the FY 2013 Performance and Accountability Report. The AFRH is also under an inspection schedule by the Office of Personnel Management (OPM) for its human capital goals and progress. Also, the AFRH Advisory Council has an annual assessment. Both entities gave us positive comments and recommendations. OPM lauded the AFRH for "Best practices in performance management for a small Agency."

Challenges

AFRH's greatest challenges lie in managing expenses during major ongoing projects:

| <u>Project</u> | <u>Fiscal Challenges</u> |
|--------------------------------|---|
| The Scott Project | maintaining schedule, cost and safety |
| Gulfport | achieving capacity and effective staffing |
| Washington Master Plan revival | securing investors and funding |

| <u>Project</u> | <u>Potential Performance Challenges</u> |
|-------------------------|---|
| Person-centered Care | empowering staff, reaching performance plateaus and altering services |
| Aging-in-Place | reducing higher levels of care and related costs via right-sizing AFRH-W, promoting independence via Independent Living Plus expansion on both Campuses and the construction of the "new" Scott |
| Information Technology | attaining electronic records, networking and video-conferencing |
| Financial Management | ensuring Trust Fund solvency, keeping expenses down and creating revenue from the Washington Master Plan |
| Gulfport Administration | keeping a cohesive team, ensuring a vibrant organization and maintaining accreditation |

BUDGET HIGHLIGHTS

BUDGET IMPLICATIONS

The 1991 Defense Authorization Act, Public Law 101-510, created an Armed Forces Retirement Home (AFRH) Trust Fund to finance the AFRH-Gulfport and the AFRH-Washington Homes. The Homes are funded by appropriations drawn from the Trust Fund.

The AFRH Trust Fund has a variety of revenue sources.

- Resident fees
- Interest on the AFRH Trust Fund
- Withheld Funds from active duty military personnel.
 - Each Warrant Officer and Enlisted person contributes a fee of fifty cents per month (six dollars per year) to the AFRH Trust Fund.
- Fines and forfeitures charged to military personnel for misconduct in service.
 - This revenue source typically provides more than half of the total revenue for the Trust Fund.
- Sale or Lease of property and other miscellaneous revenue.

The AFRH's operations budget and capital improvements use funds withdrawn from the AFRH Trust Fund and appropriated by Congress. For almost a decade, AFRH management has worked to strengthen the Trust Fund through cost reduction efforts. Our duty is to preserve the assets in the Trust Fund while taking withdrawals with great prudence. AFRH management has focused on wisely making expenditures and investments. We have a clear plan to ensure that both Homes will have resources to continue great service for many years—as it has done for two centuries.

A recent forecast based on a risk analysis of the Trust Fund through the year 2014 states: “the AFRH Trust Fund is solvent”. The AFRH confirms Trust Fund solvency by:

- Determining the effects of ongoing Campus renovation on financial solvency.
- Performing sensitivity analyses on various probable scenarios.
- Forecasting operating Budgets for FY 2013 – FY 2014 based on the 'one model' via:
 - > An estimate of Gulfport operating costs, as it ramps up to full capacity, and
 - > An estimate of Washington operating costs during its transition to a resizing similar to the Gulfport model of efficiency.

FY 2012 was economically challenging for many businesses and Federal Agencies. AFRH operations require strong fiscal management. Of late, operating costs have exceeded sixty million dollars every year—and they increase each year due to inflation. We aim to contain costs through our Key Strategic Performance Goal: Maintain Exceptional Stewardship. The new facility at Gulfport has already shown and the upgrades in Washington are expected to yield far-reaching economies, efficiencies, and gains. Moreover, fines and forfeitures—our largest revenue source—are volatile. We must constantly monitor revenue and seek creative ways to contain costs. Fortunately, revenue from all sources is projected to slightly exceed operating costs in the future. This positive cash flow is vital. The AFRH Fiscal Year 2012 Performance and Accountability Report provides detailed information concerning our financial situation for this time period.

These challenges continued to persist during the first half of FY 2013 with sequestration and across-the-board (ATB) reductions that impacted the entire Federal Government. These challenges necessitated that we initiate a hiring freeze (except in critical healthcare positions); modify contracts accordingly; suspend performance awards; and cease travel and training opportunities. Neither the sequestration nor the ATB reductions impacted our capital improvements. With the appropriation that was enacted in March of 2013, the sequestration was lifted and will allow us to lift the hiring freeze, proceed with the closure of the Power Plant and commence with water infrastructure renovations.

The Trust Fund solvency analysis includes stress tests to provide management with a better understanding of risks. The analysis shows that the AFRH Trust Fund remains solvent for a ten-year decrease in Fines & Forfeiture revenue by two standard deviations, and for a three percent increase in cost inflation above the base case assumptions. An even more severe stress test would be the occurrence of more than one significant stresses simultaneously for a ten year forecast. For example, a two standard deviation decrease in Fine & Forfeitures, and simultaneously a 3% increase in cost inflation

(above the base case forecast) for ten years substantially decrease the Trust Fund, but the Trust Fund remains solvent. It is important for AFRH management to have risk management procedures for monitoring events that could increase costs or decrease revenue, and to have contingency plans for such events.

AFRH is in the last part of the transition years (2010 - 2013) as we established and expand operations in Gulfport and effectively transition to a reduced footprint in Washington. Many of the infrastructure and new facility changes occurring at AFRH will have a positive, direct impact on the solvency of the Trust Fund. Although negative growth occurred in 2011 and 2012 as we expensed the Scott Project, we stayed on course with our growth predictions. We now expect positive growth after 2013, the end of the transition period. As we move forward to our vision of a vibrant, economical operation at both AFRH Campuses, we continue to work to use our funding wisely and in the best interest of our stakeholders.

The Scott Project's purpose is to create better living conditions for our Residents, promote Aging-In-Place, and bring AFRH Resident facilities in line with existing rules and regulations (e.g. the Americans with Disabilities Act, fire codes, and other building regulations). This Project is currently within funding and on schedule. The Washington Residents are expected to occupy the new facility in the second quarter of 2013.

FY 2014 BUDGET

The AFRH provides, through the Armed Forces Retirement Home-Gulfport and Armed Forces Retirement Home-Washington, residences and related services for certain retired and former members of the Armed Forces. The Agency's annual operating costs will increase in 2014 by a 5% compared to FY 2013. The number of Full-Time Equivalents (FTE) will not increase in 2014. There will, however, be an increase in FTE in the Gulfport Campus but this will be offset by an equal decrease in Washington's FTEs.

Our Budget Request of \$67.8 million for FY 2014 contains \$66.8 million in Operations and Maintenance (O&M) and \$1 million in Capital Improvements. The O&M request reflects a \$3.0 million increase (5%) from FY 2013 funding levels. The Centers for Medicare and Medicaid Services (CMS) has recommended that all applicants increase staffing levels up to 4.1 hours per resident day to improve health outcomes for residents. AFRH follows, when applicable, CMS standards. Studies clearly showed increased staffing improved quality of care and ultimately the health and safety of residents. Proposed funding supports increase to CMS recommended staffing levels. The Capital request reflects a \$0.9 million decrease (49%) compared to FY 2013 levels.

Being that our mission is peculiar in nature when compared to other Federal Government Agencies; our non-labor expenditures contain a diverse assortment of fundamental cost drivers. AFRH's key cost drivers are: Dining Services; Subsistence; Nursing; Wellness Center; Dental and Optometry; Utilities; Facility and Grounds Maintenance; and Transportation.

The budget forecast shows that operating costs for the Washington Campus will increase from \$36.3 million to \$37.1 million in FY 2014. This represents a modest increase of 2% in 2014 for the DC Campus. We are anticipating a modest increase due to the anticipated efficiencies from the newly renovated Scott Building. The Scott Project will generate savings in all major cost drivers to include:

- Consolidate dining services so that only one dining facility is operational;
- Reduction in subsistence costs;
- Reduce nurse staffing;
- Lower utility costs;
- Lessen facility maintenance requirements;
- Decrease in custodial requirement; and
- Streamline Campus operations so that on-campus transportation is no longer required.

The Scott Project also accomplishes the following:

- Closes the LaGarde Facility;
- Relocates all Assisted Living, Memory Support, and Long-Term Care from the LaGarde facility;
- Reduces square footage by approximately 48% or 421,050 square feet;
- Postures AFRH Operations for positive Trust Fund Growth; and
- Creates similar capacity and service capabilities between AFRH-G and AFRH-W.

TRANSITION YEARS ENDING IN FY 2013

From 2005 through 2010, AFRH operated only one Campus after Hurricane Katrina damaged and closed the Gulfport Campus. FY 2011 marked the opening of the new Gulfport facility. AFRH is currently within the time period that we have coined our "transition years". This time period (FY 2010 through 2013)

represents the timeframe in which we are striving to improve living conditions for Residents while streamlining costs.

Shifts in population occur on both Campuses. At the end of FY 2013, Gulfport had 508 Residents. Gulfport is ramping up to full capacity to 584 with a minimization of Long-Term Care Residents. As our Residents gracefully age, this population will gradually increase. The population of Washington is shifting downward to a target of 566 to be comparable to Gulfport's population.

In conjunction with the shift in population, a shift in full-time equivalents will reflect these changes as well. As we hire additional employees in AFRH-G, we should see a decrease in full-time equivalents in Washington, DC due to our decreased footprint. We plan to obtain this decrease in full-time equivalents through attrition.

Cost savings associated with the Transition are as follows:

- Minimize Long-Term Care costs at the Gulfport Campus for a few years due to low occupancy in this level of care;
- Less than 75% Assisted Living and Memory Support requirement due to a small population in these areas at AFRH-G;
- Reduced dining services and subsistence cost being that the Gulfport Facility is not fully occupied;
- Minimal maintenance costs at the Gulfport Campus;
-
- Lower cost of living due to shifting costs to the Gulfport location; and
- Begin significant reduction of Washington population.

The targets we have set to reach our financial goals include the following risks:

- 1.) Being able to attain the targeted reduction in population for the Washington campus. By the time the new Scott Building opens and the LaGarde building closes, there may still be more than 36 Long-Term Care Residents. The overflow will be housed in our Sheridan Dormitory with additional staff for their care.
- 2.) Ability to successfully realign and reduce contracts in Washington. All contracts were negotiated in these areas and will be executed throughout 2013.
 - Dining Services
 - Nurse Staffing
 - Pharmacy and Medical Supplies
 - Facility Maintenance
 - Grounds Maintenance
 - Custodial
 - Transportation
- 3.) Contract strategy
 - New contracts for transition years vice modifications that reduce the scope of the contract
 - New contracts beginning in 2013
 - Negotiate the same costs at Gulfport and Washington for Dining Services and Custodial contracts

CHALLENGES

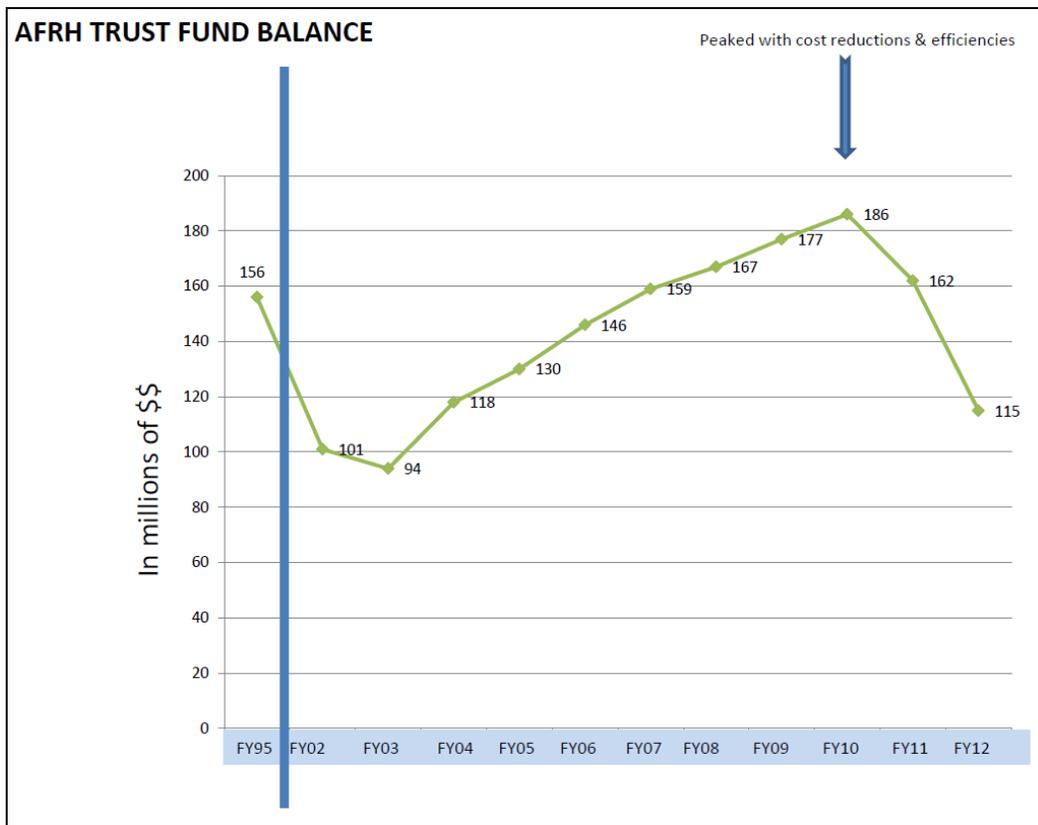
Revenue is projected at \$64M and we anticipate that we will meet this target. All the while, we must continue effort to streamline costs in Washington whose costs exceed the economical operations at Gulfport. In the years beyond FY 2014, we face financial challenges to continue to capture and capitalize on potential cost savings in all functional areas in Washington and to contain cost growth in Gulfport.

TRUST FUND BALANCE

In 2003, operating costs greatly increased over previous years - eventually outpacing our revenue. The Trust Fund balance declined from \$156 million in 1995 to \$94 million in 2003. Renewing a healthy balance became a critical mandate to retain the Home's solvency. So, we concluded that our operating model had to change. We followed the Federal Government's lead by implementing an integrated strategy - linking planning with budget and performance. From 2003 - 2010, we aggressively developed a disciplined strategic plan that netted many gains. The result: the Trust Fund balance grew substantially to \$186 million at the end of FY 2010.

In FY 2011 the AFRH expended funds as an investment in future generations of Residents via the Scott Project. This reduced the Trust Fund balance to \$162 million. With further withdrawals for the Scott Project, the balance dipped to a (expected) low level of \$115 million. Our economic analysis reported in the AFRH Long-Range Financial Plan tested possible scenarios over the long run. The analysis states that the Trust Fund will remain solvent and its balance will increase to former levels again.

The Trust Fund Balance had been steadily increasing since 2003 but has decreased due to the Scott Project.

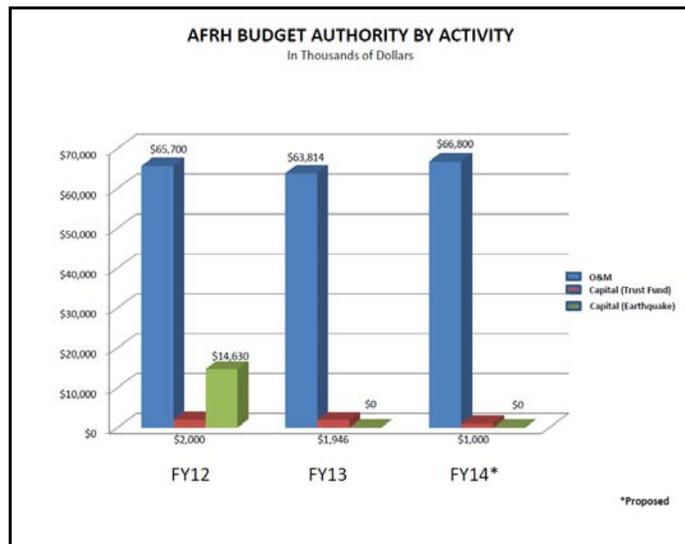


JUSTIFICATION HIGHLIGHTS

Budget Authority

**ARMED FORCES RETIREMENT HOME
BUDGET AUTHORITY and OBLIGATIONS BY ACTIVITY
(\$ in Thousands)**

| | FY 12 Actual | FY 13 Enacted | FY 14 Estimate | FY14-FY13 Increase or Decrease |
|--|-------------------------|--------------------------|---------------------------|---|
| | <u>Amount</u> | <u>Amount</u> | <u>Amount</u> | <u>Amount</u> |
| TOTAL OBLIGATIONS | | | | |
| O & M BUDGET AUTHORITY | \$ 65,700 | \$ 63,814 | \$ 66,800 | \$2,986 |
| CAPITAL AUTHORITY: | \$ 16,630 | \$1,946 | \$ 1,000 | (\$946) |
| TRUST FUND | \$ 2,000 | \$1,946 | \$ 1,000 | (\$946) |
| EARTHQUAKE FUNDING ¹ | \$ 14,630 | - | - | - |
| TOTAL BUDGET AUTHORITY | \$ 82,330 | \$ 65,760 | \$ 67,800 | \$2,040 |
| TRUST FUND | \$ 67,700 | \$ 65,760 | \$ 67,800 | \$2,040 |
| EARTHQUAKE FUNDING | \$ 14,630 | - | - | - |
| TOTAL FULL-TIME EQUIVALENTS | 278 | 336 | 336 | - |



¹ The FY 2012 Capital Authority includes \$14.63M that was appropriated for the repairs necessary to resolve structural damages that were incurred during the August, 2011 earthquake that occurred in Washington, DC.

Capital Appropriation

ARMED FORCES RETIREMENT HOME CAPITAL APPROPRIATION (\$ in Thousands)

FY14 CAPITAL APPROPRIATION

| | | |
|--|-----------------|-----------------|
| Gulfport New Facility | - | |
| A/E Design Fee | - | |
| Earthquake Funding | - | |
| Infrastructure | \$ 800 | |
| LaGarde Building | - | |
| Master Plan – GSA/COR Planning, construction and construction management of Scott Building | \$ 200 | |
| Scott Building Emergency Repair | - | |
| Sheridan Building Repairs | - | |
| Sherman Building Repairs | - | |
| Other Repairs (not anticipated by facility assessment) | - | |
| TOTAL | \$ 1,000 | \$ 1,000 |

FY13 CAPITAL APPROPRIATION

| | | |
|--|-----------------|-----------------|
| Gulfport New Facility | - | |
| A/E Design Fee | \$ 200 | |
| Earthquake Funding | - | |
| Infrastructure | - | |
| LaGarde Building | - | |
| Master Plan – GSA/COR Planning, construction and construction management of Scott Building | \$ 200 | |
| Scott Building Emergency Repair | - | |
| Sheridan Building Repairs | \$ 550 | |
| Sherman Building Repairs | \$ 510 | |
| Other Repairs (not anticipated by facility assessment) | \$ 486 | |
| TOTAL | \$ 1,946 | \$ 1,946 |

FY12 CAPITAL APPROPRIATION

| | | |
|--|-----------------|-----------------|
| A/E Design Fee | \$ 200 | |
| Earthquake Funding | \$14,630 | |
| LaGarde Building | - | |
| Master Plan – GSA/COR Planning, construction and construction management of Scott Building | \$ 250 | |
| Scott Building Emergency Repair | - | |
| Sheridan Building Repairs | \$ 480 | |
| Sherman Building Repairs | \$ 600 | |
| Other Repairs (not anticipated by facility assessment) | \$ 470 | |
| TOTAL | \$16,630 | \$16,630 |

Summary of Changes (O&M)

ARMED FORCES RETIREMENT HOME SUMMARY OF CHANGES (O&M) (\$ in Thousands)

| | |
|-----------------------------|----------------|
| FY14 O&M Request | \$66,800 |
| FY13 O&M Enacted | \$63,814 |
| Net Change | \$2,986 |

| <u>Changes:</u> | FY2013 Base | | FY2014 Change from Base | |
|-------------------------------|----------------------|---------------------|----------------------------|---------------------|
| | Workyears (FTE's) | Budget Authority | Workyears (FTE's) | Budget Authority |
| A. <u>Built-In:</u> | | | | |
| 1. Base Payroll Costs | 336 | \$ 26,298 | - | \$ 2,654 |
| 2. Non-Salary Costs: | | | | |
| Travel/Leases | | \$ 242 | | \$ 7 |
| Transportation | | \$ 70 | | \$ (29) |
| Communications/ Utilities | | \$ 5,151 | | \$ 932 |
| Printing | | \$ 120 | | \$ 1 |
| Other Services (Contracts) | | \$ 26,929 | | \$ (209) |
| Supplies and Materials | | \$ 4,876 | | \$ (260) |
| Equipment | | \$ 128 | | \$ (110) |
| Land and Structures | | \$ - | | \$ - |
| Claims | | \$ - | | \$ - |
| Total Non-Salary Costs | | \$ 37,516 | | \$ 332 |
| TOTAL | | \$ 63,814 | | \$ 2,986 |
| NET INCREASE | | | | \$ 2,986 |

Total Obligations by Object Class

ARMED FORCES RETIREMENT HOME TOTAL OBLIGATIONS BY OBJECT CLASS

(\$ in Thousands)

| | FY12 ACTUAL | FY13 ESTIMATE | FY14 ESTIMATE | FY14-FY13 INCREASE (DECREASE) |
|--|-----------------|------------------|------------------|-------------------------------------|
| 11 PERSONNEL COMPENSATION* | \$17,746 | \$19,346 | \$20,743 | \$1,398 |
| 12 PERSONNEL BENEFITS | \$5,347 | \$6,952 | \$7,421 | \$469 |
| 13 BENEFITS, FORMER PERSONNEL | \$783 | - | \$787 | \$787 |
| 21 TRAVEL/LEASING | \$318 | \$242 | \$248 | \$7 |
| 22 TRANSPORTATION OF THINGS | \$46 | \$70 | \$41 | (\$29) |
| 23 COMMUNICATIONS and UTILITIES | \$4,361 | \$5,151 | \$6,083 | \$932 |
| 24 PRINTING AND REPRODUCTION | \$149 | \$120 | \$120 | \$1 |
| 25 OTHER SERVICES | \$30,738 | \$26,929 | \$26,721 | (\$209) |
| 26 SUPPLIES AND MATERIALS | \$5,206 | \$4,876 | \$4,617 | (\$260) |
| 31 EQUIPMENT | \$1,006 | \$128 | \$19 | (\$110) |
| 32 LAND and STRUCTURES (CAPITAL OUTLAY) | \$16,630 | \$1,946 | \$1,000 | (\$946) |
| 42 CLAIMS | - | - | - | |
| TOTAL OBLIGATIONS | \$82,330 | \$65,760 | \$67,800 | \$2,040 |
| GULFPORT FULL-TIME EQUIVALENTS | 65 | 86 | 92 | (6) |
| WASHINGTON FULL-TIME EQUIVALENTS | 213 | 250 | 244 | 6 |
| TOTAL NUMBER OF FULL-TIME EQUIVALENTS | 278 | 336 | 336 | - |

[NOTE:(*) The annual Physicians' Comparability Allowance, of \$22,500 per physician, is included in the FY 2012 through FY 2014 personnel compensation.]

Appropriations History

ARMED FORCES RETIREMENT HOME APPROPRIATIONS HISTORY FY 2002-2014 (\$ in Thousands)

| FISCAL YEAR | DESCRIPTION | CONGRESSIONAL BUDGET | | APPROPRIATION | | FINAL APPROPRIATION |
|----------------|-------------------------|-------------------------|----------------|--------------------|---------------------|------------------------|
| | | JUSTIFICATION | AUTHORIZED | HOUSE ALLOWANCE | SENATE ALLOWANCE | |
| 2002 | O&M | 61,628 | 61,628 | 61,628 | 61,628 | 61,628 |
| | CO | <u>9,812</u> | <u>9,812</u> | <u>9,812</u> | <u>9,812</u> | <u>9,812</u> |
| | Total | 71,440 | 71,440 | 71,440 | 71,440 | 71,440 |
| 2003 | O&M | 61,628 | 61,839 | 61,839 | 61,839 | 61,839 |
| | CO | <u>5,712</u> | <u>5,769</u> | <u>5,769</u> | <u>5,769</u> | <u>5,769</u> |
| | Total | 67,340 | 67,608 | 67,608 | 67,608 | 67,608 |
| 2004 | O&M | 63,926 | 63,296 | 63,296 | 63,296 | 63,296 |
| | CO | <u>1,983</u> | <u>1,983</u> | <u>1,983</u> | <u>1,983</u> | <u>1,983</u> |
| | Total | 65,909 | 65,279 | 65,279 | 65,279 | 65,279 |
| 2005 | O&M | 57,195 | 57,163 | 57,163 | 57,163 | 57,163 |
| | CO | 4,000 | 3,968 | 3,968 | 3,968 | 3,968 |
| | PUBLIC LAW 109-62* | <u>6,000</u> | <u>6,000</u> | <u>6,000</u> | <u>6,000</u> | <u>6,000</u> |
| | Total | 67,195 | 67,131 | 67,131 | 67,131 | 67,131 |
| 2006 | O&M | 57,033 | 57,033 | 57,033 | 57,033 | 56,463 |
| | CO | 1,248 | 1,248 | 1,248 | 1,248 | 1,236 |
| | PUBLIC LAW 109-148** | 0 | 65,800 | 65,800 | 65,800 | 65,800 |
| | PUBLIC LAW 109-234** | <u>0</u> | <u>176,000</u> | <u>176,000</u> | <u>176,000</u> | <u>176,000</u> |
| | Total | 58,281 | 300,081 | 300,081 | 300,081 | 299,499 |
| 2007 | O&M | 54,846 | 54,846 | 54,846 | 54,846 | 54,846 |
| | CO | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| | Total | 54,846 | 54,846 | 54,846 | 54,846 | 54,846 |
| 2008 | O&M | 55,724 | 56,524 | 56,524 | 56,524 | 55,724 |
| | CO | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| | Total | 55,724 | 56,524 | 56,524 | 56,524 | 55,724 |
| 2009 | O&M | 54,985 | 54,985 | 54,985 | 54,985 | 54,985 |
| | CO | <u>8,025</u> | <u>8,025</u> | <u>8,025</u> | <u>8,025</u> | <u>8,025</u> |
| | Total | 63,010 | 63,010 | 63,010 | 63,010 | 63,010 |
| 2010 | O&M | 62,000 | 62,000 | 62,000 | 62,000 | 62,000 |
| | CO | <u>72,000</u> | <u>72,000</u> | <u>72,000</u> | <u>72,000</u> | <u>72,000</u> |
| | Total | 134,000 | 134,000 | 134,000 | 134,000 | 134,000 |

Appropriations History (Continued)

| FISCAL YEAR | DESCRIPTION | CONGRESSIONAL BUDGET | | APPROPRIATION | | ENACTED APPROPRIATION |
|----------------|-------------|-------------------------|--------------|--------------------|---------------------|--------------------------|
| | | JUSTIFICATION | AUTHORIZED | HOUSE ALLOWANCE | SENATE ALLOWANCE | |
| 2011 | O&M | 69,200 | 69,061 | 69,061 | 69,061 | 69,061 |
| | CO | <u>2,000</u> | <u>1,996</u> | <u>1,996</u> | <u>1,996</u> | <u>1,996</u> |
| | Total | 71,200 | 71,057 | 71,057 | 71,057 | 71,057 |
| 2012 | O&M | 65,700 | 65,700 | 65,700 | 65,700 | 65,700 |
| | CO*** | <u>2,000</u> | <u>2,000</u> | <u>16,630</u> | <u>16,630</u> | <u>16,630</u> |
| | Total | 67,700 | 67,700 | 82,330 | 82,330 | 82,330 |
| 2013 | O&M | 63,814 | 65,590 | 63,814 | 63,814 | 63,814 |
| | CO | <u>1,946</u> | <u>2,000</u> | <u>1,946</u> | <u>1,946</u> | <u>1,946</u> |
| | Total | 65,760 | 67,590 | 65,760 | 65,760 | 65,760 |
| 2014 | O&M | 66,800 | | | | |
| | CO | <u>1,000</u> | | | | |
| | Total | 67,800 | | | | |

[NOTE:(*) Supplemental funding from the General Fund as a result of Hurricane Katrina for the movement and stabilization of displaced Residents from Gulfport in Fiscal Year 2005.

(**) Majority of Supplemental funding from the General Fund as a result of Hurricane Katrina for the stand up of the Gulfport Campus.

(***) Funding includes \$14.6M from the General Fund to repair the structural damage incurred due to the August, 2011 earthquake that occurred in Washington, DC.]

Staffing History

ARMED FORCES RETIREMENT HOME STAFFING HISTORY (\$ in Thousands)

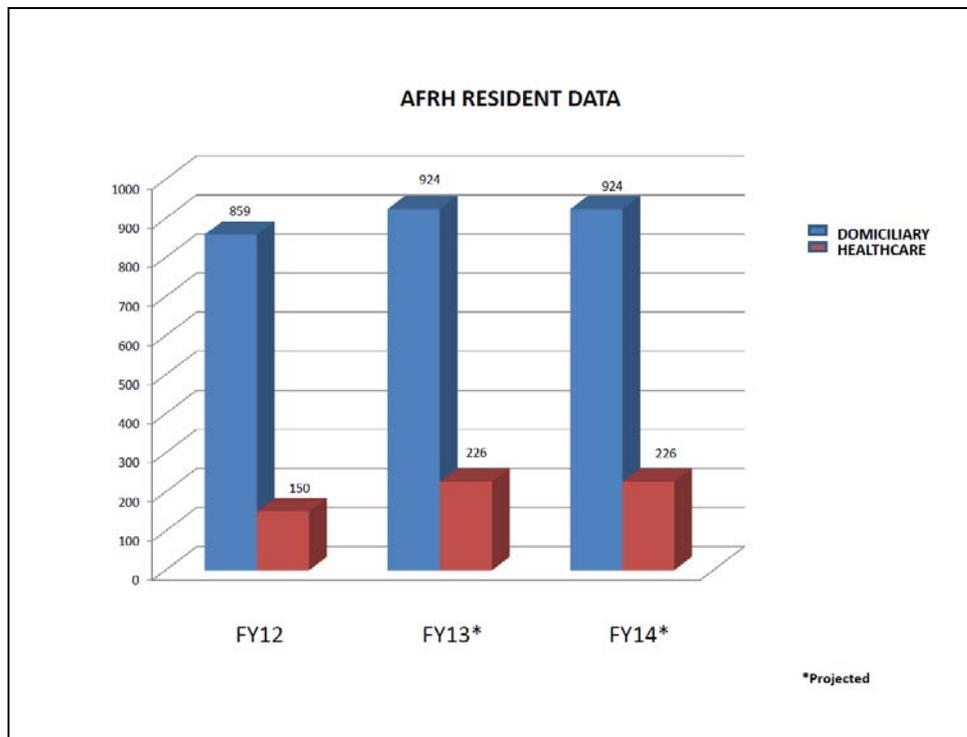
| <u>FISCAL YEAR</u> | <u>SALARIES and BENEFITS</u> | <u>FTE's</u> |
|------------------------|----------------------------------|--------------|
| 1995 | 39,312 | 989 |
| 1996 | 37,655 | 903 |
| 1997 | 37,671 | 865 |
| 1998 | 37,605 | 841 |
| 1999 | 37,419 | 799 |
| 2000 | 38,612 | 753 |
| 2001 | 38,292 | 734 |
| 2002 | 41,936 | 736 |
| 2003 | 40,495 | 683 |
| 2004 | 35,870 | 548 |
| 2005 | 30,684 | 446 |
| 2006* | 25,754 | 299 |
| 2007 | 22,460 | 288 |
| 2008 | 24,043 | 283 |
| 2009 | 21,120 | 268 |
| 2010** | 21,589 | 252 |
| 2011** | 25,019 | 280 |
| 2012** | 23,876 | 278 |
| 2013** | 26,298 | 336 |
| 2014 | 28,951 | 336 |

[NOTE: (*) The significant reduction in FTE in 2006 was a result of Hurricane Katrina and the closure of the Gulfport Facility.

(**) The FTE growth from FY 2010 is the result of opening Gulfport.]

Resident Data
ARMED FORCES RETIREMENT HOME
RESIDENT DATA

| | <u>ACTUAL</u> <u>FY12</u> | <u>ESTIMATE</u> <u>FY13</u> | <u>ESTIMATE</u> <u>FY14</u> |
|--------------------------------------|------------------------------|--------------------------------|--------------------------------|
| Domiciliary Care | 859 | 924 | 924 |
| Health Care | 150 | 226 | 226 |
| Total Residents | 1,009 | 1,150 | 1,150 |
| Operating Budget | \$ 65,700,000 | \$ 63,813,840 | \$ 66,800,000 |
| Capital Outlay | \$ 16,630,000 | \$ 1,945,840 | \$ 1,000,000 |
| Total Budget | \$ 82,330 | \$ 65,760 | \$ 67,800,000 |
| Operating Budget Per Resident | \$65,114 | \$55,490 | \$58,087 |



Physicians Comparability Allowance

Physicians' Comparability Allowance (PCA) Worksheet*

Department: Armed Forces Retirement Home

Table 1

| | | PY 2012 (Actual) | CY 2013 (Estimates) | BY 2014* (Estimates) |
|--|---|-----------------------------|--------------------------------|---------------------------------|
| 1) Number of Physicians Receiving PCAs | | 2 | 2 | 2 |
| 2) Number of Physicians with One-Year PCA Agreements | | 0 | 0 | 0 |
| 3) Number of Physicians with Multi-Year PCA Agreements | | 2 | 2 | 2 |
| 4) Average Annual PCA Physician Pay (without PCA payment) | | 151,885 | 151,885 | 151,885 |
| 5) Average Annual PCA Payment | | 22,500 | 22,500 | 22,500 |
| 6) Number of Physicians Receiving PCAs by Category (non-add) | Category I Clinical Position | 1 | 1 | 1 |
| | Category II Research Position | | | |
| | Category III Occupational Health | | | |
| | Category IV-A Disability Evaluation | | | |
| | Category IV-B Health and Medical Admin. | 1 | 1 | 1 |

*FY 2013 data will be approved during the FY 2014 Budget cycle.

- 7) If applicable, list and explain the necessity of any additional physician categories designated by your agency (for categories other than I through IV-B). Provide the number of PCA agreements per additional category for the PY, CY and BY.

N/A

- 8) Provide the maximum annual PCA amount paid to each category of physician in your agency and explain the reasoning for these amounts by category.

Category I \$15,000
Category IV-B \$30,000

- 9) Explain the recruitment and retention problem(s) for each category of physician in your agency (this should demonstrate that a current need continues to persist).

The agencies near the AFRH (VA and until very recently Walter Reed Army Medical Center) address pay issues through Title 38. The AFRH has used PCA, and it has been effective. As a small agency, there are few physician positions and few vacancies where PCA is used.

- 10) Explain the degree to which recruitment and retention problems were alleviated in your agency through the use of PCAs in the prior fiscal year.

The AFRH is the only continuing care retirement community in the Federal government: most are in the private sector, and only a small percentage specifically serve veterans. The use of PCA at AFRH is very limited, but it has been successful in retaining key personnel with knowledge of the agency and mission.

- 11) Provide any additional information that may be useful in planning PCA staffing levels and amounts in your agency.

N/A

[NOTE: (*) The PCA is captured in the Personnel Compensation portion of AFRH's budget authority.]