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DEPARTMENT OF VETERANS AFFAIRS BUDGET PRIORITIES FOR FISCAL YEAR 2005

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, DC, FEBRUARY 12, 2004

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DEPARTMENT OF VETERANS AFFAIRS BUDGET PRIORITIES FOR FISCAL YEAR 2005

THURSDAY, FEBRUARY 12, 2004

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 1:05 p.m. in room 210, Cannon House Office Building, Hon. Jim Nussle (chairman of the committee) presiding.

Members present: Representatives Nussle, Shays, Gutknecht, Hastings, Schrock, Brown, Putnam, Bonner, Spratt, Baldwin, Moore, Edwards, Capps, Thompson, Baird, Majette, and Kind.

Chairman NUSSLE. Good afternoon. This is the full committee hearing on the budget, the President's budget for veterans for fiscal year 2005. We have two witnesses for us today, two panels of witnesses, I should say. The first panel is, of course, the very honorable Secretary of Veterans Affairs, Anthony Principi, who we welcome back to the Budget Committee. We are pleased to have you here today. We welcome you, and your secretaries and staff to the committee room.

We are holding hearings, as you know, all year on the budget and on the President's budget in particular. And I happen to believe this is probably one of the most important hearings that we will hold all year. Today we have the opportunity to focus on our Nation's more than 25 million veterans who have served our country, the men and women who have made sacrifices for all of us to protect our freedom.

Like the roughly 60,000 veterans that I am proud to represent, and the over 280,000, as I understand it who live in the State of Iowa, veterans throughout the country are the reason we have been and will remain a great Nation.

And I know there are a number of veterans that are here in the room today. And we welcome you, and we thank you for your service to our country.

I know that all of us in Congress are truly grateful to veterans, including all of the men and women who are currently serving us throughout the world protecting our freedom and keeping that light burning. We know that they sacrifice so that we can continue to have the luxury of living in the greatest democracy in the world.

So while there is likely to be differences of opinion between parties and across the aisle on different issues from time to time, it is my hope that we are all able to work together in a bipartisan way to address the needs of veterans here in the country, even though we may have our differences.

There are Republican veterans, there are Democrat veterans, there is independent veterans, they come in many sizes and shapes and forms. And, but in the same way that each of us want to put each and every one of them put their differences aside for the cause that they served in service to our country I hope that we can do the same.

That said, I am pleased to say that over the past several years, I believe we have shown a level of gratitude befitting the service that these men and women have provided us through hefty increases in funding and substantial increases in benefits and services.

Since Republicans took control of Congress in 1995, I would like to highlight some of the things that have occurred that we built upon and that we hope to build upon even today. So let's take a look at some of those improvements. In 1999, as an example, the Republican Congress extended VA medical care to veterans returning from combat zones. This now includes Reserve and National Guard personnel called to active duty who are returning from Iraq and the Afghanistan conflicts.

I have got some charts that I would like to refer to. Since 1995, if you look at the first chart, total spending on veterans has increased from 38 billion to $60 billion. That is a 58-percent increase compared with a 36-percent increase during the previous 10 years. So we build upon a base of support that I think is certainly one that deserves credit.

Secondly, spending per veteran. The substantial increases in veterans benefits have occurred while the actual number of veterans has of course and unfortunately declined, especially over the last 10 years. As a result, payments per veteran rose from approximately $1,300 in 1995 to about $2,400 in 2004. That is a 79-percent increase if you compare it to the previous 10 years, which was only a 39-percent increase.

So, again, whether you look at total spending or on a per veteran basis, the increases in the budget have been substantial and appropriate.

Let's look at medical care funding as an example. In just this past 10 years, VA medical care funding VA has been increased by 75 percent, from $16 billion to $28 billion with a especially large increases of 13 percent in both 2003 and 10 percent in 2004.

Let's look at medical care eligibility. In 1996, the Republican Congress led the way for an historic expansion in eligibility for VA medical care. As you can see from the chart here, at the same time the number of veterans using VA medical care has increased from 2.5 million in 1995, to now almost 5 million veterans using VA medical care today.

Let's look at the Montgomery GI bill. Since 1995, the monthly education benefit payment levels under the GI bill have expanded or increased from $405 to $985. That is a percentage increase of 143, 143-percent increase, far higher than the 35-percent increase during the previous 10 years.

Military retirees injured in combat, while training for combat, now, and who are 50 percent or more disabled are able, for the first time in over a century, to receive retirement benefits concurrently with veterans disability compensation.

The Republican Congress has passed significant expansion in military health care program for the over 65 military retirees, the TRICARE-for-Life program.

We have also ensured that we are providing for those men and women serving our country now. Over the past 3 years, we have increased military basic pay of 21 percent, and when food and the housing allowances are added, the increase has reached almost 29-percent increases for the men and women who are serving our country.

Simultaneously, the Department of Defense's annual budget has increased almost $150 billion to prosecute the global war on terrorism and to carry out military transformation.

And I will assure you that I, joined with members of this committee and Congress, on both sides, will continue our commitment ensuring that those who have served our country with pride and valor and dignity receive the best of America's appreciation.

Now, having said that, I know that it is probably never going to be exactly enough, that there will be more requests, more interest in increasing funding. And certainly we will take those requests under advisement, under very specific advisement, because we are in the process of setting priorities.

But, I think it is very important for us to remember where we have come and how far we have gone as we build upon those accomplishments. Today, we have asked the Department of Veterans Affairs, Secretary Principi, to discuss with us the President's request for veterans benefits funding for fiscal year 2005.

So, Secretary, we welcome you. We look forward to your testimony. And we know that this is a critical issue of personal issue for you. And a personal crusade that you have been on yourself, and we are proud to work with you. And with that, I would like to turn it over to Mr. Spratt for any comments he would like to make.

Mr. SPRATT. Secretary Principi, we are glad to have you here, and appreciate the fact that you would come and testify. And your reputation precedes you. You have a long record of service as the Secretary of the Department, the Deputy Secretary, and, I believe, an apprenticeship here on the Hill to boot.

I want to welcome also the witnesses from our second panel representing Amvets, the Paralyzed Veterans of America, DAV, the Disabled American Veterans, and the VFW, the Veterans of Foreign Wars.

These four organizations once again have collaborated to come up with an assessment of the resources that they feel are needed to meet the promises that were made to our veterans. They have published it in what they call the independent budget. It is always a thorough piece of work, a challenging piece of work, and it commands great respect and we look forward to having their testimony today.

Trying to find the right funding for veterans programs involves a number of challenges. Some of them are shared across the Federal budget, and some are unique to veterans. About half of the VA budget goes to compensation and pensions and other entitlement programs that operate under permanent law. That is not primarily our concern today.

The other half, our chief concern, is appropriated annually by Congress. That portion is mainly devoted to veterans health care. And most, but not all, of the controversy in recent years over the level of funding has centered on this portion of the budget.

If I can have the first chart. This is our calculation of what the President's budget does to the discretionary portion of the veterans budget over time when you measure it in real purchasing power. The blue line being constant purchasing power, is about $30 billion, the red line showing that every year in real terms constant dollars purchasing power, funding for veterans health care goes steadily downward.

Now, spending on veterans health care, the chairman is correct, has risen substantially over the past few years. But frankly the demand for these services seems also to be growing and even faster. There has been a marked increase in both the demand and the resources for health care since Congress expanded access to the system several years ago.

Let me reference, if I could, chart No. 3. That steep incline in the mid 1990s showed you what happened when we went out and tried to enroll all veterans, extended the service of the Veterans Administration hospitals to everybody who we could capture in the system, not only the 1s and 2s, but the 7s and 8s as well.

And we had a precipitous increase. And the fact of the matter is, we are now attempting to serve that population and serve them with a budget that doesn't fully meet the needs of all of the people who would otherwise be qualified. That is the dilemma that we find for ourselves.

Last year there was an attempt to lower the funding levels for veterans programs. The proposal this year for us for programs such as veterans health care and the administration of benefits, construction, cemeteries, also is a bit below current service. It is $257 million by our calculation. That is using the CBO baseline. I understand if you use the OMB baseline, it is actually even more below the level of current services. We believe $257 million is the amount that the request is this year below current services.

That is a lot of money. But, if you run it out over 5 years it is even more. Because, by our calculation over 5 years, the level of funding for appropriated veterans programs, mainly veterans health care, over 5 years, is about $13.5 billion below current services. That is big money. That is a big shortfall.

At the end of this 5-year period, the funding in this budget for health care and other discretionary programs is about 14½ percent below today's current services levels. Now, this is not because the number of patients is going down; it is not. It is not because health care inflation is coming down, it probably won't. It is not a result of anomalies in the baseline.

In fact, if you compare the CBO baseline, the OMB baseline, the OMB baseline shows the cuts even deeper. Now some may say these are just cuts against a baseline, which is a construct, it is not a real number, it is not a real cut, it is a paper cut. But, the fact is, that while this budget proposes a nominal increase of $521 million in 2005 above 2004, there is still a cut in real purchasing power of $257 million.

And over the next 5 years, this cut gets even worse. There is no increase for inflation, no increase for the extra caseloads. We fall farther and farther behind as we go out in time. That is a problem that we have all got to confront and deal with today, that is why we asked the veterans themselves to come to us to find out that their picture, their appreciation of the adequacy of this budget.

The President's budget attempts to deal with the enormous deficits that we have got. It is $521 billion this year, $368 billion next year, 2005. That doesn't include the likely sum of $50 billion needed to support our troops in Iraq and Afghanistan. So it is a tough problem. But he has chosen to focus most of his spending restraints on one particular category of the budget known as nondefense discretionary spending, and the veterans administration health programs happen to come out of that particular segment of the budget.

And by bearing down on that segment, and not looking at other places in the budget, and particularly the other side of the ledger, tax cuts as an additional request in this year's budget for a trillion, $200 billion in additional tax cuts, what happens is, we make a small dent in the deficit, but we make a big hole in the programs that happen to fall in this category of the budget. And the Veterans Administration is one of them.

We are seeing now what we have been talking about for several days since we first saw the President's program, the consequences for essential programs like this, if we pursue the budget path the President has laid out, which concentrates a lot of its effort on cost savings on discretionary spending.

Now, if that were a solution to the problem, if it were a solution to the problem, we would say this may simply have to be. Because we got to get our books back in balance. But, as I said, this doesn't solve the problem, because it doesn't begin to encompass everything that is happening in the budget. We have had huge tax cuts. Additional tax cuts will only drive us deeper in the hole and make it harder and harder to reach the levels, attain the levels that we all recognize are necessary if we are going to keep our promises to our veterans.

So we look forward to your testimony today, Mr. Secretary. We appreciate your being here. We look forward to working with and seeing if we can keep our promises to our veterans and give them the services and the programs that they deserve and were told that they would have the right to.

Chairman NUSSLE. Thank you, Mr. Spratt. Mr. Secretary, welcome again. Your entire testimony will be made part of the record. And you may summarize as you feel necessary. Welcome.

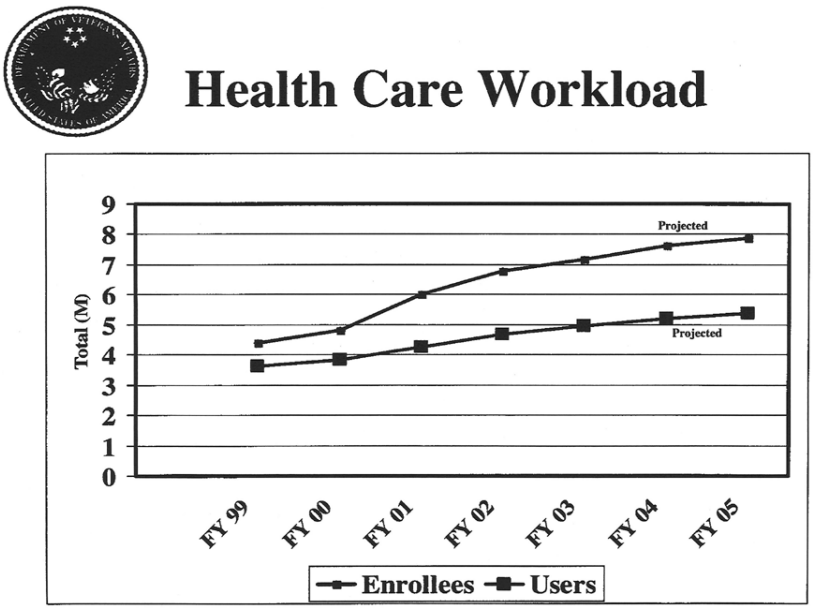
STATEMENT OF HON. ANTHONY J. PRINCIPI, SECRETARY, DEPARTMENT OF VETERANS AFFAIRS

Secretary PRINCIPI. Thank you. Good afternoon, Mr. Chairman, Mr. Spratt, members of the committee. It is certainly a pleasure to appear before the Budget Committee on a very, very important budget, as you have indicated.

This year and next year, if this budget is approved, 800,000 more veterans, a very significant number, will receive VA medical care than in 2001, the year I became Secretary of Veterans Affairs. And I believe that these veterans are the beneficiaries of respect of the

American people as reflected in the budget increases requested by the President, combined with the active and successful advocacy and support of Members of Congress.

As the first graph shows, our health care budget alone over the past 4 years, with the enactment of the 2005 budget, has increased over 40 percent. And I thank the members of the committee for your tremendous contribution to this achievement.



This is the golden age of VA health care. Never before has the quality of VA health care been so good. This is not my dad's VA. Never before has access been this broad. We now have some 700 community-based outpatient clinics in the VA. Prior to 1994–95 we had virtually no community-based outpatient clinics.

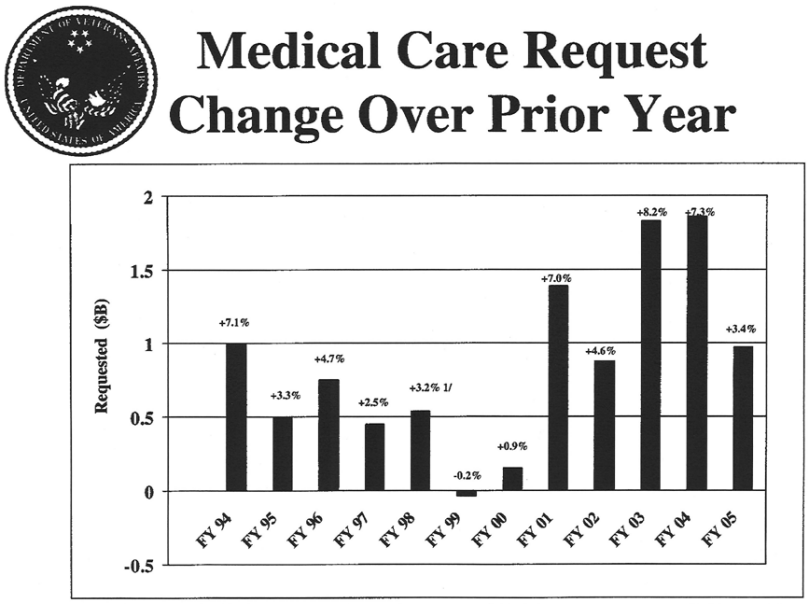
Never before have we treated so many veterans at so many locations. As the second graph shows, the number of new veteran enrollees has increased rather substantially from 6 million in fiscal year 2001 to our projected 8 million in 2005.

The number of veterans enrolling in the VA health care system has risen rather dramatically as a result of open enrollment in 1998. And the number of veterans treated has also risen dramatically, from about 4.3 million in fiscal year 2001 to 5.3 million projected in the fiscal year 2005.

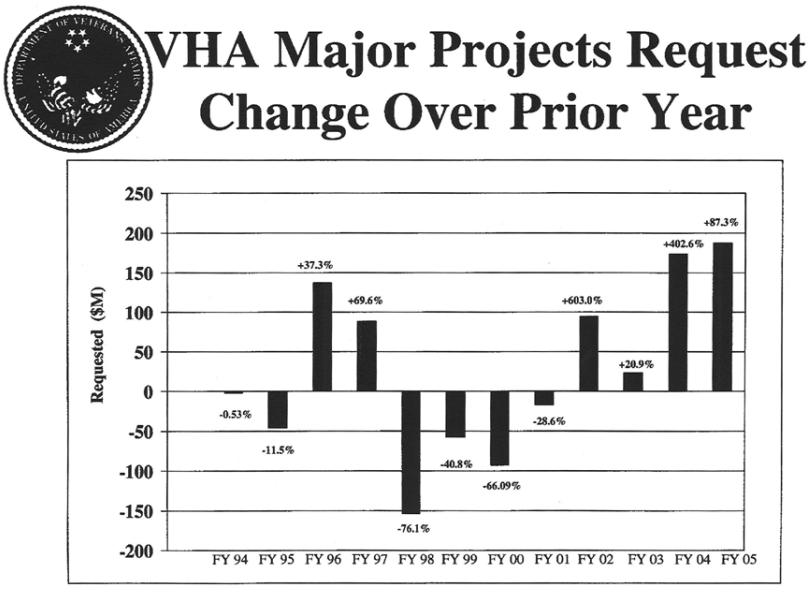
This year we are on track to do 50 million outpatient visits in the VA, up from 41 million just a few years ago. And we expect to fill almost 110 million prescriptions for drugs. About 565,000 veterans will be inpatients in one of our facilities at some point this year.

With 2005, our total health care budget authority would increase 4.1 percent over fiscal year 2004, and sustain the gains veterans achieved over the last 3 years. And this chart shows the President's request from the prior year, and I think over the past 4 years, we have seen dramatic increases in the President's request to the Con-

gress, and the Congress has, of course, this past year in 2004, added to the President's request.



1/ Starting in 1998, open enrollment began and collections were made available to VA

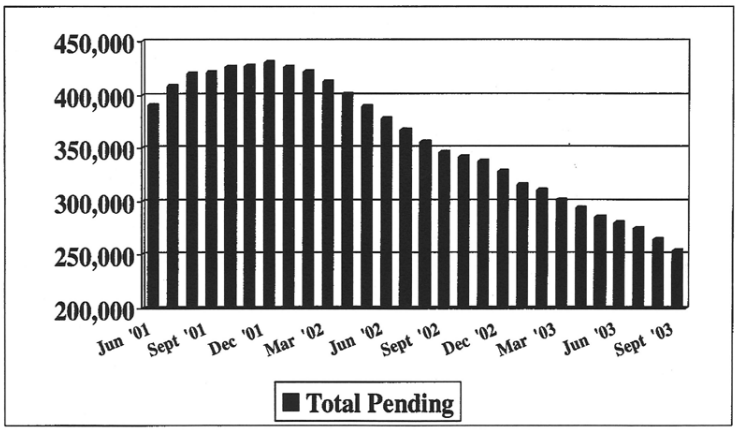


I believe that we will be able to maintain our status as the standard of quality care and meet our goal of scheduling nonurgent primary care appointments for veterans within 30 days, and 99 percent within 90 days. My goal is to eliminate our waiting list this spring, 90 days after receiving the fiscal year 2004 appropriations.

And we will continue, Mr. Chairman, Mr. Spratt, members of the committee, to focus on the medical needs of veterans identified by Congress as the highest priority, the service connected disabled, the lower income veterans, who have few, if any, options for care other than the VA, and of course, those who need specialized services like spinal cord injury, blind rehabilitation and mental health.

This budget request also more than doubles from the current fiscal year our appropriation request for construction of the new and improved facilities soon to be identified through our CARES process. And I know construction and CARES has been an important issue to Members of the Congress. But this request will double the amount of money that we have allocated for the CARES process.

Status of Disability Claims Inventory



And, in addition, I plan to use the authority granted by Congress and apply up to $400 million of medical care appropriations to CARES projects so that we can get on with modernizing our VA infrastructure. This makes a total of approximately $1 billion we will now be able to commit in fiscal year 2004 and 2005 to transforming VA's legacy infrastructure into a 21st century health care system.

Perhaps most importantly, the budget will fund high quality care for veterans returning to our shores from Iraq and Afghanistan. Of the approximately 83,000 veterans who have been discharged and served in Enduring and Iraqi Freedom, roughly 12 percent have come to us for care, about 9,700. Of those who have been discharged after serving in Afghanistan, about 1,400 of those veterans have came to the VA for health care.

There is no question, however, that we still have challenges ahead of us. And we are trying to respond to those challenges with policy initiatives. First, we emphasize our commitment to the highest priority veterans, by asking Congress to raise the income threshold to $16,500 from $9,800 and thereby exempting low in-

come veterans from pharmacy copayments, lifting the burden from the poorest of the poor in the veteran population.

We also asked Congress to eliminate all copayments for former prisoners of war, and propose to eliminate copayments for veterans who are in hospice care programs in home or under contract.

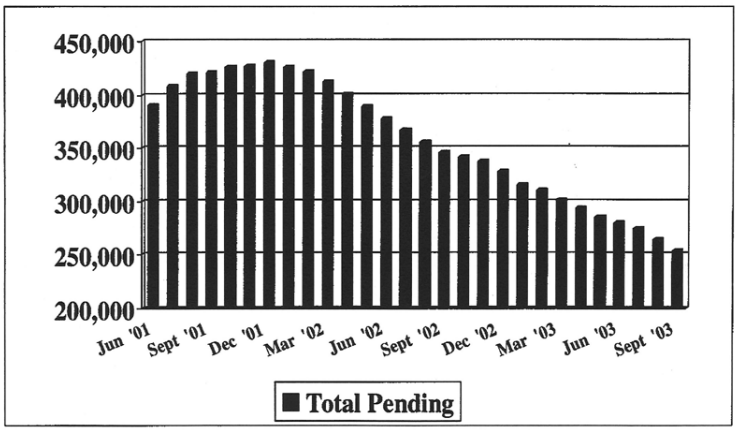
And in those cases where our patients must make copayments to their health insurers for emergent health care in private sector hospitals, we asked for the authority to reimburse them for those costs to their insurance companies.

At the same time, we also asked Congress to approve both a modest increase in pharmacy copayments and a modest annual fee totaling less than $21 a month, a very small portion of the cost of care for higher income nondisabled veterans using our system.

This is not an enrollment fee. Any veteran in categories 1 through 7 can continue to enroll. It would be an annual fee collected from veterans receiving care, again, the higher income nonservice disabled, and could be paid on a monthly or annual basis.

The budget request also sustains our tremendous progress in bringing our disability claims backlog under control. By the end of last fiscal year, we reduced our inventory of rating-related claims, claims for disability compensation and pension from 253,000 down from a high of 432,000, notwithstanding the fact that we get about 60,000 new claims in each and every month in the VA, a very high number.

Status of Disability Claims Inventory



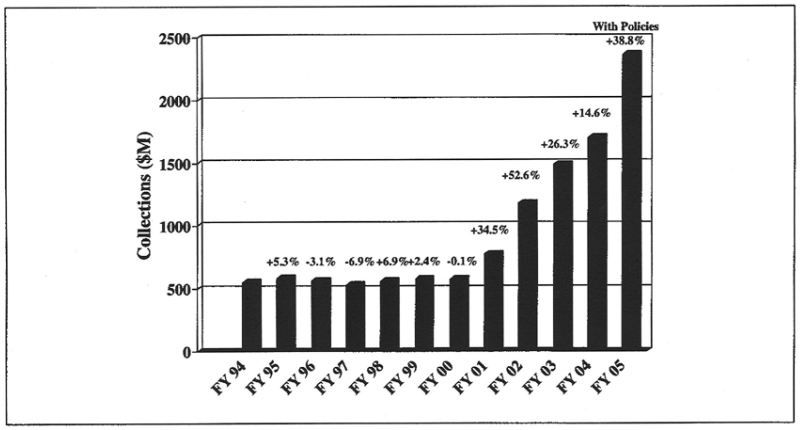
The percentage of veterans waiting more than 6 months for a decision on their claims has dropped from 48 percent to 18 percent. There was a court decision in September of 2003 which prevented us from acting on many claims. But Congress corrected that problem for us and we are back on track in deciding those claims. And that number in terms of timeliness and the size should be coming down.

It is interesting to note that the number of veterans receiving service-connected disability compensation is projected to increase to 2.6 million from 2.3 million in 2001, reflecting in part implementation of decisions to automatically service connect veterans with diseases associated with exposure to herbicides like Agent Orange, and also our focus on reducing this enormous backlog, getting decisions made, we have increased the number of veterans who are in receipt of disability compensation.

VA is not only health care and benefits, as you know, we also honor our veterans in their final rest. And the President's budget request will continue the greatest expansion of our national cemetery system since the Civil War. We plan to open 12 new national cemeteries by 2009. We have opened one in Oklahoma this past year. We will open up five more in the coming year, and then an additional six national cemeteries by the year 2009. That will increase the number of grave sites in the VA by 85 percent, almost a doubling of the capacity of our national cemetery system, and that is important because, we have so many World War II and Korean veterans passing from us, almost 1,800 a day.

So these new national cemeteries, along with the State cemetery system program, are very, very important for our aging veteran population.

I would just like to comment before closing on our financial management initiatives, because I know they are so important to this committee. We are working very, very diligently to increase our medical care collections. And we are hopeful to achieve $2.4 billion in 2005. Congress allows us to keep medical care cost collections from insurance companies and copayments at the VA where they are collected.



This, is a 38-percent increase above 2004, and more than three times 2001. We have also strengthened our debt management ef-

forts, collecting $381 million in 2003 or about $63 for every dollar we spend on debt collection activities.

We have completed 43 of the 65 recommendations of the procurement reform task force I established, with savings of about $250 million by the end of this fiscal year. This figure will increase after we complete all 65 recommendations.

National purchasing reforms generated savings of $1.1 billion in the purchase of pharmaceuticals alone between 2001 and 2003, $78 million in the purchase of medical supplies and equipment, and $108 million through a national information technology contract.

I am very proud of the improvements in the work of the men and women of the VA. I thank the members of this committee, the President, all of you for your support, as we try to build on our record of success and meet the debt that we owe to the men and women who serve our nation in uniform.

Thank you, Mr. Chairman, Mr. Spratt, and members of the committee.

Chairman NUSSLE. Thank you, Mr. Secretary.

[The prepared statement of Secretary Principi follows:]

STATEMENT OF HON. ANTHONY J. PRINCIPI, SECRETARY, DEPARTMENT OF VETERANS AFFAIRS

Mr. Chairman and members of the committee, good afternoon. I am pleased to be here today to present the President's 2005 budget proposal for the Department of Veterans Affairs (VA). The focal point of this budget is our firm commitment to continue to bring balance back to our health care system by focusing on veterans in the highest statutory priority groups.

The President's 2005 budget request totals $67.7 billion (an increase of $5.6 billion in budget authority)—$35.6 billion for entitlement programs and $32.1 billion for discretionary programs. Our request for discretionary funds represents an increase of $1.2 billion, or 3.8 percent, over the enacted level for 2004, and supports my three highest priorities:

- provide timely, high-quality health care to our core constituency-veterans with service-connected disabilities, those with lower incomes, and veterans with special health care needs;
- improve the timeliness and accuracy of claims processing;
- ensure the burial needs of veterans and their eligible family members are met, and maintain veterans' cemeteries as national shrines.

The growth in discretionary resources will support a broad array of benefits and services that VA provides to our Nation's veterans. Including medical care collections, funding for the medical care program rises by $1.17 billion over the 2004 enacted level. As a principal component of our medical care budget, we are requesting $524 million to begin implementing recommendations stemming from studies associated with the Capital Asset Realignment for Enhanced Services (CARES) program.

We are presenting our budget request using a slightly modified new budget account structure that we proposed for the first time last year. This new structure more clearly presents the full funding for each of the benefits and services we provide veterans. This will allow the Department and our stakeholders to more effectively evaluate the program results we achieve with the total resources associated with each program. I am committed to providing Congress with the information and tools it needs to be comfortable with enacting the change.

MEDICAL CARE

The President's 2005 request includes total budgetary resources of $29.5 billion (including $2.4 billion in collections) for the medical care program, an increase of 4.1 percent over the enacted level for 2004, and more than 40 percent above the 2001 level. With these resources, VA will be able to provide timely, high-quality health care to nearly 5.2 million unique patients, a total 21 percent higher than the number of patients we treated in 2001.

I have taken several steps during the last year to refocus VA's health care system on our highest priority veterans, particularly service-connected disabled veterans who are the very reason this Department exists. For example, we recently issued

a directive that ensures veterans seeking care for service-connected medical problems will receive priority access to our health care system. This new directive provides that all veterans requiring care for a service-connected disability, regardless of the extent of the injury or illness, must be scheduled for a primary care evaluation within 30 days of their request for care. If a VA facility is unable to schedule an appointment within 30 days, it must arrange for care at another VA facility, at a contract facility, or through a sharing agreement.

By highlighting our emphasis on our core constituency (priority levels 1–6), we will increase our focus on the Congressionally identified highest priority veterans. The number of patients within our core service population that we project will come to VA for health care in 2005 will be nearly 3.7 million, or 12 percent higher than in 2003. During 2005, 71 percent of those using VA's health care system will be veterans with service-connected conditions, those with lower incomes, and veterans with special health care needs. The comparable share in 2003 was 66 percent. In addition, we devote 88 percent of our health care funding to meet the needs of these veterans.

While part of our strategy for ensuring timely, high-quality care for our highest priority veterans involves a request for additional resources, an equally important component of this approach includes a series of proposed regulatory and legislative changes that would require lower priority veterans to assume a small share of the cost of their health care. These legislative proposals are consistent with recent Medicare reform that addresses the difference in the ability to pay for health care. We are submitting these proposals for Congress' reconsideration because we strongly believe they represent the best opportunity for VA to secure the necessary budgetary resources to serve our core population. Among the most significant legislative changes presented in this budget are to:

- assess an annual use fee of $250 for priority 7 and 8 veterans; and
- increase copayments for pharmacy benefits for priority 7 and 8 veterans from $7 to $15.

We will work with Congress to enact our legislative proposal to eliminate the pharmacy copayment for priority 2–5 veterans, who have fewer means by which to pay for these costs, by raising the income threshold from the pension level of $9,894 to the aid and attendance level of $16,509 (for a single veteran). This would allow about 394,000 veterans within our core constituency to receive outpatient medications without having to make a copayment.

The 2005 budget includes several other legislative and regulatory proposals that are designed to expand health care benefits for the Nation's veterans. Among the most significant of these is a provision that would give the Department the authority to pay for insured veteran patients' out-of-pocket expenses for urgent care services if emergency/urgent care is obtained outside of the VA health care system. This proposal would ensure that veterans with life-threatening illnesses can seek and receive care at the closest possible medical facility. In addition, we are proposing to eliminate the copayment requirement for all hospice care provided in a VA setting and all copayments assessed to former prisoners of war. Currently, veterans are charged a copayment if hospice care cannot be provided in a VA nursing home bed either because of clinical complexity or lack of availability of nursing home beds.

The President's 2005 budget for VA's medical care program also continues our effort to expand access to long-term care for veterans. This budget includes a legislative proposal to focus long-term care on noninstitutional settings by expanding the 1998 average daily census nursing home capacity requirement to include the following categories of extended care services-nursing homes, community residential care programs, residential rehabilitation treatment programs, home care programs, noninstitutional extended care services under VA's jurisdiction, and long-term care beds for which the Department pays a per diem to States for services in State homes. As part of this effort, we aim to significantly enhance access to noninstitutional care programs that allow veterans to live and be cared for in the comfort and familiar setting of their home surrounded by their family.

We are continuing our work with the Department of Health and Human Services to implement the plan by which priority 8 veterans aged 65 and older, who cannot enroll in VA's health care system, can gain access to the new "VA Advantage" program. This would allow these veterans to use their Medicare benefits to obtain care from VA. In return, we would receive payments from a private health plan contracting with Medicare to cover the cost of the health care we provide.

In return for the resources we are requesting for the medical care program in 2005, we will continue to aggressively pursue my priority of providing timely and accessible health care that sets a national standard of excellence for the health care industry. During the last 3 years, we have significantly enhanced veterans' access to health care. We have opened 194 new community clinics, bringing the total to

676. Nearly 9 out of every 10 veterans now live within 30 minutes of a VA medical facility. This expanded level of access has resulted in an increase in the number of outpatient visits from 44 million in 2001, to 51 million in 2003, as well as a 26 percent rate of growth in the annual number of prescriptions filled to a total of 108 million last year. To further highlight the Department's emphasis on the delivery of timely, accessible health care, our standard of care for primary care is that 93 percent of appointments will be scheduled within 30 days of the desired date and 99 percent of all appointments will be scheduled within 90 days. For appointments with specialists, the comparable performance goal is 90 percent within 30 days of the desired date.

As I mentioned earlier Mr. Chairman, a key component of our overall access goals is the assurance that veterans seeking care for service-connected medical problems will receive priority access to health care. In addition, we have dramatically reduced the number of veterans on the waiting list for primary care. We will eliminate the 6-month waiting list no later than April 2004.

VA's health care system continues to be characterized by a coordinated continuum of care and achievement of performance outcomes that improve services to veterans. In fact, VA has exceeded the performance of private sector and Medicare providers for all 18 key health care indicators, from diabetes care to cancer screening and immunizations. The Institute of Medicine has recognized the Department's integrated health care system, including our framework for using performance measures to improve quality, as one of the best in the nation. Additionally, VA's quality score based on a survey conducted by the Joint Commission on Accreditation of Healthcare Organizations exceeds the national average quality score (93 versus 91).

We will continue to use clinical practice guidelines to help ensure high-quality health care, as they are directly linked with improved health outcomes. We expect to show improvements in both of our principal measures of health care quality. The clinical practice guidelines index will rise to 71 percent in 2005, while the prevention index will increase to 84 percent.

The 2005 budget includes additional management savings of $340 million that will partially offset the need for additional funds to handle the increasing utilization of health care resources, particularly among our highest priority veterans who require much more extensive care, on average, than lower priority veterans. We will achieve these management savings through improved standardization policies in the procurement of supplies, pharmaceuticals, and other capital purchases, as well as in other operational efficiencies such as consolidations.

As you may know Mr. Chairman, one of the President's management initiatives calls for VA and the Department of Defense (DOD) to enhance the coordination of the delivery of benefits and service to veterans. To address this Presidential initiative, our two Departments established a high-level Joint Executive Council to develop and implement significant collaborative efforts. We are focusing on three major systemwide issues: (1) facilitating electronic sharing of enrollment and eligibility information for services and benefits; (2) establishing an electronic patient health record system that will allow rapid exchange of patient information between the two organizations by the end of 2005; and (3) increasing the number of shared medical care facilities and staff. The sharing of DOD enrollment and eligibility data will reduce the burden on veterans to provide duplicative information when making the transition to VA for care or benefits. Shared medical information is extremely important to ensure that veterans receive safe and proper care. VA and DOD are working together to share facilities and staff in order to provide needed services to all patients in the most efficient and effective manner.

CAPITAL ASSET REALIGNMENT FOR ENHANCED SERVICES (CARES)

The 2005 budget includes $524 million of capital funding to move forward with the Capital Asset Realignment for Enhanced Services (CARES) initiative, a figure more than double the amount requested for CARES for 2004. This is a multi-year program to update VA's infrastructure to meet the needs of veterans in the 21st century and to keep our Department on the cutting edge of medicine. CARES will assess veterans' health care needs across the country, identify delivery options to meet those needs in the future, and guide the realignment and allocation of capital assets so that we can optimize health care delivery in terms of both quality and access. The resources we are requesting for this program will be used to implement the various recommendations within the national CARES plan by funding advance planning, design development, and construction costs for capital initiatives.

Mr. Chairman, the independent commission that is reviewing our draft CARES plan will be delivering their report later this afternoon. The commission had originally intended to complete their work by the end of November, but due to the in-

tense interest in this project and the overwhelming volume of information they are faced with examining, their report has been delayed a few months. I look forward to reviewing the commission's analysis and recommendations. We will thoroughly evaluate their report and seriously consider their recommendations before making our final realignment decisions and preparing for the next phase of the CARES program.

MEDICAL AND PROSTHETIC RESEARCH

The President's 2005 budget includes total resources of $1.7 billion to support VA's medical and prosthetic research program. This request is comprised of $770 million in appropriated funds, $670 million in funding from other Federal agencies such as DOD and the National Institutes of Health, as well as $230 million from universities and other private institutions. Our budget includes an initiative to assess pharmaceutical companies for the indirect administrative costs associated with the clinical drug trials we conduct for these organizations.

This $1.7 billion will support nearly 2,900 high-priority research projects to expand knowledge in areas critical to veterans' health care needs-Gulf War illnesses, aging, diabetes, heart disease, mental illness, Parkinson's disease, spinal cord injury, prostate cancer, depression, environmental hazards, women's health care concerns, and rehabilitation programs.

VETERANS' BENEFITS

The Department's 2005 budget request includes $36 billion for the entitlement costs associated with all benefits administered by the Veterans Benefits Administration (VBA). Included in this total, is an additional $2.740 billion for disability compensation payments to veterans and their survivors for disabilities or diseases incurred or aggravated while on active duty. Recipients of these compensation benefits will have increased from 2.3 million in 2001 to over 2.6 million in 2005. The budget includes another $1.19 billion for the management of these programs—disability compensation; pensions; education; vocational rehabilitation and employment; housing; and life insurance. This is an increase of $26 million, or 2.2 percent, over the enacted level for 2004.

We have made excellent progress in addressing the Presidential priority of improving the timeliness and accuracy of claims processing. Not only have we hired and trained more than 1,800 new employees in the last 3 years to directly address our claims processing backlog, but the productivity of our staff has increased dramatically as well. Between 2001 and 2003, the average number of claims we completed per month grew by 70 percent, from 40,000 to 68,000. Last year the inventory of rating-related compensation and pension claims peaked at 432,000. By the end of 2003, we had reduced this backlog of pending claims to just over 250,000, a drop of over 40 percent. We have experienced an increase in the backlog during the last few months, due in large part to the impact of the court decision (PVA v. Secretary of Veterans Affairs) that interpreted the Veterans Claims Assistance Act of 2000 as requiring VA to wait a full year before denying a claim. However, this rise in the number of pending claims will be temporary, and we expect the backlog to be back down to about the 250,000 level by the end of 2004. We thank the committee for the legislation that eliminated the mandatory 1-year waiting period.

In 2002 it took an average of 223 days to process a claim. Today, it takes about 150 days. We are on track to reach an average processing time of 100 days by the end of 2004 and expect to maintain this timeliness standard in 2005. One of the main reasons we will be able to meet and then sustain this improved timeliness level is that we have reduced the proportion of claims pending over 6 months from 48 percent to just 19 percent during the last 3 years.

To assist in achieving this ambitious goal, VA established benefits delivery at discharge programs at 136 military installations around the country. This initiative makes it more convenient for separating servicemembers to apply for and receive the benefits they have earned, and helps ensure claims are processed more rapidly. Also, the Department has assigned VA rating specialists and physicians to military bases where servicemembers can have their claims processed before they leave active duty military service.

We expect to see an increase in claims resulting from the return of our brave servicemen and women who fought to protect the principles of freedom in Operation Enduring Freedom and Operation Iraqi Freedom. We propose to use $72 million of the funds available from the war supplemental during 2004 to address the challenges resulting from an increasing claims processing workload in order to assist us in reaching our timeliness goal of 100 days by the end of 2004. We propose to use the remaining $28 million in 2005 to help sustain this timeliness standard.

At the same time that we are improving timeliness, we will be increasing the accuracy of our claims processing. The 2005 performance goal for the national accuracy rate for compensation claims is 88 percent, well above the 2001 accuracy level of 80 percent.

In support of the education program, the budget proposes $5.2 million for continuing the development of the Education Expert System. These resources will be used to expand upon an existing prototype expert system and will enable us to automate a greater portion of the education claims process and expand enrollment certification. This initiative will contribute toward achievement of our 2005 performance goals for the average time it takes to process claims for original and supplemental education benefits of 25 days and 13 days, respectively.

In order to make the delivery of VA benefits and services more convenient for veterans and more efficient for the Department, we are requesting $1.5 million for the collocation and relocation of some regional offices. Some of this will involve housing regional office operations in existing VA medical facilities. In addition, we are examining the possibility of collocations using enhanced-use authority, which entails an agreement with a private developer to construct a facility on Department-owned grounds and then leasing all or part of it back to VA. At the end of these long-term lease agreements, the land and all improvements revert to VA ownership.

In recognition of the fact that the home loan program is primarily a benefit that assists veterans in making the transition from active duty life to veteran status, the 2005 budget includes a legislative proposal to phase in an initiative to limit eligibility for this program to one-time use. Under our proposal, one-time use of the loan program would apply to any person who becomes a veteran after the date this proposed legislation becomes law. Those who are already veterans, or who will achieve veteran status prior to enactment of the proposed law, would retain their eligibility to use the home loan benefit as many times as they need to for a period of 5 years after the law takes effect. Once that 5-year period has passed, they would no longer be able to use this benefit more than once. This legislative proposal does not change eligibility for active duty personnel who would retain the ability to use this benefit as many times as they need it. VA home loans are important for first-time buyers because they require no down payment—making them riskier than other loans. After the first use, home equity can be used to obtain more favorable terms from conventional loans, or through the Federal Housing Administration. Therefore, limiting this benefit to its original intent of one-time use after leaving the military will lower loan volume and risk, save money over the long-term, and coordinate Federal programs.

BURIAL

The President's 2005 budget includes $455 million for the burial program, of which $181 million is for mandatory funding for VA burial benefits and payments and $274 million is for discretionary funding, including operating and capital costs for the National Cemetery Administration and the State Cemetery Grant program. The increase in discretionary funding is $9 million, or 3.4 percent, over the enacted level for 2004, and includes operating funds for the five new cemeteries opening in 2005.

This budget request includes $926 thousand to complete the activation of new national cemeteries in the areas of Detroit, MI and Sacramento, CA. These are the last two of the six locations identified in the May 2000 report to Congress as the areas most in need of a national cemetery. The other four cemeteries will serve veterans in the areas of Atlanta, GA, south Florida, Pittsburgh, PA, and Fort Sill, OK.

With the opening of new national cemeteries and State veterans cemeteries, the percentage of veterans served by a burial option within 75 miles of their residence will rise to 83 percent in 2005. The comparable share was less than 73 percent in 2001.

The $81 million in construction funding for the burial program in 2005 includes resources for phase 1 development of the Sacramento National Cemetery (CA) as well as expansion and improvements at the Florida National Cemetery (Bushnell, FL) and Rock Island National Cemetery (IL). The request includes advanced planning funds for site selection and preliminary activities for six new national cemeteries to serve veterans in the following areas: Bakersfield, CA; Birmingham, AL; Columbia/Greenville, SC; Jacksonville, FL; Sarasota County, FL; and southeastern Pennsylvania. Completion of these new cemeteries will represent an 85 percent expansion of the number of gravesites available in the national cemetery system since 2001, almost doubling the number of gravesites during this time period. In addition, the budget includes $32 million for the State Cemetery Grant program.

In return for the resources we are requesting for the burial program, we expect to achieve extremely high levels of performance in 2005 and to continue our noble work to maintain the appearance of national cemeteries as shrines dedicated to honoring the service and sacrifice of veterans. Our performance goal for the percent of survey respondents who rate the quality of service provided by the national cemeteries as excellent is 96 percent, and our goal for the percent of survey respondents who rate national cemetery appearance as excellent is 98 percent. In addition, we will continue to place emphasis on the timeliness of marking graves. Our performance goal for the percent of graves in national cemeteries marked within 60 days of interment is 82 percent in 2005, a figure dramatically above the 2002 performance level of 49 percent.

FINANCIAL STEWARDSHIP

We have taken numerous steps during the last few years to improve the efficiency and effectiveness of our business practices in order to help ensure that we fulfill our responsibility to act as sound stewards of the funds with which we are entrusted. Financial management initiatives in areas such as medical care collections, debt management, and procurement reform will continue to increase the resources available for the Department to use in providing services and benefits to veterans. Our sound stewardship of financial resources is demonstrated by the fact that VA has received a clean audit opinion for the last 5 years.

Our projection of medical care collections for 2005 is $2.4 billion. This total is 38 percent above our estimated collections for 2004 and is more than three times the collections level from 2001. Approximately $407 million, or 61 percent, of the increase above 2004 is possible as a result of the proposed medical care policy initiatives. In addition, the Department continues to implement the series of aggressive steps identified in our revenue cycle improvement plan in order to maximize the health care resources available for the medical care program. We are establishing industry-based performance and operational metrics, developing technological enhancements, and integrating industry-proven business approaches, including the establishment of centralized revenue operation centers. For example, during the last year we have lowered the share of reimbursable claims receivable greater than 90 days old from 84 percent to 39 percent, and we have decreased the average time to produce a bill from 117 days to 49 days.

The Department has been very successful in strengthening our debt management efforts. At the close of 2003, VA had referred 98 percent ($221.3 million) of the total delinquent debt eligible for the Treasury Offset Program and 96 percent ($152.2 million) of the total delinquent debt eligible for Treasury's cross-servicing program. These proportions are dramatically higher than the comparable shares (67 percent and 17 percent, respectively) in 2000. Our Debt Management Center (DMC) collected $381.7 million in 2003, or about $63 for every dollar spent on debt collection activities.

We continue to make excellent progress in implementing the recommendations of our Procurement Reform task force, as 43 of the 65 recommendations have been completed. By the end of 2004, we expect to implement all of the remaining recommendations. These procurement reforms will optimize the performance of VA's acquisition system and processes by improving efficiency and accountability. We expect to realize savings of about $250 million by the end of 2004 as a result of these improvement initiatives. This figure will rise after we have completed all 65 recommendations.

As a result of a variety of improved management and business practices to take full advantage of national purchasing opportunities, VA has realized savings of $1.1 billion in the purchase of pharmaceuticals between 2001 and 2003, $78 million in the purchase of medical equipment, medical and surgical supplies, and prosthetic equipment, and $108 million through a national information technology contract.

In December 2001, Public Law 107–103 was enacted to prohibit veterans who are fugitive felons, or their dependents, from receiving certain veterans' benefits. Since that time, the Department has conducted computerized matches between fugitive felon files of law enforcement organizations and VA benefit files. When appropriate, criminal investigators from VA's Office of Inspector General assist law enforcement agencies in apprehending fugitives. In May 2003, 986 fugitive felon cases were mailed to VA regional offices. We have taken action on 420 of these cases, the total value of which is $6.6 million.

OTHER MANAGEMENT IMPROVEMENTS

Mr. Chairman, we have made excellent progress during the last year in implementing the President's Management Agenda. Our progress in the financial, elec-

tronic government, budget and performance, and DOD/VA coordination areas is currently rated "green." Our human capital score is "yellow" due only to some very short-term delays. However, VA's competitive sourcing rating is "red" because existing legislation precludes us from using necessary resources to conduct cost comparisons of competing jobs such as laundry, food and sanitation service. The administration will work with Congress to develop legislation to advance this effort that would free up additional resources to be used to provide direct medical services to veterans. We will continue to take the steps necessary to achieve the ultimate goals the President established for each of the focus areas.

During 2005 VA will continue developing our enterprise architecture that will ensure that all new information technology (IT) projects are aligned with the President's e-government initiatives as well as the Department's strategic objectives. The enterprise architecture will help eliminate redundant systems throughout VA, improve IT accountability and cost containment, leverage secure and technologically sound solutions that have been implemented, and ensure that our IT assets are built upon widely accepted industry standards and best practices in order to improve delivery of benefits and services to veterans. One of our primary focus areas in IT will be cyber security. We will concentrate on securing the enterprise architecture and providing continuous protection to all VA systems and networks. This will require purchases of both hardware and software to address existing vulnerabilities.

The Department has developed a comprehensive human capital management plan and has started implementing some of the strategies outlined in this plan. In addition, we are implementing a redesigned performance appraisal system to better ensure that all employees' performance plans are linked with VA's mission, goals, and objectives.

CLOSING

Mr. Chairman, VA has achieved numerous successes during the last 3 years that have significantly improved service to our country's veterans. We have enhanced veterans' access to our health care services that set the national standard with regard to quality; improved the timeliness of health care delivery; expanded programs for veterans with special health care needs; dramatically lowered the time it takes to process veterans' claims for benefits; and expanded access to our national cemetery system. The President's 2005 budget will provide VA with the resources necessary to continue to improve our delivery of benefits and services, particularly for veterans with service-connected conditions, those with lower incomes, and veterans with special health care needs.

That concludes my formal remarks. I would be pleased to answer any questions.

Chairman NUSSLE. Let me begin by asking you to speak to the veterans that are here today, because on the second panel, as you might imagine and appropriately so, four very honored veterans will come forward and tell us as a committee that there isn't enough. They would like to have some more. They would like to see more resources in the budget. They would like to see more opportunity for changes and increases in a number of areas.

And I would like you to, through me, and through this question, speak to them and answer that question of either why we can't, or how we are going to begin to address those requests over time.

Secretary PRINCIPI. Certainly, Mr. Chairman. I work—I try to work very, very closely with the veterans service organizations——

Chairman NUSSLE. I guess I shouldn't have assumed that there was a disagreement. Maybe there isn't. But I also suspect that they might want just a little bit more.

Secretary PRINCIPI. Well, they do. I appreciate the role they play as advocates for our veterans. It is quite understandable that they would come before this committee and all committees and request a higher budget. I think they are very well intentioned. I believe that we have done extraordinarily well. And, again, I thank not only the President, I thank them for their advocacy, and I thank the Members of Congress on both sides of the aisle for everything you have done for my agency and the men and women we serve.

These have been extraordinary increases. This year, although we received our appropriation late, we all know that, I understand how this works up here, I spent many years of my life up in Congress as a staffer. But we received almost a $3-billion increase this year. And that has to be historic. I don't think it has ever been equal that. And that will help us lay the foundation of meeting the demands that are being placed on us.

I am confident that with the budget that you appropriated to my agency in 2004, coupled with this budget, and the efficiencies and the work we are doing that we will provide care to every veteran in category 1 to 7 who comes to us for care. And that is the commitment I make.

You know, and I would also say that veterans are Americans, first and foremost. We have sacrificed, we have gone to war. And we have asked for very little in return. And I think what the Congress, the President has given us over the years, and throughout history has demonstrated our commitment to them.

But we are also, as Americans, concerned about the economy, concerned about education for our children, concerned about terrorism, and protecting our families. And there are a lot of demands and priorities for our country. And what we are trying to do is meet them all in a wise manner. So I would say to them, we can provide good quality care, timely care to veterans with the budget that we have proposed.

Chairman NUSSLE. But in fairness to their requests, and as you said this is not your father's VA, this was not—in other words, there has been a time in our history where veterans, as we saw in some of the charts that were put up, didn't receive some of the increases that we saw over the last couple of years, let alone the increases that you are requesting this year.

What has changed? What in your opinion has changed to make—what are some of the biggest changes you have seen that makes this not your father's VA, as you pointed out.

Secretary PRINCIPI. Well, I think the VA, over the past 10 years, has transitioned from a hospital centric health care system to a patient focused health care system. We have seen the VA migrate to community-based outpatient clinics, bringing health care closer to the patient.

We have placed tremendous effort, not just myself, but my predecessor, and the Under Secretaries of Health before me, have placed a high priority on improving quality of care in the VA.

We have established a computerized patient record which is the envy of the health care world. Our patient safety program was honored by Harvard University and the Ford Foundation and the pharmacy benefit management program that has been able to provide an increasing number of veterans coming to us for pharmaceuticals, while maintaining costs at almost a straight line level received the Innovation in Government Award.

There have been so many remarkable changes in the VA, and part of it was brought about by the open enrollment that came about in 1998. The bill was passed in 1996, but was enacted—became effective in 1998. And we went from 3 million veterans who were eligible for comprehensive care in the VA, 3 million were only eligible for the comprehensive care, the service disabled, the poor-

est of the poor, and those in need of specialized services to 25 million equally eligible for care.

That, coupled with the opening of the clinics, the improvements in quality and this great pharmacy benefit management program has caused this tremendous growth in workload. And those are some of the dramatic changes that have taken place.

Chairman NUSSLE. Mr. Secretary, in a VA hospital in Iowa, I have been told a story, it is a parochial issue, but I did want to bring it up and just ask your comment on this more than anything else, how to address it, for that matter if you have seen it in other areas.

That is, we have had a difficult time recruiting a provider, a radiologist. And my understanding is that as a result of that, some of the services had to be outsourced to a private institution, and as a result of that the costs have been, as I understand it, three times higher in order to accomplish it.

I am not sure how I should even phrase the question. Is this being discussed? Do you see this in other areas? Is there a way to address this from your standpoint.

Secretary PRINCIPI. Certainly. Recruiting physicians, nurses into the VA system is difficult. And certainly more difficult in certain rural areas. We have the same challenges as private sector health care in rural areas, recruiting specialists, radiologists, cardiologists, urologists. So we are no different than the private sector.

I think a couple of things to bear in mind. First, we are affiliated with just about every medical school in this Nation, maybe all of the medical schools, thereby that gives us a competitive edge, we are able to work closely hand in glove with the medical schools, with teaching hospitals. So we are able to attract some of the finest physicians to the VA.

And, secondly, we have a robust research program which also serves as an incentive to bring high quality physicians to our Department. And, third, we have a physician pay reform bill that we sent up to Congress last year. It has not been acted upon. I believe that if Congress will enact physician pay reform, we will be able to compete even more effectively against the private sector and bring some of those physicians to the VA.

Chairman NUSSLE. Thank you. Mr. Spratt.

Mr. SPRATT. Thank you, Mr. Chairman. Mr. Secretary, let me show you a couple of charts again just to depict what our concern is. We are not trying to harangue you, I understand the situation you find yourself in.

But, when we look at those bar graphs, it gives us pause. First of all, chart No. 2. This shows in blue bar graphs the baseline budget if you adjust it every year for just inflation. It is the CBO baseline. As you see it climbs from a little over $29 billion to a little over $33 billion over the period 2004–09.

Each year, however, beside it is a red bar which shows what your actual funding level is. And the discrepancy between current services and actual funding gets worse and worse as you go out in time. It is $257 million this year. That is not an insignificant sum. But, the real concern is in the outyears. Because, if this effort to reduce the deficit continues intense in the outyears and it is concentrated

on discretionary spending, this may be the fiscal future that you face.

By the year 2009, the cumulative shortfall between current services and actual funding is $13.5 billion, a huge sum of money for your budget.

Now, let me show you on chart No. 5, please, the way we look at your budget in very simple terms, arrayed against what would be ideal or optimum. First of all, the first bar is 2004 enacted. The next bar is 2005. There is an increase there. But it is still, as we have said $257 million beyond current services.

The next year, it is our understanding from your previous testimony, that you requested for 2005, $1.2 billion more than OMB was able to give you. So we have simply put in the next bar, the next to last bar, the VA request to OMB at $1.2 billion above the actual requested level.

And then finally the last bar is the independent budget which is a depiction of what is needed.

One thing that concerns us, if we can look back at chart No. 2, is that we are seeing in your budget a practice that is—appears to be true throughout the discretionary budget. In 2005 there is an increase. In your case, it is less than current services, but it is a nominal increase, $500-and-something million, I believe.

However, in years 2006, 2007, 2008 and 2009, the programmatic numbers are not in the budget request but they are in a computer run. And when you go back to that computer run, you lose money every year.

The situation gets worse and worse and worse. And though, so it looks like you are doing OK, just about treading water this year, $257 million out of $30 billion for current services sufficiency. But, in the outyears, you don't sustain that level, you get bigger and bigger hits every year, if we can take these computer runs as the likely path that the appropriations are likely to follow.

Is that a concern of yours? Have you expressed this concern to the Office of Management and Budget?

Secretary PRINCIPI. I always express my concerns to the Office of Management and Budget. But, Mr. Spratt, a couple of points. The chart you show assumes no improvements in cost effectiveness. You know, we have gone from keeping veterans in inpatient beds to moving them into outpatient centers where they can get day surgery and go home that day.

The fact is, we are treating more patients than ever before. I mean, I am serious when I say, we have treated 800,000; almost a million more veterans have been provided health care since 2001.

So we must be doing something right, coupled with the increases in the budget that the President requested and that you have also added to. I really do believe that VA is a much more efficient provider of health care today than it was 10, 20, 30 years ago. And will continue to make the improvements.

I would also add that we have increased the number—the amount of collections from insurance companies, notwithstanding the fact that Medicare is off the table to the VA, and the majority of our veterans are Medicare eligible. But, the amount of money that we have collected from insurance companies for nonservice connected disabled veterans, as well as modest copayments of $7

per prescription, for a 30-day prescription, I think the greatest pharmaceutical benefit in this country has allowed us, these are new resources that we can use.

And I would also point out, that I see your graphs for the outyears, but there is nothing to preclude myself or my successor to request more money from OMB and the President, and the Congress in future years.

Mr. SPRATT. I am simply putting before you OMB's projection of what your funding levels are going to be. They are not ours. We didn't come up with them ourselves.

Secretary PRINCIPI. Well, if more money is needed to meet the demand that is being placed upon us, then that is something that we would have to do.

Mr. SPRATT. I guess the question I am asking is, is the outyear budget realistic? I am not threatening you with that budget, I just look at it and wonder if it can be attained.

Secretary PRINCIPI. You mean 2006, 2007.

Mr. SPRATT. Yes, sir.

Secretary PRINCIPI. It may not be. But I don't know. We may have to request more money. We also have a decline in the veteran population. It is going to start dropping. The number of hospital beds have decreased. We have moved more patients into outpatient care. The fact of the matter is, can we meet the demand that is being placed upon us for health care? Through 2005, my answer to you, Mr. Spratt, is we can.

Mr. SPRATT. Let me ask you about waste, fraud and abuse. This committee last year, in reporting the budget resolution on the floor and afterwards, sent direction to every committee of jurisdiction and told them they wanted them to wring out their budgets and come up with realistic proposals of how much savings could be affected through rooting out waste, fraud and abuse. In the case of the Veterans Affairs Committee, it was $3.9 billion.

Is that a realistic expectation from you over the near term? Can you identify $4 billion of waste, fraud and abuse that you can wring out of your operations and put back into savings.

Secretary PRINCIPI. I think we have just begun to scratch the surface. I am very proud of the progress we have made. Again, $1.1 billion in savings over 3 years in pharmaceuticals alone, just in pharmaceuticals. We are probably, outside of Defense, the largest procurer of goods and services in the Federal Government. And I am absolutely confident, by standardization and national contracting we can drive down the cost and yield significant savings in the hundreds of millions of dollars.

Mr. SPRATT. I will make you a proposition.

Secretary PRINCIPI. Yes, sir.

Mr. SPRATT. You take your expertise in buying prescription drugs at discounted price down to HHS, and half of what you save Medicare we will try to appropriate back to you. How is that for saving money on waste, fraud and abuse?

Secretary PRINCIPI. Well, I better not go there. I can say, Mr. Spratt, that I am really proud of what the VA has done with the national formulary use of generic drugs—65 percent of the drugs we prescribe are generic. And we—our procurement process is

using a consolidated mail-out pharmacy program. It is a tremendous, tremendous program.

Mr. SPRATT. I bear the testimony of the veterans I represent. They think it is a great program. They have got their own complaints about it, but nevertheless, it is one of the best things that the VA ever did, no question about it.

Let me ask you about the GI bill, something that has been one of the greatest social experiments the United States ever undertook. It phased out after Vietnam, came back here and Sonny Montgomery was a great champion of it.

You remember Sonny Montgomery from working here. Of course Sonny is still around. But, that is one of his legacies so much so that we named it after him.

When I read the section in the budget for the Veterans Administration, I noticed there was a box score which purports to evaluate performance of select programs. And in the case of the VA, one of the programs selected for evaluation was the Montgomery GI bill.

And the explanation is the program is well-managed, but lacks strong outcome goals. I am not sure what that means. Most efficient levels of monthly educational assistance to support the programs purposes are unknown. It goes on to recommend a cost effectiveness study, readjustment of the bonus amount.

I can't understand all of that verbiage there, Mr. Secretary. Is somebody zeroing in on the Montgomery GI bill? Are they proposing to reduce benefits or restrict access to it.

Secretary PRINCIPI. Mr. Spratt, I wholeheartedly agree with you. Congressman Montgomery is my mentor. And I believe that education is the key to the door to a successful life. As you indicated, it built a generation of leaders after World War II that propelled America to greatness in the 20th century. And I believe that the Montgomery GI bill will continue to do the same in the 21st century.

We may want to look at the program. Program evaluations I think are good and important. But I think it is the greatest program that the VA has really, in helping young men and women who serve their country, get back to school and be a success in life.

So I applaud what Congress has done in increasing the funding or the, you know—the amount that veterans can use under the GI bill, The President's increased proposed increase in the past. So it is just a great program.

Mr. SPRATT. Let me explain one thing with respect to what the chairman showed us earlier with regard to the Montgomery GI bill program. Those of us who were here at the time years ago, recall that Sonny was able to get that adopted because in the first 5 to 10 years, it made money for the Federal Government. The GIs who had to put aside their $1,800 to qualify for the program were actually putting more down than the beneficiaries were taking out for some substantial period of time.

So Sonny was pushing this on the services, couldn't get the services to support it. And then he came up with this budgetary angle that made it virtually a noncost item, a gainer for the budget. And it was the method by which we were able to get it passed in the Armed Services Committee.

Namely it didn't add to the deficit. These fellows sitting behind you recall that. It was a coup d' grace. It was a real coup for the Montgomery bill. It was the way that we eventually got it passed.

But, the consequence of that is that the costs in the near term were not substantial, but in the long term, they will be substantial, as more and more veterans begin to draw down their benefits. I think we can expect it to increase.

And one way it is a healthy indication because it means that these GIs are taking advantage of the program and going and getting their educations.

Secretary PRINCIPI. We have, I believe, almost 400,000 active duty service members and veterans in school under the Montgomery GI bill. It is interesting that in 1995, the amount was $440; today it is over $1,000. And the participation rate has gone up to 56 percent, because for a long time, the participation rate in the GI bill was less than 50 percent. So we are making progress getting more and money, men and woman coming out of the military to avail themselves of this wonderful, wonderful benefit.

Mr. SPRATT. Thank you very much.

Chairman NUSSLE. Mr. Gutknecht.

Mr. GUTKNECHT. Thank you, Mr. Chairman. Let me, first of all, thank the ranking member, Mr. Spratt, for acknowledging that there is waste and abuse in some of our programs, and that is probably true in every department.

But, let me also say, Mr. Principi, we appreciate the job that you do. And thank you for coming today. And thank you to all of the people who work for you. The truth of the matter is, most of us have had the opportunity to visit the VA hospitals, the VA clinics, and the VA homes.

And my impression has been that they are world class, and that the people in those hospitals are dedicated individuals, and really care about our vets. They do a wonderful job.

So I think on behalf of all members on both sides of the aisle, I hope that ultimately we can agree that we in Congress have not ignored the vets. And I would even go further to assure you that on behalf of all of us we never will.

Now, obviously if you looked at any chart and extended it on almost any issue related to aging populations here in the United States, and especially as it involves health care, we are reaching a situation on all of those fronts that by simple extrapolation, we simply cannot afford to spend 50 percent of our gross domestic product on health care, particularly for the aging baby boomers. So at some point, we are going to have to come to grips with those issues.

We are going to have to find more efficient ways to deal with them. And again, congratulations to you and to the VA for what you have done.

I do want to come back to a parochial concern that Mr. Spratt raised, and that is the issue of prescription drugs. Because I think for the record I just want to make it clear that you do negotiate prices relative to prescription drugs.

Secretary PRINCIPI. That is correct.

Mr. GUTKNECHT. Have you ever done an analysis of how much those prescription drugs would cost the Federal Government if you

were to pay full retail price for the name brand drugs rather than negotiated prices on the generics.

Secretary PRINCIPI. I don't know if we have that total amount. I am told several billion dollars more a year. The 65 percent that are generic, that we prescribe, account for 8 percent of our costs. The 35 percent that are brand name account for 92 percent of our $3 billion pharmacy bill.

Mr. GUTKNECHT. But you negotiate on both the name brand and the generics.

Secretary PRINCIPI. Yes.

Mr. GUTKNECHT. Now, the other point that you made, I want to make very clear, because I think it is a misunderstanding among some even at the FDA. You mail those drugs out, don't you.

Secretary PRINCIPI. Yes, we do.

Mr. GUTKNECHT. Have you ever had a problem where someone has intervened and gotten into those packages and counterfeited or done something in terms of adultering those drugs.

Secretary PRINCIPI. We have a pretty close to perfect record with regard to our mailout, our mailout pharmacy program. After the first fill is done at the medical center, from that point on everything is mailed through one of our six or seven consolidated mailout pharmacies.

Mr. GUTKNECHT. So you have confidence in the safety of the chain of supply or the chain of command of the drug supplies that goes to the vets?

Secretary PRINCIPI. Without question.

Mr. GUTKNECHT. Thank you very much; and, again, thank you for all you do. I think I speak for everyone in this committee, we are going to do our part to make certain that we never ignore our vets. Thank you very much.

Chairman NUSSLE. Mr. Edwards.

Mr. EDWARDS. Secretary Principi, thank you for being here and throughout your lifetime for being an advocate for veterans. I know your commitment to our vets is deep and genuine and real, and I respect you for that.

You know, I respect the fact also that, once the administration approves a VA budget request, it is your legal responsibility and obligation to defend that budget and to use that money as wisely as you can; and it is your responsibility to defend that budget even if you personally had asked OMB for additional money. I believe the testimony last week said that you had asked OMB for $1.2 billion in additional VA spending for programs you felt were important to fund.

Let me just make a comment about the OMB. These are the same green eye-shaders who one year ago recommended—while 17,000 troops from my district in Fort Hood were literally getting on the airplane to fly to Iraq to fight for our country and risk their lives, they recommended a $31 million cut for those same soldiers' children's education in the Fort Hood area school districts. They were wrong in that case, and I am glad that Congress on a bipartisan basis through this committee's leadership corrected that mistake.

I think they are wrong to reduce by $1.2 billion the request made in good faith in the VA for adequate funding for veterans programs this year.

Let me just mention a comment about percentages. I know it sounds like a lot when you raised health care expenditures by 75 percent since 1995, but I think it is important for us to stop and consider that if you just assumed 7 percent inflation a year, over 10 years you would have to increase programs funding by 100 percent in order to maintain the same level of services. We can use statistics one way or another, but the fact is that that 75 percent really doesn't mean anything to the end service, to the veteran. What counts is whether their services are increased or reduced.

I want to comment, Mr. Secretary, on what the CARES Commission is going to do later today, and probably supporting most if not all of the recommendations of Under Secretary of the VA Roswell who oversees health care programs.

I just want to say for the record that, with America at war, a war against terrorism, a war in Afghanistan, a war in Iraq, it sends a terrible message to our troops in the field today risking their lives, and to our veterans who did so yesterday, that America can afford to build new hospitals in Iraq, but we cannot afford to keep open VA hospitals here at home.

Let me add that I am one of those who supports President Bush's efforts to spend money in Iraq to bring about democracy there. But if we are going to ask our troops to fight that war, we ought to be willing as taxpayers to keep open our veterans' hospitals and fund them adequately.

Now I do understand the need for spending money efficiently, but there were grave problems in the process used by Secretary Roswell and his staff in coming up with these recommendations to close seven VA hospitals, four of which focus on specialty care for mental health care.

First of all, in the case of Waco, TX, which is, as you know, a neighbor to Fort Hood, there was no cost analysis done before he made the recommendation to close it. So he made the recommendation to save money before he even knew whether it would save money or not. I don't think any business would tolerate putting that cart before that horse in such an important process and making a recommendation to close something as valuable as a VA hospital.

Secondly, he overturned the original conclusion, after an extensive process, by professional VA staff to actually expand the use of the Waco VA hospital, make it a national center of excellence for mental health care, totally opposite from the BRAC hearing I just listened to from Department of Defense officials where they had nonpolitical staff spend a year or years trying to develop recommendations on which to close. In this case, Mr. Roswell gave the VA personnel—the professional personnel in Texas, two weeks to answer the question: what would you do, given the fact that I want to close the Waco VA hospital?

I think that is not a healthy process, even though I respect the need to bring about efficiencies.

Finally, I think the CARES Commission has said publicly that they were very limited in their time and resources to do an independent analysis.

I guess I would just ask you this. Can you consider in your final decisions on whether to close veterans' hospitals during a time of war the cost of replacing those existing facilities to taxpayers, the number of troops that are returning from Iraq, how many of those would need health care? And what is the status of your mental health care task force that I believe, as you have told me, is reviewing the VA system in terms of mental health care services?

Chairman NUSSLE. The gentleman's time has expired. The witness may answer the questions

Secretary PRINCIPI. Yes, Mr. Edwards. I very much appreciate your concerns. We have had discussions on this subject.

Let me just say that I really believe that my predecessor was right in starting the CARES process and that I was right to continue it. Because I believe that we will break our trust with veterans in the 21st century if we don't modernize our infrastructure. I know it means making hard decisions, but there is also very many positive decisions.

This calls for $4.6 billion in new construction. It calls for many more outpatient clinics. It calls for new hospitals. We just have to modernize an infrastructure that has been built up over the past 150 years, and my task force on mental health is—they are due to give me a report any day now. We certainly will study that.

Again, we are not going to reduce beds; we may relocate beds in mental health and long-term care. But I think this is a very important undertaking, and I am hopeful we can work together to address the issues at Waco and other places around the country to ensure that we are making the right decisions to benefit 21st century veterans with 21st century health care, and not the century gone by.

Chairman NUSSLE. Mr. Schrock.

Mr. SCHROCK. Thank you, Mr. Chairman; and thank you very much, Mr. Principi, for being here and everybody that is associated with you. You guys do a great job. I know what I am talking about. I am not only a veteran, I am a retired veteran. So I know it, and I know it well, and I appreciate what you do.

Let me mention one thing. You know, when we see all these charts, no matter who is putting them in, they are all bogus, they are not worth the paper or the celluloid they are written on. In 2001——

Chairman NUSSLE. The gentlemen's time has expired—oh, I am sorry. I thought you would at least like my charts.

Mr. SCHROCK. With the exception of the chairman's charts.

Chairman NUSSLE. The gentleman may continue.

Mr. SCHROCK. Thank you very much.

In 2001, the CBO said we would have a surplus of $5.6 trillion. That didn't happen. Today they are saying $2.1 trillion in the hole. That is not—how do we know? How do we know what is going to happen tomorrow, let alone next year, 2008, 2009? We just don't. So that is bogus stuff. And when you see those charts, they have no credibility with me.

You just need to look at what has happened in the 108th Congress that has made historic gains for veterans. It is absolutely monumental. Nothing has ever happened before like it, especially when you talk about the historic breakthroughs on concurrent receipt, which sat there dormant for year after year after year. More has happened with concurrent receipt this year or last year than ever happened before, and I hope every veteran in this room understands that, because those are the facts.

Mr. Secretary, the most frequent complaints I get from veterans who are my constituents is their frustration with the processing of disability claims; and I think we talked about that. I wonder if you could speak to what improvements are being put into place to address this problem.

I know when I have problems with the constituents, I take care of it. Now I am going to ask the veterans who speak today if they have gone to their Congressman or they have gone to their Senator or if they are coming here first to say they have problems. What they need to do first is go to their Congressman, and my guess is the congressional people can fix it. I fixed most of them in the district I represent. But I am just wondering, is infrastructure in place to make sure some of these things are taking care of?

Secretary PRINCIPI. Well, it certainly has been a big, big problem with veterans waiting years for decisions on claims. Shortly after I came into office we convened a processing reform task force to look at this. I established the claims processing reform task force to see what changes need to be taking place, and we started with the President and the Congress giving us more people to decide claims. We hired up some 1,300 people. We have trained them. We now have some wonderful ratings specialists out there.

Secondly, we reformed our processing and changed how we do this. We created a tiger team in Cleveland to look at the oldest claims for our veterans over the age of 70. So we literally reengineered our entire claims processing task force.

I brought in Adm. Ian Cooper, who commanded our nuclear power submarine force Atlantic Fleet and he has done a marvelous job. His people at every level of the veterans benefits administration have pulled together and have demonstrated that a large bureaucracy can in fact accomplish its mission when they all believe that it is important to do so.

So with new processes, new people, and dynamic leadership and performance standards, I think we have really done veterans a great service.

Mr. SCHROCK. Mr. Secretary, the President's budget request includes proposals to concentrate VA's health care resources to meet the needs of the high-priority core veterans, those with service-connected conditions, those with lower income, and those veterans with special health care needs. Are these core veterans now waiting behind the non-core veterans for care and would non-core veterans continue to receive care if your proposals were enacted?

Secretary PRINCIPI. Yes, I was very concerned that disabled veterans were waiting in line too long to get the needed care, and we put together a regulation that requires all of our health care facilities to give veterans with service-connected disabilities a priority for care.

Secondly, we continue to take care of all veterans who are currently enrolled, whether they be the poor, the service disabled, or those with higher incomes, those in categories 7s and 8s. They still receive care on an equal footing.

We also continue to enroll veterans in categories 1 through 7.

So my answer is in the affirmative. We are providing care to all veterans who are enrolled.

Mr. SCHROCK. Great.

Thank you, Mr. Chairman.

Chairman NUSSLE. Mrs. Capps.

Mrs. CAPPS. Thank you, Mr. Chairman; and welcome, Secretary Principi.

Congress has increased the VA budget the last several years over the President's request, and I certainly strongly hope that we do so again. I believe, given your testimony last week to the Veterans Affairs Committee, that you could use $1.2 billion in additional funds.

I am mindful, as my colleague, Mr. Edwards has said, that it is very important as we consider this budget—which is, of course, a reflection of our values—during a time of war, not only for the message that it sends but also because these veterans are returning from Iraq and they are coming back and joining to the need for veterans' services.

Mr. Secretary, I understand you have two sons that have served or are serving in Iraq, and I extend my personal gratitude to you and your family. It is a personal situation when you have that in your family.

I am a nurse; and, as many of my colleagues have done, as I have visited Walter Reed Hospital I have been so impressed and struck by the nature not only of the care and the very skilled care that is rendered there but the devastating injuries that these veterans are coming back with is part of what we must consider with this budget here.

Many of these soldiers—and you know better than I this fact—are going to need care the rest of their lives. We know many are returning without visible physical injuries. We learned a few things over the past years and post-traumatic stress disorder is a casualty of this conflict as well and will be. I notice for example, that the medical and prosthetic research budget has been cut by $20 million.

So that is to frame what I would like you to use this time to talk about, how we—if there is additional funds, how they can be used. And perhaps even more, that we should be addressing with the nature of the war now, the kinds of injuries our veterans have and what we are faced with in the future and maybe some projections about what this cost will be over these years

Secretary PRINCIPI. Sure. Congresswoman Capps, I share your concerns. And certainly having been up to Walter Reed and Bethesda as well, there are some pretty catastrophic injuries up there. I can't think of any higher priority than to make sure that this very large budget overall that we have of close to $64 billion today, that we have got to make sure that we take care of the men and women coming back from Iraq and Afghanistan or any serviceman or woman who is injured or disabled as a result of military

service. I think that is why we were created. And, again, I am confident that we can do so.

Fortunately, the numbers are not as great as they were in previous wars, you know, with Vietnam and Korea and World War II. I really do believe that we can take care—we will take care of them if they come to us. Most of them are being cared for by the Department of Defense today at military hospitals, but we are caring for about 12,000 of those who have been discharged and have come to us. We just continually have to be there and make sure that when they need our services, they need new prosthetic limbs, that we are able to provide them to them.

Mrs. CAPPS. But then, saying that, how could we possibly in this budget cut the research for prosthetics? I mean, the veteran that I—the injured veteran that comes to my mind told me that if it had been Iraq I, he would not have survived his injures. He survived them, but barely. And the cost for rehabilitating this young man I know, we all know, it is going to be life long. Are we going to really be there for them?

Secretary PRINCIPI. The prosthetic research budget is not being cut. Our research budget overall shows $50 million less than last year. But I would only say to you that the appropriation of over $800 million for our research program is roughly half of what we receive. We receive about another $800 million from NIH, from the Defense Department, and from pharmaceutical companies to undertake research. Our entire research budget at the VA is closer to $1.6 billion.

Mrs. CAPPS. Well, perhaps the gentleman, if there is someone here representing the Paralyzed Veterans of America, that is where I got that number. So perhaps they will have some other discussion to bring up.

Secretary PRINCIPI. Yes, I would certainly—but the prosthetics alone is not being cut, that I know of.

Mrs. CAPPS. OK. And, of course, prosthetics are one small piece of it, actually

Secretary PRINCIPI. Well, yes, they are. They are a very important piece, and we need to continue to focus on amputation research for prosthetics and rehabilitation. Given what is happening up at Walter Reed and the men and women who are coming back, we need to make sure that we are developing the latest in technology in prosthetic limbs.

Mrs. CAPPS. Thank you very much

Chairman NUSSLE. Mr. Brown.

Mr. BROWN. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for coming today and for all you do for the veterans around the country and particularly in my congressional district. I applaud you for coming down and to speaking to the Blind Association.

I just want to report back to you that we had a groundbreaking the other day for our outpatient clinic. We are going from 4,000 square feet to 12,000 square feet, and I certainly applaud you for that.

Another area that we have been working on—of course, you have been part of it, too—is the consolidation of services between the Medical University of South Carolina and the veterans and also

maybe including DOD. This is a move that I know is being tested in other areas, but certainly I think it is an efficiency move and also an opportunity to increase the level of service for our veterans.

I applaud you on the prescription drug program, and I know that this has been certainly a savings, but it has also been an access solution, too. And I applaud you for that.

I was over in Iraq, and we visited one of the hospitals there. No wounded were there because they transport them to America. But one of the reasons is because the hospitals, of course, there they are using the same hospitals for not only the Americans but for the Iraqis, not only the military side but the civilian side, too; and those hospitals certainly need to be upgraded in order to be able to accommodate the type of injuries that are coming in.

So I think it is necessary that we are spending those funds to improve the hospitals over there, not discounting what is being done here. But I believe, by and large, that the veterans are being taken care of, I know particularly in my district. I applaud you for shortening that lead time between the time that the veteran looks for an appointment and the time he is being accommodated

I don't have a question. I just want to applaud you for your service and for what you do for the veterans. And just like the counterpart here, if there is a veteran in my area that is having a problem, I certainly would ask them to call me. A lot of them do. And I am certainly there to accommodate them. But thank you very much for being here today.

Chairman NUSSLE. Mr. Thompson.

Mr. THOMPSON. Thank you, Mr. Chairman.

Mr. Secretary, thank you very much for being here; and I, too, want to join the choir thanking you for the great job that you do. I have the very distinct impression that it is more than a job with you, it is really a commitment. I appreciate the passion that you bring to the job and the passion you bring for the people that you serve.

I am a little bit concerned with some of the assumptions that go into your budget, specifically the assumption that we are going to approve the enrollment fees and the copayment fees. If that doesn't happen—and I don't think some of the veterans that are impacted by this can be classified as high-income veterans, and I am not going to support it. So I don't know how it is all—how all my colleagues are going to vote on this, but I am not sure it is a slam dunk. It creates about a—what—about a $1.5 billion hole. If that happens, are you going to have the money to do the things that you want to do?

Secretary PRINCIPI. No.

Mr. THOMPSON. Is the President going to provide the money? Are they going to find it somewhere else?

Secretary PRINCIPI. I will not have the money. The policy proposals will generate revenues slightly less than $1.5 billion but certainly—certainly $1 billion, $890 million, somewhere in there. So that would create a problem for us, and it would mean longer waiting times for veterans to get the care they need.

Mr. THOMPSON. It is the proverbial two horns of the dilemma. You either don't have the money that you need, or you are shifting the cost to a specific group of veterans.

Secretary PRINCIPI. I agree with you. You know, some may have high incomes. I mean, we have veterans in those categories who do have very high incomes, and they are eligible. They served.

But I would only point out to you that keep in mind that a service member who retired, an enlisted man or woman who spent 20 years or more on active duty, a tech sergeant, a staff sergeant, a petty officer, and they have incomes less than these veterans who may have only served 2 years or 4 years on active duty, are asked to pay $254 to be enrolled in the TRICARE Prime program. So I think there is an equity issue here.

Congress has mandated that retired enlisted people with 20 years or more of active duty to be enrolled in the DOD TRICARE program have to pay $254 a year enrollment fee. I don't think it is that unreasonable to ask someone who only served a couple years on active duty, have no military-related disabilities, may never have left the United States, and have a higher income than that retired petty officer, that they don't have to pay anything. At the same time, we are asking the poorest of the poor, we are asking Congress to lift the burden of copays on them, the people who only have incomes of $9,000 or $10,000. So we are trying to be equitable in our sense. And if Congress does reject it, though, I appreciate that, but we will not have enough money.

Mr. THOMPSON. Well I am concerned about those income levels and the families that will be impacted by that.

The second question I had is on a project that your folks helped me with quite a bit, and that is the Project SHAD. These are the military people who were used as test subjects for a number of years; and then the DOD, as you know, denied that it happened. We finally found out that it did happen, and we are trying to get upwards of around 5,000 veterans do be evaluated by VA to see if exposure to things like sarin gas and VX nerve gas and anthrax and e-coli have caused them any long-term problems.

I just want to know if you feel that you have the resources in this budget to be able to serve the needs of those veterans that were these test subjects and if you feel comfortable that there has been enough research done to try and identify those people and if, in fact, this Dr. Spinlove's deposition regarding the additional files at Deseret Test Center is going to produce any more veterans

Secretary PRINCIPI. I think we have made great progress in identifying those veterans who were involved in those tests. There may be some that we don't know yet. We have done a major outreach to them to get them in, to get them evaluated, to make sure they understand

Mr. THOMPSON. Have you been able to look at Spinlove's testimony that there is some files at Deseret that would disclose further veterans or a greater extent of the tests?

Secretary PRINCIPI. I haven't, Mr. Thompson, but I will do so.

Mr. THOMPSON. Thank you very much.

Chairman NUSSLE. Ms. Brown-Waite.

Ms. BROWN-WAITE. Thank you, Mr. Chairman.

Secretary Principi, I want to thank you very much for caring and truly caring about veterans, getting those disability claims times down and making sure that there is a greater access to health care out there.

Given the fact that last year when the President's budget included some copays and user fees, given the fact that it obviously wasn't successful last year—and, quite honestly, I am not quite sure that the chances for success this year are any greater—wouldn't it be better if the committee counted—in other words, increased the recommended amount? Because the truth of the matter is, I am just not sure that those copays are going to pass. So we want to make sure that you are adequately funded.

Would you respond to that, please.

Secretary PRINCIPI. Well, if I understand your question, Congresswoman Brown-Waite, if Congress doesn't enact the policy initiatives, then clearly our budget is not going to be adequate to meet the full demand for care.

You know, when I talked about the $1.2 billion that I requested in response to a question, I don't want it to be misconstrued. That was part of the negotiation process. As a result of that process, we came up with these policy initiatives. But the fact of the matter is that we are counting on the revenues from those co-pays to help us meet the demand for care.

Ms. BROWN-WAITE. But if you don't get the copays, then obviously you are not going to be able to meet the demand for care.

Secretary PRINCIPI. That is correct.

Ms. BROWN-WAITE. Is that a logical conclusion?

Secretary PRINCIPI. That is correct.

Ms. BROWN-WAITE. OK. So that making sure that you have adequate funding for that level of care, one way of accomplishing that would be to increase the requested amount by—that Congress would increase that requested amount. I am sure you wouldn't object to that, would you, sir?

Secretary PRINCIPI. Well, I believe our budget proposal is a good one. If the copays are rejected, then we will need additional funding or we are going to have longer waiting times. So that is a decision that Congress will have to make.

Ms. BROWN-WAITE. When is the CARES report actually scheduled to come out? I keep hearing it is coming out, and it keeps getting postponed and postponed. Quite honestly, I just haven't read why it has been postponed.

Secretary PRINCIPI. In 1 hour. It is going to be delivered to me at 3:30. Today, I received the report from the chairman of the Commission. It was delayed because they needed additional time to complete their work, which I granted because this is a very important process. But it will be delivered today. And the Congress will be—congressional staff are going to be briefed tomorrow.

Ms. BROWN-WAITE. That is great.

I am also hearing that many of the medical records at the various hospitals and the clinics are going to be available online. So when a veteran goes from one facility to another, that there is not this, well, gee, it will take us three days to get your paperwork out of a storage facility. How soon is that actually going to be online.

Secretary PRINCIPI. It is actually coming online this year, but it will be completed by the end of fiscal year 2005. So that the computerized patient record of anywhere a veteran travels, that record can be accessed at the hospital he visits. So if he is coming from

New York to Florida for the wintertime, they will have that record in Florida.

Ms. BROWN-WAITE. That is great. And are you concentrating on those States where there is a lot of mobility first?

Secretary PRINCIPI. Yes, indeed.

Ms. BROWN-WAITE. Great.

One last question. I briefly read something last week about you were doing something about prescription drugs, a survey or something, about prescription drugs only.

Secretary PRINCIPI. You know, we are looking at the issue of about 30 percent of the veterans who come to us for care are coming for prescription drugs only; and, of course, we enroll them in the system and provide them the care and the lab tests before prescribing drugs. We are going to do some surveys to see what percentage of the veteran population are interested in the prescription drug only program and trying to get better information so that we can fashion our programs accordingly.

So we had a pilot program a while ago. Any veteran who was on a waiting list who only wanted prescription drugs, we filled them. Now we are going to try to do a survey to better understand the veteran population, what their needs are, so that we can make better policy proposals to Congress on prescription drugs.

Ms. BROWN-WAITE. Thank you very much, Mr. Chairman.

Thank you very much, Mr. Secretary.

Chairman NUSSLE. Ms. Majette.

Ms. MAJETTE. Thank you, Mr. Chairman; and thank you, Mr. Secretary, for the work that you are doing on behalf of this Nation's veterans.

I represent Georgia's Fourth Congressional District, and I am proud to have the Atlanta VA Medical Center in my district. I am very proud of the hard-working and dedicated employees that I believe has made this one of the most successful VA hospital in the country.

I just recently visited the hospital and the facility and met with the hospital director, Thomas Capello. I met many of the very dedicated employees, and I spoke with some of the patients who were very pleased with the care that they were receiving, and I certainly want to pass that on to you.

But, Mr. Secretary, while being at the facility I discovered what a difficult job it is that these men and women have to provide the kind of care that our veterans need and that the job is getting more and more difficult. In this facility this year alone, they treated more than 10 percent more than—their patient—the number of patients treated was more than 10 percent, or a 10-percent increase, rather, than over last year. There is a wonderful eye clinic, and they are able to do so much for the patients, but they could do more with more resources.

I certainly agree with you that it is imperative that we modernize the infrastructure, and they have a great challenge at this particular facility. The wards are very attractive, given what they have, but they are also outdated, many of them—or many of the rooms are not handicapped accessible, and they have not been structurally improved since 1967.

I was pleased to see that one of the wards has been funded with a minor construction project, but there are still two others that remain that need to be remodeled and revamped. They are just structurally inadequate.

I know that you asked for $1.2 billion more in your Department's budget more than the President had included in his request. If you would, please address for me how you think that extra $1.2 billion would be best spent, how you would allocate those additional resources, and whether any of that money would go to improving the facilities in Georgia in particular.

Secretary PRINCIPI. Well, the $1.2 billion is basically—the policy initiatives that we are proposing really amounts to the $1.2 billion. So, you know, I had requested $1.2 billion and no changes in policy proposals; and, as a result of negotiation, you know, the increasing copays and user fee were substituted in its place. So it would be for medical care.

I would answer your question by saying that, historically, over the past, I would say, 10—at least 10 years, the VA's construction budget, in my opinion, has been somewhat underfunded. Congress has waited until we complete this CARES process. They did not want to provide significant increases in the construction budget until we made decisions as to what changes we were going to make to our infrastructure.

But now that we have completed the CARES process, I think it is critically important that we get the funding necessary to modernize infrastructure, like the Atlanta VA Medical Center. The average age of our facilities are 50 years old. That compares to about 9.3 years in the private sector. It is just very, very costly to maintain, and we have not been able to keep pace with the modernization effort.

Now the budget that we have this year is a significant increase over last year, but, generally speaking, our construction budget has been very, very low. And that is not a partisan issue. I am just saying we have not devoted the amount of money necessary to maintain our facilities in good condition.

Ms. MAJETTE. And I agree with you. It is not a partisan issue. We really do have to maintain the standards that our veterans deserve, and we have to continue to demonstrate our commitment to our troops as they are serving now by keeping the pledges and the promises that we have made to the veterans. So I would certainly be in support of increasing the ability to provide adequate infrastructure for the continuing growing need.

Secretary PRINCIPI. Congresswoman, I would also add that the network that includes Georgia has, in this fiscal year—because of the tremendous increase we received, their budget is going to increase 10.7 percent. So that should help the director, Tom Capello, and the network director really expand the reach of health care. So I think you could be very proud of that increase.

Ms. MAJETTE. I am certain that they will be very appreciative of that. Thank you.

Chairman NUSSLE. Mr. Hastings.

Mr. HASTINGS. Thank you, Mr. Chairman; and thank you, Mr. Principi, for being here and for the work you do on behalf of our veterans. I would share an earlier comment that certainly your

passion for this job certainly comes through, and I congratulate you for that and certainly on behalf of the veterans that are in my district.

I have heard a great deal about the CARES report when I have my town hall meetings and the meetings with the veterans, and I am glad it is finally appears to be coming to a conclusion. I look forward to the report that you will be giving, the release of briefing you will be giving to our staffs. I am impacted a bit, because—in the northwest with Walla Walla and Seattle and Vancouver, so I won't ask you to comment on it.

But I will point out the problem that I have in my district. Generally, it is a rural district, and the two closest facilities are in Walla Walla or in Seattle. There are certain times of the year—and certainly this was one of those times of the year or one of those years where it is very difficult for veterans desiring health care to travel to those areas just because of the snow and ice storms that we had. It is difficult for them to travel under those conditions.

I have been an advocate of community-based facilities and continue to be an advocate of that. So if you commented on this in your opening remarks, I apologize, because I missed that. But would you comment on what the plans are that you have for delivering health care, particularly in rural areas.

Secretary PRINCIPI. I think we make an enormous contribution delivering health care in rural areas, and I think the way we do that is in several ways.

First, I think the community-based outpatient clinic is terribly important so that veterans have access to primary care, get their pharmaceuticals; and we will continue to expand that program, continue to open outpatient clinics so that veterans on average do not have to drive more than 30 minutes from their home to access a VA as opposed to 3 or 4 hours sometimes in bad weather.

Secondly, I think we need to partner with the private sector. You know, historically, everyone was opposed to veterans going to the private sector. They called it mainstreaming. Today, I think we all—and veterans groups alike—recognize the importance of partnership with the private sector, if you need emergency care for a heart attack, to be able to go down to the private sector emergency room and the VA would pick up the cost of care if the veteran wasn't insured. We are asking for the authority to pay copayments for veterans who are insured and have to seek private sector emergency care.

Thirdly, I believe that we need to continue to rely on the Seattles, if you will. We need to have good, strong tertiary care inpatient facilities so that when veterans do need to go under—into surgery for open heart or whatever it might be, they are going to the best tertiary care hospitals the VA has, like Seattle, where we are affiliated with a great medical school and we can provide top-notch care, and throughout the country, Richmond and northern California, where we have those kinds of facilities.

Also, telemedicine. The VA is one of the leaders in telemedicine today so that veterans, you know, can get care through this modern technology we call telemedicine.

So I think we have to approach it in several different ways. Community-based outpatient clinics, partnering with the private sector

where it makes sense, and also maintaining a good tertiary care capability inside the VA.

Mr. HASTINGS. Just to follow up on that, one of the—part of the debate of the Medicare reform last year that we had was how the formula—the reimbursement formulas affect rural hospitals. Mine was one of those areas that was undercompensated, as was the chairman's in Iowa. It seems to me there is a real opportunity—because in many cases these facilities are in place but there the beds aren't being filled. Part of that is because of technology in delivering of medical care today, but there could be a variety of reasons. So if you are talking about partnering, are you talking about partnering in that sense, potentially?

Secretary PRINCIPI. We could. We could create—have contracts with private sector health care systems, national networks, where we get a contract price, a discounted contract price. So that if veterans are going to be going into the private sector, service-connected disabled veterans, they are part of a network and, therefore, the VA receives a discounted price for the cost of their care.

I think we just need to look for the most cost-effective way to do it, given the constraints on our budget; and that is what we are trying to focus on.

Mr. HASTINGS. Well, thank you very much. I look forward to working with you on that, because I think there is a blend there that can be beneficial to all sides. Thank you very much.

Chairman NUSSLE. Mr. Moore.

Mr. MOORE. Thank you, Mr. Chairman; and thank you, Mr. Secretary, for being here. I want to join everybody else and I think probably every other Member of Congress who thinks you do a wonderful job with very limited resources for the veterans in our country, and I very much appreciate that.

I don't have a veterans' hospital facility in my district, which is the suburbs of Kansas City, KS. But there is one, obviously, in Kansas City, MI; and there is one up at Fort Leavenworth. I was concerned last year when I heard that there might be a curtailment of some of the services or at least the hours at the Fort Leavenworth facility. Based on that information—which maybe turned out not to be correct—But based upon that information, I filed a resolution that would require you, sir, to give 60 days advance notice to Congress before any facility was closed in terms of—or significantly alter the hours. And I got within just a few days 199 Democrats and Republicans working together, because they care about our veterans.

It is not any—it is not pointed at you. I am not saying anything bad about you, sir, because I think there is some waste in our system everywhere. If there are hospitals right now that are not providing needed services, maybe they can be closed. But I just wanted to make sure that didn't happen precipitously, and that was the reason for that.

But I want to talk to you for just one moment about another matter. You—I think you would agree and I think everybody else would agree here that veterans are patriots who care very deeply about our country; and, in fact, they put themselves on the line for our country. You said that they understand the need, just as other Americans do, for fiscal responsibility and to deal with this horrible

deficit problem we have right now. And, in fact, the deficit next year is projected to be $521 billion.

Well, Mr. Secretary, we talk a lot about values in this country, how much—we in Congress, about how much we value our children, education and our veterans and a lot of other things. I think it is very important that we do prioritize and truly put our money where we say our values are, and veterans and education and children are certainly some of those things that I think most Americans would say should be at the top of our priority list.

We talk now today—and I have heard questions and you have answered the questions as best you could, sir—about the copays, the user fees necessary to meet the needs of our veterans. You talked about this $1.2 billion—or at least you have been questioned about that, and you, I think, tried not to talk about it. You have been questioned about it. And I believe we should not—as much as I want to balance our budget and get rid of these horrible deficits, and I mean that sincerely, I don't believe we should try to balance our budget on the backs of our veterans. And I think most Members of Congress would agree with that as well.

So my question is going to be this, and maybe I don't know that you can even answer this, and maybe—I don't know that you can even answer this. There is a proposal to permanently repeal the estate tax and some other taxes. Should we short-change our veterans in order to give additional tax cuts such as permanent repeal of an estate tax or could we wait until we are in a better fiscal position—I am talking about in terms of eliminating some of these deficits—and really, again, put our priorities where we say our values are and take care of our veterans first, and then worry about some of these other things, such as repeal the estate tax.

Secretary PRINCIPI. Well, Mr. Moore, with all due respect, I really can't answer that question.

Mr. MOORE. I understand.

Secretary PRINCIPI. It goes above and beyond, you know, where I am.

But let me just say, it was so great to be with you at the 50th anniversary of the hospital in Kansas City. I really very much enjoyed being with you for that.

You know, we all want more. I mean, I think if I had all my colleagues in the Cabinet here, I think we would probably all say, sure, we could all use more. But I don't think that you or the President are shortchanging veterans. I think you care very deeply, the President I know cares deeply and I know you care deeply about veterans, and you have stepped up to the plate. You gave us $3 billion, I think, close to $3 billion this year. In the history of the VA, I don't think we ever received that, even if you adjusted it for real dollars or whatever.

The fact of the matter is, we are doing more today for our veterans, and I am very proud of that. I am very proud of what you have done, that Congress has done, and I think we will continue to do it. Because everyone cares deeply about the men and women who serve.

So, sure, if I get more money, I can take care of more veterans. That is a fact of life. But I guarantee you that we are going to continue to do everything within our power to expand the reach of

health care with the dollars appropriated and help to repay the debt

Mr. MOORE. Mr. Secretary, thank you very much. You—and I really mean this as a compliment. You are the ultimate good soldier.

Mr. SCHROCK. Or sailor.

Mr. MOORE. Military person.

Chairman NUSSLE. Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman.

Mr. Secretary, welcome; and I wanted again to join the chorus of congratulations on your good work with the resources you have.

I do have two veterans hospital either right in or right next to my district, McGuire in Richmond and Hampton, that I intend to visit in the next couple of days. Should I—I hope I have no fear of either of these hospitals getting on a closure list any time in the foreseeable future.

Secretary PRINCIPI. I certainly don't think so.

Mr. SCOTT. OK.

Secretary PRINCIPI. I haven't seen the report. I will in about 30 or 40 minutes. The Richmond VA Medical Center is a jewel in our crown and provides high-quality care. The Under Secretary of Health, I know, knows that very, very well. We have a wonderful heart transplant program there. I have talked to veterans who are waiting for new hearts, and we can be very proud of the care that is provided there, and Hampton as well.

Mr. SCOTT. Thank you. I don't want to go over and over the same issue, but I think you have heard enough from this committee to raise questions about whether we are going to actually pass this copay, particularly in light of the last question you had about equity within—the veterans is one thing. But when you are at the same time recommending tax cuts for dead multi-millionaires and expect the—because it only applies—the estate tax only applies to people with multi-million dollar estates for a couple. You have got to be up to $2 million before it even kicks in. And to give them a tax cut at the same time we are asking our veterans to sacrifice is something that is going to be heavy lifting for this Congress to actually pass. So I think we need to be prepared for alternative funding sources other than that.

I have had some questions about House Bill 3473, the veterans high treatment safety. I understand that the situation that provoked the legislation has been taken care of, is that right?

Secretary PRINCIPI. That is correct. The optometrists are not doing the laser surgery at this time.

Mr. SCOTT. On the one thing about the copay, if the copay were to go into effect, I understand that a lot of veterans would opt out of the system altogether.

Secretary PRINCIPI. I sincerely don't believe that would be the case, because that use fee is only $21 a month. You can stay enrolled in the VA health care system; it is only if you use the VA health care system would that fee be assessed. And I would think that—and, of course, it only applies to those with incomes above—I think it starts at 24,000 or 25,000. It only applies to those with incomes above that level and no disabilities.

Now some who have other options, they may have an employer-based insurance program. They may say, well, it doesn't pay for me to pay the $21. I have insurance through my employer. Therefore, I can get it through the private sector. But I think anyone who needs health care, that is a very reasonable fee.

Mr. SCOTT. So 200,000 people opting out of the system would be a number—you wouldn't agree with that number?

Secretary PRINCIPI. No, I would not

Mr. SCOTT. OK. Could you say a word about the diversity in your workforce, particularly in the higher levels?

Secretary PRINCIPI. We have work to do. Although I want to state that the VA is somewhat unique in Federal agencies. We just do not have SES. We are Title 38, so there is an SES equivalent. You know, doctors and others do not come under the traditional SES program.

Mr. SCOTT. Could you have your HR people get us what the actual numbers are so that we can know exactly what is going on?

Secretary PRINCIPI. I can tell you that, on the SES side, 19 percent of our women are in the SES core, 7 percent African Americans, and 3 percent Hispanic.

Mr. SCOTT. OK.

Secretary PRINCIPI. And then doctors, we have 27 percent are female; 4 percent of our doctors are African American; 6 percent are Hispanic; 22 percent are Asian.

Mr. SCOTT. Thank you.

I have another question. I obviously don't have time to ask it, so let me just ask it for the record so I can get some—so that you can respond. That is the effect of the Allen decision on how you are treating veterans with substance abuse problems and what the effect of the case is and how we are going to be treating veterans with substance abuse problems. Particularly, Mr. Chairman, we have mental health problems particularly with soldiers, with military personnel in Iraq. So we will have more to do in that. So if you could respond for the record, I would appreciate it. My time has obviously expired.

Chairman NUSSLE. The time has expired, but the gentleman may respond.

Secretary PRINCIPI. I think this is a very important issue, and I believe legislation to overturn the Allen decision is important. Prior to the Allen decision, we did not give disability compensation to veterans for substance abuse. The Allen decision court said that the way the law was written, that if a veteran has a secondary—how do you describe it—has a secondary condition to, let us say, PTSD, then we were required to pay disability compensation.

I think we need to treat people who have substance abuse problems. We need to help them get off drugs and have rehabilitation programs, treatment programs. We can't do enough for them. But to give them tax-free disability compensation, I think—speaking philosophically—I think makes a mockery of the disability compensation program; and I don't think there is any incentive to get better. Because if you get better, you lose your disability compensation. So why get off drugs? We want men and women who are on drugs, substance abuse to get cured, to get back into society. But

by saying, well, we will pay you to use drugs, is counter, I think, to good medicine and good treatment.

So I say take the money and help veterans and build more rehabilitation programs and get them back into the mainstream of society and off drugs. I think it is counter to good medicine. That is my own personal view.

Chairman NUSSLE. Thank you.

Mr. Secretary, for the record, do you know how much the Allen decision is driving as far as a cost, just again for the record.

Secretary PRINCIPI. We estimated that if everyone who has a substance abuse problem secondary condition to another problem, it could be as high—every veteran, it would be as high as $2.8 billion over 10 years. So it is significant. If those figures hold true, it is very significant. I don't think it would be that high, but clearly it has a very major financial impact on the agency, a lot of money that could be used for treatment programs.

Chairman NUSSLE. Thank you.

Ms. Baldwin.

Ms. BALDWIN. Thank you, Mr. Chairman, Ranking Member Spratt; and thank you, Secretary Principi, for being here.

Like so many of my colleagues, and obviously you, Mr. Secretary, I prioritize advocacy for our Nation's veterans in my legislative work and in our district activities and am looking forward to being home in Wisconsin tomorrow to spend a lot of the day with some of our veterans.

I wanted to pursue a couple of lines of questioning as time permits.

First of all, starting along the lines of Congresswoman Capps' question regarding the research budget of the VA, I believe it was in 1999—I am not sure of the specific date—that the Institute of Medicine issued a report scrutinizing the research on deployment-related illness, conditions, and injuries. And among the concerns that I know, in response to Congresswoman Capps' question, you pointed out that not all of the budget research is funded from the VA budget, but in fact DOD and NIH and others contribute to the total research budget on deployment-related conditions, illnesses, and injuries.

Several concerns were raised about that fact in the Institute of Medicine Report. One key concern that I know many veterans hold is—I hate to say it, but a sort of distrust because there is almost a financial incentive because of the budgetary constraints in the VA, the DOD, et cetera, to not recognize certain things as deployment-related and concerns that it is almost an inherent conflict of interest when looking at the effects of exposure to Agent Orange or the condition of the atomic veterans or posttraumatic stress disorder or even Gulf War Syndrome.

So that was one concern that the Institute of Medicine articulated.

A second was a lack of coordination because of the various funding sources. I read very carefully that Institute of Medicine Report, and I have actually been involved in crafting legislation to implement in a number of its recommendations. But I am wondering—and certainly I am catching you without that legislation before you, so I could take your answer at a future point. But my legislation

and the IOM recommend creation of an independent authority to coordinate the research agenda for many reasons and make sure that we provide a clearinghouse to make certain that the best information, the best research is really getting out into the field to the physicians treating our returning service members, wherever they are in the United States, including addressing some of the concerns about service in rural areas of our country. So I would love either now or at the future point to hear your reaction.

A second question I have relates to a memorandum that was issued back in July of 2002 by Deputy Secretary Laura Miller, and I am sure you are familiar with that. It was a directive to VA network directors to halt all outreach activities aimed at enrolling new veterans, and this in lieu of bringing more resources to deal with an impending crisis and gap between demand and resources.

I know that you have heard other inquiries about that. You indicated in a letter to our colleague, Congressman Strickland, that this was a temporary restriction. I am wondering if that remains the policy of the Department, and I would note that it is in such stark contrast to the philosophy of our State veterans organizations and my office where we are trying to inform every veteran of what they are entitled to, to make sure that we keep our promises to those individuals.

Secretary PRINCIPI. Two very important issues. The first I would say that I think we have come a long way from the early days of Vietnam and unwillingness to recognize that there is a lot more to the relatively modern technological battlefield than bullet wounds and shrapnel and that environmental hazards kill. I think, as a result of that, we also went back and looked at ionizing radiation from the atomic—atmospheric atomic test, the occupation of Hiroshima and Nagasaki, and have really been able to put together not only research but also Congress and we now have automatic service connection for certain diseases. So that if you have a certain form of cancer and you were in Vietnam or you were at Hiroshima or Bikini Atoll, you automatically get disability compensation. And we contract with the National Academy of Sciences every year to update us on the literature as to what diseases are associated with what exposures.

There was a lot of recalcitrance on Persian Gulf Syndrome. We went through this, I know Congressman Shays and others went through this, is it stress or is there more to it? And I created a Persian Gulf advisory committee; and, you know, I appointed people who explore unconventional theories. It doesn't sit well with mainstream research and scientists, but I felt that we needed to look at other theories as to why were people getting sick. Was there genetic disorders? Was something else going on here that two soldiers in the same field of operations, one gets sick and the other doesn't? What happened? Why?

So I think, Congresswoman, that we are making strides.

On the second issue, I think there is a lot of confusion. I want to take responsibility, not Laura Miller, for that memo. Because I was very deeply concerned when I came on board that we had over 300,000 veterans who were told to enroll in the VA health care system and put on waiting lists for a year to get health care, and I felt that that was irresponsible. I said, you can do outreach, you

can educate and tell veterans what their benefits are, but don't crank up the marketing printing presses to get veterans to enroll and then say, well, we can't give you really health care, you are going to have to be put on a waiting list. I said, don't take dollars away from doctors and nurses.

So we are doing outreach. I insist that we do outreach. I insist that we do health fairs and standdowns for homeless veterans and that we do tap programs. A lot is going on in this area, and I can assure you we will continue do to that.

Chairman NUSSLE. For our last set of questions, Mr. Shays.

Mr. SHAYS. Thank you.

Mr. Principi, I have a problem because I went to Principia College, so I sometimes don't know quite how to say your name.

If this has been like all the other experiences in this committee, we are criticized for the deficits, and then we are criticized for not spending enough money. But when it comes to veterans' issues, I just—the partisan person in me comes out—and it doesn't come out often. I am so tired of hearing the misrepresentation of what this administration has done and what this Republican Congress has done.

Just in total outlay, since 2001–05, it has gone up from $45 billion to $67 billion anticipated. Only in Washington, when you are basically spending so much more, do people call it a cut.

I would like to go to chart No. 1.

In chart one, we saw in the last 10 years of a previous Congress budget authority go up nearly 36 percent; and budget authority under this Congress—Republican Congress—has gone up 58 percent. Certainly better than what was done in the past.

In spending per veteran, on chart 2, we have seen it go from 38 percent—under previous Congress and a different party, go from 38 percent basically now to 79-percent increase over the last 10 years.

In discretionary spending, in chart 3, there it is somewhat equal. It is 39 percent in the 10 years of the Democrat Congress and then 65, almost 66 percent in the last 10 years.

In total budget authority, there it is pretty equal. It has gone from about 74 or 75 to about 75 in chart 5.

Chart 4 fascinates me. On chart 4, we have seen the GI bill education benefit basically kind of go up 35 percent, from 300 to 405 in a 10-year period. From 405 in 1994 or 1995, it has gone up to 985, an increase of 143 percent. Only in this city would they say somehow we are shortchanging veterans.

Then just chart No. 6, the number receiving medical care. We have seen that number in 1991 go from 2.3 to now 4.7 because of the tremendous initiative that was taken under a Republican Congress.

I don't always bring up Republican Congresses, because I do think veterans is a bipartisan issue and I do think we have tended to work together on veterans issues. But it has just been constant how I have met with veterans who will tell me we have actually cut spending, that they get less; and it just simply isn't true.

The thing I am most impressed with what you have done is, even with the additional dollars we have given you, you have gotten more out per veteran. You have become more efficient. You have done things like step up to the plate about Gulf War illnesses and

be willing to confront somewhat the medical community and even the Department of Defense in their reluctance to want to deal with this issue.

I mean, for me, Mr. Secretary, you are a real hero; and I just congratulate for what you have done. I stayed today in part because I wanted the opportunity to say that to you to your face publicly: A job well done. I am proud of what you have done.

Chairman NUSSLE. Mr. Secretary, thank you so much for coming before us yet again and testifying today about the budget for this year for veterans. We appreciate your advocacy in leadership, and we look forward to working with you as we move forward to enact this and provide the benefits that veterans do deserve. So thank you very much.

Secretary PRINCIPI. Thank you. Thank you, Mr. Spratt and members of the committee.

Chairman NUSSLE. We will take a very brief time-out recess while we change panels. We would invite the second panel to begin making their way forward.We will stand in recess very briefly. [Recess]

We will resume the hearing with panel No. 2, and we invite forward four very distinguished Americans to testify on behalf of America's veterans.

First, we have from the AMVETS, Rick Jones, and we welcome Rick. He is an Army veteran, a medical specialist—as I understand it—during the Vietnam War. And we appreciate your service and your advocacy, and we appreciate your commitment.

From the Paralyzed Veterans of America, we have John Bollinger, and John is a veteran with the United States Navy; and we welcome you to the committee and we thank you for your service and advocacy.

We have Rick Surratt.

Am I saying that correctly?

Mr. SURRATT. Yes.

Chairman NUSSLE. Deputy National Legislative Director for the Disabled American Veterans, also with the United States Army and a Vietnam veteran. We appreciate your service to the country and your advocacy, and we welcome you.

Last and certainly not least, from the VFW, Paul Hayden, who served in Desert Shield and Desert Storm with the Army, and we appreciate your service to our country, your advocacy, and we welcome you to the committee.

STATEMENTS OF JOHN C. BOLLINGER, DEPUTY EXECUTIVE DIRECTOR, PARALYZED VETERANS OF AMERICA; RICK SURRATT, DEPUTY NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS; PAUL A. HAYDEN, DEPUTY DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES; AND RICHARD "RICK" JONES, NATIONAL LEGISLATIVE DIRECTOR, AMVETS

Chairman NUSSLE. All of you have written testimony, as I understand it, which will be made part of the record at this point, and what I would like to ask you to do is, during your 5 minutes, to summarize, or however you would like to proceed. But I would invite you to summarize your testimony as you see fit, and——

Mr. SCOTT. Mr. Chairman, point of personal privilege?

Chairman NUSSLE. Yes, the gentleman is recognized.

Mr. SCOTT. Thank you, Mr. Chairman.

I had a conversation with the Secretary after his testimony. I asked a question which may not have been as precise as it should have been, and he would like the opportunity to clarify his answer.

The question was whether or not people would not enroll in the Veteran's Administration health care program, if they had the copays, and whatnot, and he said, "no."

There may be many people who may not take advantage of the services, and he would like an opportunity to clarify more precisely because of the imprecision of my question.

Chairman NUSSLE. Why do we not do that in writing?

If you will put your question in writing, we will submit it, and he will put his answer in writing and we will make it part of the record.

Mr. SCOTT. That will be fine.

Chairman NUSSLE. Thank you, Mr. Scott.

With that, we will start with Mr. Bollinger and we will work across the witness table in that order, and we will proceed with your testimony.

STATEMENT OF JOHN C. BOLLINGER

Mr. BOLLINGER. Good afternoon.

Chairman Nussle, Mr. Spratt, and members of the committee, my name is John Bollinger.

I am with the Paralyzed Veterans of America, and I would really like to thank you for this opportunity to present our views and concerns about the VA's fiscal year 2005 budget today.

This is the 18th year that our four organizations have come together to produce the Independent Budget. It is a policy and budget document which we believe best represents the true needs of the Department of Veterans Affairs.

We use commonly accepted estimates on inflation, health care costs, and health care demand to reach our recommended levels. This year, the document is endorsed by 32 veterans service organizations and medical and health care advocacy groups, representing millions of veterans and their families.

Each one of our organizations is responsible for one of the four main components of the VA budget: health care, benefits, construction and the cemetery service. I will focus my comments this afternoon on the health care section.

And I apologize. It has been a long day for all of you, I am sure, and some of what I say will be redundant, but please bear with me.

As our current veteran population ages, and as young men and women return from Iraq, Afghanistan, and other dangerous places in the world, our government's ability and its willingness to provide quality, accessible health care is more important than ever. Unfortunately, the administration's budget for fiscal year 2005 falls woefully short of providing an adequate funding level in real dollars for sick and disabled veterans.

You only have to listen to the VA's leadership to gain a partial understanding of how far short that will be.

Secretary Principi, who—quite frankly, we are very fortunate to have him at the helm; he is a very strong advocate for veterans. But he has been denied $1.2 billion in critical health care funds that he asked for, for fiscal year 2005, and I believe that he knows he needs.

The Under Secretary for Health has stated that VA needs somewhere between 12 and 14 percent just to maintain current services and keep their heads above water, yet the administration has provided less than 2 percent, the lowest increase in almost a decade, and I understand that the—you know, over the years, we have seen the charts with all the increases, and those are wonderful things, but it is thanks to you on Capitol Hill, here in Congress, that we have gotten those increases. And I recognize that the administration's budget is a starting point, but hopefully, from this day forward, we will be able to correct many of the inadequacies in the health care budget.

The budget as it stands will be devastating for veterans, as well as for the 200,000 existing doctors and nurses and support staff that work for the VA. Without help from Congress this year, the administration's budget will take a heavy toll on the entire system of care.

As you know, we are faced with an administration request that relies heavily on user fees, copayments, and collections to pay the costs of caring for disabled vets. If these fees are rejected again this year by the Congress, which we strongly hope they will be, VA will be in yet an even more precarious situation. Copayments and charges will not only unrealistically swell revenue projections; they will deter veterans from seeking their care at VA medical facilities.

Imagine the effects of those additional costs on those who have no choice but to receive their care from VA.

VA oftentimes is the only game in town for veterans. We are not, in the case of category 8, talking about wealthy people for the most part, and these people will have to get their health care elsewhere, or they will not get it at all. Or they will go someplace where it will be more expensive and, ultimately, society will pay the increased cost for their care.

Mr. Chairman, the budget contains significant detail on the recommendations on which it is based. We recommend a medical care account of $29.8 billion, which is $3.2 billion over the amount provided for fiscal year 2004.

The IB also includes resources to begin funding the VA's critical fourth mission, to back up the Department of Defense, their health care system, and to be there in the event of a national disaster or in the event of a terrorist attack.

Make no mistake, the VA will be spending money to comply with its responsibilities in this area; and if specific funding is not included, then, these dollars will have to come directly from resources intended for sick and disabled veterans.

For medical and prosthetics research, such a critical account, the Independent Budget recommends a total of $460 million, which is a $54 million increase over fiscal year 2004.

Sadly, the administration has proposed actually cutting research by, approximately, $22 million. Accepting that recommendation would set the research program back 6 years, to 1998 and 1999 lev-

els, and also, it would cost the VA, we understand, 500 FTE. These are doctors and nurses that not only do research, but provide clinical care to veterans to provide hands-on care, so we would be losing these people if this budget gets reduced the way the administration wants it to.

VA can be very proud of their accomplishments in research over the years, and I can tell you just from their work in spinal cord injury, the VA has given hope to all Americans with paralysis, that a cure for paralysis is on the horizon, and it is disheartening that the administration would reduce these critical resource dollars at a time when we so desperately need them.

In closing, on the health care section, the VA health care system faces two chronic problems. One is chronic underfunding, which I have addressed; and the second is the lack of consistent funding, and although it is outside the immediate control of you on the Budget Committee, we have become increasingly troubled over the years by delays in enacting the VA appropriation, and this year is a good example. It is 4 months late, so from October until January of 2004, VA operated on last year's money.

Every year we labor under the uncertainty of not only how much money they will get, but when the VA will actually receive desperate health care dollars.

We strongly encourage all of Congress to approve legislation removing VA health care from the discretionary side of the budget process and make annual VA health care budgets mandatory.

Thank you, sir.

Chairman NUSSLE. I thank you.

[The prepared statement of Mr. Bollinger follows:]

PREPARED STATEMENT OF JOHN C. BOLLINGER, DEPUTY EXECUTIVE DIRECTOR, PARALYZED VETERANS OF AMERICA

Mr. Chairman and members of the committee, as one of the four veterans services organizations publishing the Independent Budget, Paralyzed Veterans of America (PVA) is pleased to present the views of the Independent Budget regarding the funding requirements for the Department of Veterans Affairs (VA) health care system for fiscal year 2005.

This is the eighteenth year, PVA, along with AMVETS, Disabled American Veterans and Veterans of Foreign Wars have presented the Independent Budget, a policy and budget document that represents the true funding needs of the Department of Veterans Affairs. The Independent Budget uses commonly accepted estimates of inflation, health care costs and health care demand to reach its recommended levels. This year, the document is endorsed by 32 veterans service organizations, and medical and health care advocacy groups.

Although outside the immediate control of this committee, we are becoming increasingly troubled by the delays in enacting VA appropriations. In fiscal year 2000, VA appropriations were not enacted until October 20, in fiscal year 2001 October 27, in fiscal year 2002 November 26, in fiscal year 2003 February 20, and this year, January 23. For the past 2 years alone, the VA has had to struggle under the already inadequate funding levels established for the prior year fully one-third of the way through the new fiscal year. These delays directly affect the health care received by veterans, and have severe consequences upon the VA's ability to adequately plan for providing this care. This deplorable state further points to the importance of a mandatory funding mechanism for VA health care. But until that happens, we ask that this Congress move expeditiously to put the necessary funding levels in place by the start of fiscal year 2005.

This year, as we did last year, the Independent Budget is presented in the traditional account format. The VA is once again presenting its budget in the format it unveiled last year, a format that did not find wide acceptance. Last year, the House Appropriations Committee adopted its own format, a format which, in modified form, is found in the enacted Omnibus spending bill. Until this format dispute is

settled, and until we have adequate data in which to analyze the VA health care system under whichever format is adopted, we will continue to utilize the traditional account structure. It can become confusing amid the din of competing dollar amounts based upon these different formats, but we ask you to compare oranges to oranges and to bear in mind that attractive numbers may not exactly match reality.

The administration's budget request for health care is a shocking one, providing once again a woefully inadequate funding level for sick and disabled veterans. Calling for only a $310-million increase in appropriated dollars, a mere 1.2-percent increase over fiscal year 2004, this is the smallest health care appropriation request of any administration in nearly a decade. Indeed, the VA Under Secretary for Health testified just last year that the VA requires a 13 to 14-percent increase just to keep its head above water.

Once again, we are faced by a request that relies far too heavily on budgetary gimmicks and accounting sleight of hand rather than on real dollars that veterans need. The administration is again resurrecting its enrollment fee and increased copayment schemes, proposals soundly rejected by both the Senate and the House of Representatives. And once again we see unrealistic "management efficiencies" utilized to mask how truly inadequate this budget is. The VA must be accorded real dollars in order to care for real veterans. Shifting costs onto the back of other veterans is not the way to meet this Federal responsibility. Punitive copayments and charges are designed not so much to swell projected budget increases as they are to deter veterans from seeking their care at VA medical facilities. Imagine the effect of these additional costs on those who have no other choice but to get care at VA.

For fiscal year 2005, the Independent Budget recommends a medical care amount of $29.791 billion. This figure does not include funds attributed to MCCF, which we believe should be used to augment a sufficient appropriated level of funding. This amount represents an increase of $3.2 billion over the amount provided in fiscal year 2004. This recommendation does not rely upon phantom "management efficiencies," nor does it require veterans to pay more in order for other veterans to receive care. Overall, for discretionary spending, we are recommending $33.596 billion, $3.8 billion above the administration's discretionary spending proposal.

The Independent Budget recommendation is a conservative one. The VA health care system, in order to fully meet all of its demands and to ameliorate the effects of chronic under-funding, could use many more dollars. The Independent Budget recommendation provides for the impact of inflation on the provision of health care, and mandated salary increases of health care personnel. It provides resources to begin funding the VA's critical fourth mission to back up the Department of Defense health care system. Make no mistake about it, the VA will be spending money to comply with its new responsibilities in this area, and if specific funding is not included, then these resources will have to come directly from dollars used to care for sick veterans. It provides increased prosthetics funding and long-term care funding, and provides enough resources, we believe, to enroll priority 8 veterans. With the VA's decision to cease enrolling priority 8 veterans, undertaken only because of the lack of resources, we are losing an entire class of veterans, veterans who are an integral part of the VA health care system.

Of course, these recommendations are only estimates, and our crystal ball is often cloudy. Health care inflation may be higher, or lower than we have estimated. Demand may increase, or decrease. The implications, as they pertain to VA health care funding estimates, of the 2-year grant of health care eligibility to recently discharged or released active duty personnel as provided in P.L. 105–363, are difficult to account for. But what we must account for, and provide for, are the necessary resources for the VA to meet its responsibilities, and this Nation's responsibilities, to sick and disabled veterans. These resources must be provided in hard dollars, and not dollars magically realized out of the thin air of "management efficiencies" and other budgetary gimmicks.

Although much is inherently uncertain, we are certain that the VA cannot continue to provide adequate health care for veterans if it receives the meager $310-million increase in appropriated dollars recommended by the President. Indeed, the Secretary of Veterans Affairs last week during budget testimony before the Committee on Veterans' Affairs stated that the VA's budget submission was $1.2 billion below what the Department requested from the administration.

For medical and prosthetic research, the Independent Budget is recommending $460 million. This represents a $54 million increase over the fiscal year 2004 amount. Sadly, the administration has proposed cutting research by approximately $21 million. Accepting this level of $385 million would set the research grant program back 6 years to fiscal year 1999 funding levels. This program is a vital part of veterans' health care, and an essential mission for our national health care system. We must provide additional dollars for VA research as we provide additional

funding for our other national research endeavors. Over the course of 5 years, the budget for the National Institutes of Health was doubled. We should seek a similar commitment for VA research.

In closing, the VA health care system faces two chronic problems. The first is underfunding which I have already outlined. The second is a lack of consistent funding. The budget and appropriations process over the last number of years demonstrates conclusively how the VA labors under the uncertainty of not only how much money it is going to get, but, equally important, when it is going to get it. No Secretary of Veterans Affairs, no VA hospital director, and no doctor running an outpatient clinic knows how to plan for and provide care on a daily basis without the knowledge that the dollars needed to operate those programs are going to be available when they are needed.

The only solution we can see is for this Congress to approve legislation removing VA health care from the discretionary side of the budget process and making annual VA budgets mandatory. The health care system can only operate properly when it knows how much it is going to get and when it is going to get it.

We ask that this committee provide the resources necessary in the fiscal year 2005 budget resolution to provide our recommended funding level of $29.8 billion for veterans' health care.

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

Chairman NUSSLE. Mr. Surratt, welcome and we are pleased to receive your testimony.

STATEMENT OF RICK SURRATT

Mr. SURRATT. Mr. Chairman and members of the committee, good afternoon.

I am Rick Surratt with the Disabled American Veterans.

I am pleased to appear on behalf of the DAV and the Independent Budget to discuss budget priorities for veterans programs.

Those special few who fight our wars and serve in our armed forces do so at great risk to their own health and life and make extraordinary sacrifices for the citizens of our country. Only because of their willingness to serve and sacrifice do we enjoy the fruits of living in the greatest democracy in history and the strongest, most prosperous nation on Earth.

Veterans benefits are a continuing cost of war and national defense, but a cost the citizens of our grateful Nation are fully willing to bear as their own contribution to the common defense.

Veterans today want benefits appropriate to their special needs, with fairness in the way the benefits relate to their individual service and sacrifices. They want a fair, responsive, and effective system for delivering those benefits.

Among the range of recommendations we make in the Independent Budget toward achieving those goals, I want to discuss two here. Out of the millions that serve their country, some choose to make the military a career. When they serve the requisite period of 20 or more years, they have every right to expect the retired pay they earned and were promised for providing that service. Veterans who incur permanent disabilities during military service have every right to expect compensation for the effects of those disabilities in civilian life following service, regardless of whether they served 1 year or 30 years.

Disabled veterans who serve less than 20 years receive their disability compensation. Disabled veterans who serve 20 or more years receive their disability compensation, but only if they forfeit an equal amount of their retired pay, which, in effect, means they receive nothing for the disability. Naturally, these veterans do not

think that is fair. Last year, Congress agreed and removed the injustice for certain of these veterans, but left it in place for all others. Naturally, all the others, feel even more slighted.

Admittedly, fully repealing the prohibition against concurrent receipt of military retired pay and disability compensation has a substantial cost, but Congress spends equal and greater amounts on other things all the time. Our obligation to disabled veterans is a fundamental national obligation and should be a priority.

Moreover, when the Defense Department sets aside money to recover retired pay, it should do so without reducing that amount based on the expectation of escaping some of its obligation as a result of service members' being wounded and disabled. The DAV, the Independent Budget, and virtually all veterans and military organizations, continue to press for legislation to remedy this injustice.

We have been spending more money on defense. We cannot neglect the most important element of national defense, our men and women in uniform, whose retired pay and disability benefits are a part of the cost of national defense.

Let me now turn to the delivery of veterans benefits.

The Department of Veterans Affairs has struggled for years to correct serious deficiencies in its benefits delivery system. With reforms by management and increased resources from Congress, VA has made some improvements in the proficiency of its adjudicators and, thus, the accuracy and timeliness of its claims decisions.

It still faces difficult challenges and the even greater numbers of claims from veterans. Yet the President's budget would substantially reduce the number of employees in VA's Veterans Benefits Administration. With such a reduction in personnel in the face of increasing work loads, we believe VA can neither continue to make gains nor the improvements it has struggled to make in the last 2 or 3 years.

Veterans will suffer the consequences, but the system will suffer the adverse effects that will be even harder to recover from and that will cost even more to correct in the long-term. This proposal in the President's budget clearly represents misplaced priorities. Hopefully, the views and estimates from the Veterans' Affairs Committee will echo our call for higher staffing levels in VBA.

Mr. Chairman, I want to thank the committee for allowing us to testify and for considering our views and concerns. I will be very happy to answer any questions the committee may have.

Chairman NUSSLE. You are very welcome. Thank you.

[The prepared statement of Mr. Surratt follows:]

PREPARED STATEMENT OF RICK SURRATT, DEPUTY NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS

Mr. Chairman and members of the committee—representing the 1.5 million members of the Disabled American Veterans (DAV) and its Auxiliary, I am pleased to appear before you along with the DAV's three partners in the Independent Budget (IB)–AMVETS, the Paralyzed Veterans of America (PVA), and the Veterans of Foreign Wars of the United States (VFW)—to discuss our budget priorities for veterans' programs for fiscal year 2005.

Since 1987, the DAV has joined with these three other major veterans' organizations to assess the functioning and the resource needs of veterans' programs and to present our recommendations for funding and program improvements as an alternative to the President's budget submission. Rather than each organization testi-

fying on the entire range of programs, each limits its testimony predominantly to the areas of the IB for which it is the principal author. Accordingly, I will focus on the benefit programs for veterans and their associated administrative costs, although I want to join with my colleagues in stressing the importance of one other issue, the funding of veterans' medical care.

Unlike the President's budget submission, where requests for legislation or funding to improve the benefits or their delivery system have become sparse in recent years, the IB is not constrained by a mix of political priorities and therefore includes several recommendations to correct identified shortcomings. To us, veterans' programs are a continuing cost of national defense and must always remain a priority for funding by Congress.

Among our recommendations, the one with a high level of veteran interest and with perhaps the largest requirement of budgetary resources is our recommendation to remove entirely the offset between military retired pay and veterans' disability compensation. Last year, Congress enacted legislation to relieve some veterans from the injustice, but it left the injustice in place for all other military retirees who must forfeit the retired pay they earned in return for 20 or more years of military service to receive the compensation they are due for the effects of service-connected disabilities. Removal of this injustice entirely continues to be a top priority of the IB and all major veterans' and military organizations.

We do have other compelling issues that would not require the same levels of spending as repealing the prohibition against concurrent receipt of military retired pay and disability compensation. Within the range of benefits provided to veterans for various purposes, benefits for service-connected disabilities are the core veterans' programs. For the same reasons that it is important to adjust compensation rates regularly to prevent the purchasing power of this benefit from decreasing with increases in the cost of living, it is necessary to regularly adjust the rates of other disability benefits to maintain their value in the face of increasing costs. Congress has neglected doing this for benefit programs established to assist some of our most severely disabled veterans.

Service-connected disabilities result in functional impairments that not only adversely impact upon veterans' ability to perform job functions but also adversely impact upon their ability to perform the everyday activities of living. For veterans suffering from service-connected disabilities that require special fixtures and modifications to allow them mobility and independence within the home, the Department of Veterans Affairs (VA) provides grants for the purchase or construction of specially adapted housing. For veterans with service-connected disabilities that interfere with their ability to operate motor vehicles, VA provides grants for the purchase and special modification of automobiles. Unlike compensation and other government benefits that are adjusted each year for the increase in the cost of living, these benefits have been raised infrequently, although, like the price of other consumer goods, the costs of homes and vehicles increase with regularity. With long periods between adjustments, the value of these benefits has fallen substantially behind rising costs. Congress increased these grants last year, but the increase did not equal their cumulative loss in value and therefore did not fully restore them to the value they had when first established.

For example, the grant for the purchase or construction of specially adapted housing is currently $50,000. Obviously, that will not begin to cover the costs of a home with modifications such as wheelchair ramps and handicap-accessible bathrooms.

When first established, the automobile grant was set at an amount sufficient to cover the full costs of a moderately priced new vehicle. Later, the grant was fixed at 80 percent of the average cost of new automobiles. Based on the 2003 average price of a new automobile, which was $26,163, the current $11,000 automobile allowance covers only about 42 percent of the cost. To restore the comparability between the cost of an automobile and the allowance, the allowance, based on 80 percent of the average new vehicle cost, would be $20,930.

To remedy these deficiencies and to provide a mechanism for regular adjustment, we recommend in the IB that Congress enact legislation to increase the amount of the grants for specially adapted housing and the automobile grant, and to provide for automatic annual adjustments for increased costs.

Because of service-connected disabilities, disabled veterans have difficulty getting or are charged higher premiums for life insurance on the commercial market. VA therefore offers disabled veterans life insurance at standard rates under the Service Disabled Veterans' Insurance (SDVI) program. When this program began in 1951, its rates, based on mortality tables then in use, were competitive with commercial insurance. Commercial rates have since been lowered to reflect improved life expectancy shown by current mortality tables. VA continues to base its rates on mortality tables from 1941, however. Consequently, SDVI premiums are no longer competitive

with commercial insurance, and SDVI therefore no longer provides the intended benefit for eligible veterans. The IB therefore recommends legislation to authorize VA to use modern mortality tables instead of 1941 mortality tables to determine life expectancy for purposes of computing premiums for SDVI.

When life insurance for veterans had its beginnings in the War Risk Insurance program first made available to members of the armed forces in October 1917, coverage was limited to $10,000. A $10,000 life insurance policy provided sufficiently for the loss of income from the death of an insured in 1917. Today, some 87 years later, maximum coverage under the base SDVI policy is still $10,000. Given that the annual cost of living is many times what it was in 1917, the same maximum coverage, well over three quarters of a century later, clearly does not provide meaningful income replacement for the survivors of service-disabled veterans. The IB recommends legislation to increase the maximum protection available under the base policy of SDVI from $10,000 to $50,000.

Similarly, the maximum coverage under the Veterans' Mortgage Life Insurance (VMLI) program has fallen behind current needs. The maximum VMLI coverage was last increased in 1992. Since then, housing costs have risen substantially. Because of the great geographic differentials in the costs associated with accessible housing, many veterans have mortgages that exceed the maximum face value of VMLI. Thus, the current maximum coverage amount does not cover many catastrophically disabled veterans' outstanding mortgages. Moreover, severely disabled veterans may not have the option of purchasing extra life insurance coverage from commercial insurers at affordable premiums. The IB recommends legislation to increase the maximum coverage under VMLI from $90,000 to $150,000.

Though they need fine tuning from time to time, the benefit programs have been carefully crafted by Congress to alleviate the disadvantages veterans suffer as a result of disabilities and as a result of educational and vocational opportunities forgone by young men and women who chose to serve their country before personal advancement. These programs are effective only to the extent the benefits and services are delivered to entitled veterans when they need them. Efficiently and proficiently administering this broad range of programs for millions of veterans naturally and unquestionably presents formidable management challenges. Small mistakes can have major consequences for large numbers of veterans. Management and process deficiencies, and insufficient resources, have consequences that are directly revealed through poor service to veterans.

Although such poor service frustrates veterans who must deal with a massive and complex bureaucracy, it causes more than mere inconveniences. Incorrect decisions deprive entitled veterans of the benefits they need, and long delays due to incorrect decisions and insufficient resources deprive entitled veterans of the benefits they need when they most need them. Of course, the correct and timely payment of disability compensation is imperative for veterans who must rely on compensation for food and shelter.

In fulfilling its mission of effective management of the benefit programs and effective delivery of benefits and services, VA's Veterans Benefits Administration (VBA) has a checkered history, especially in accurate and timely delivery of the core veterans' benefit, disability compensation. Some of the failures were self-inflicted and the product of a wrong-headed institutional mindset, others were due to more innocent mistakes, and many were caused or compounded by insufficient resources or other factors beyond VA's control.

With a focus and decisive action directed to real reforms and improvement, current management has made some headway in overcoming systemic deficiencies in the delivery of benefits. Congress has helped by providing additional resources to bring the workforce and technology to the capacity required. To continue on the course of restoring VBA to acceptable levels of performance and service to veterans—indeed, to avoid losing the gains made thus far—VBA must continue to devote its full energies to the process, and Congress must continue to provide the resources required to get the job done. The IB makes specific recommendations in both of these areas, but I will only address here our recommendations that involve the discretionary appropriations for the administrative expenses of VA's benefits delivery system.

The President's budget submission for VA clearly does not remain fixed on the objective of strengthening VBA to make it better able to fulfill its responsibilities to veterans. Due to the war in Iraq and the many hostilities in which our armed forces are engaged today, we can only expect an influx of new veterans needing VA benefits and services. Logically, more resources will be needed in some areas just to stay even with the workload. However, the President's budget proposes major reductions in resources for the delivery of benefits and services to veterans. For VBA, the President's budget requests 829 fewer full-time employees (FTE) for fiscal year 2005

than authorized at the end of the fiscal year we have just finished, fiscal year 2003. The request is 540–FTE below the fiscal year 2004 level. We note, incidentally, that the difference between the fiscal year 2003 and fiscal year 2005 FTE for VBA is apparently greater than the 829 employees indicated by the budget submission because, at the beginning of fiscal year 2004, the responsibilities and the 31 FTE of the Evidence Development Unit of the Board of Veterans' Appeals (BVA) were reassigned from BVA to VBA, without any corresponding request to increase VBA's authorized FTE by an equal amount.

Under the President's budget request, every benefit line except insurance service would lose employees. Even with all-out efforts, VBA's progress in reducing the backlog of work and the waiting times for benefits has been gradual and fairly slow-paced, representative of deliberate efforts within the limits of its abilities under the resource levels available in the past few years. We seriously doubt that VBA can suddenly accelerate and achieve enough productivity improvements to offset such a substantial loss of resources, especially against the weight of added work.

The President's budget proposes 7,270 FTE, or 487 fewer direct program FTE for VA's Compensation and Pension service (C&P) in fiscal year 2005 than in fiscal year 2003. In addition, the President's budget requests 185 fewer FTE for fiscal year 2005 than it had in fiscal year 2003 for management direction and support and information technology in C&P service. We also understand that the additional FTE for the Evidence Development Unit assumed by VBA from BVA are charged to C&P service. With those FTE absorbed by C&P and without any equal increase in the FTE requested for C&P, that number of employees must be calculated as an additional net reduction of FTE for C&P service when comparing the fiscal year 2003 staffing with the request for fiscal year 2005.

We recommend in the IB that C&P service be authorized 7,757 FTE for fiscal year 2005. VA had projected that its workload would allow it to draw down its FTE in fiscal year 2005 by approximately 268 below its staffing level of 7,757 FTE at the end of fiscal year 2003. However, those projections did not take into account additional work VA now expects incident to legislation that expanded eligibility for Combat Related Special Compensation and authorized concurrent receipt of military retired pay and disability compensation for certain veterans. VA projects that this legislation will generate 391,000 new claims and 52,869 appellate cases over the next 5 years. In addition, VA projects it will have to rework approximately 48,000 claims to meet the requirements of a court decision invalidating VA procedures that placed unlawful requirements upon veterans. Though most of that work should be done during fiscal year 2004, this additional volume will likely delay work on some of C&P's inventory and carry some extra caseload over into fiscal year 2005. This additional workload requires that VA, at least, have approximately the same direct program staffing levels for fiscal year 2005 that it had at the end of fiscal year 2003.

As with C&P service, VBA's Vocational Rehabilitation and Employment Service (VR&E) faces major challenges in meeting its responsibilities to disabled veterans under circumstances of heavy workloads and limited resources. The impact of the worldwide war on terrorism, hazardous duty in other locations around the world, and major combat operations in Iraq and Afghanistan, will undoubtedly be felt by VR&E when these veterans begin pouring into the system with the need for rehabilitation training and employment suitable to their service-connected disabilities. To sustain current levels of performance with its projected workload, VR&E needs to retain the staffing strength it had at the end of fiscal year 2003. In addition, the VA Secretary's VR&E task team has made a number of recommendations to improve vocational rehabilitation and employment services for veterans. It is projected that approximately 200 additional FTE will be needed to implement these substantial reforms in the programs, organization, and work processes of the VR&E program. At the end of fiscal year 2003, VR&E direct program staffing was 931 FTE. The IB therefore recommends that Congress authorize 1,131 direct program FTE for VR&E in fiscal year 2005. The President's budget requests only 876 FTE for fiscal year 2005, and seeks 21 fewer FTE for management direction and support and information technology than VR&E had in fiscal year 2003.

Similarly, VBA's Education Service expects some increase in its workload, due to legislation last year that expanded coverage of the program to include additional types of training. VA is striving to provide more timely and efficient service to claimants seeking education benefits. Education Service reports gains in these areas during fiscal year 2003. To continue on the course of improvement and to meet the added workload projected, Education Service must at least maintain its fiscal year 2004 staffing level. In fiscal year 2004, Education Service had 766 direct program FTE authorized. The President's budget proposes 737 FTE, or 29 fewer, for fiscal year 2005. The IB recommends that Congress authorize 766 FTE for Education Service in fiscal year 2005.

Finally, I want to reiterate a point made by our IB witness who is covering veterans' medical care in this hearing. That point regards the paramount importance of putting a mechanism in place to end what has unquestionably proven to be an inadequate process for funding veterans' medical care. Year after year, the President's budget request falls well below the minimum needed to maintain medical services for sick and disabled veterans seeking those services from the medical care system established to serve them. Year after year, we must fight an uphill battle to get more realistic appropriations, and that annual battle is getting ever more difficult despite the strong advocacy from the members of the Veterans' Affairs Committee, who know what resources VA really needs. To get funding to continue operation of their medical programs, veterans should not have to compete with all the many other interests who seek part of the limited discretionary dollars. Veterans and VA should not have to face the yearly uncertainty of whether there will be sufficient funding provided to continue essential medical care services for disabled veterans. Veterans should not have to wait months to be treated for their illnesses. VA should not have to continue operating the largest medical care system in this country on the shoestring of annual appropriations and without any means to plan strategically for long-term efficiencies. We have thoroughly tested the discretionary appropriations process whereby political will, rather than actual resource needs, determines how much funding veterans' medical care receives each year. With consistent experience that funding veterans' medical care under that process has repeatedly failed, and will only continue to be unsatisfactory, the remedy is to guarantee adequate and stable funding through a permanent authorization that uses a reliable formula to project resource needs.

This is an issue a special coalition of nine veterans' organizations will be pressing with the authorizing committees in both chambers, but we will also be taking our case to the entire Congress. If we are successful in getting this legislation enacted, it will have budgetary implications.

Though we recognize that your work on the budget is to establish a broad blueprint for revenue and spending in the upcoming fiscal year, your totals must, of course, take into account the constituent elements of spending, and much of what we hope to accomplish for the veterans of our Nation does unquestionably depend on the support of this committee. Let me therefore express the DAV's sincere appreciation to the committee for affording us the opportunity to discuss with you some of our more important legislative and funding issues, involving the most meritorious of Federal benefit programs.

Chairman NUSSLE. Mr. Hayden, welcome. We are pleased to receive your testimony at this time.

STATEMENT OF PAUL A. HAYDEN

Mr. HAYDEN. Thank you, Mr. Chairman, Ranking Member Spratt, members of the committee.

On behalf of the 2.7 million men and women of the Veterans of Foreign Wars, United States, and our Ladies' Auxiliary, I would like to take this opportunity to thank you for being included in today's important hearing regarding the Veterans' Affairs budget. The VFW is responsible for the construction portion of the VA budget, so I will limit my testimony to that area.

The President's fiscal year 2005 budget indicates that along with gross funding deficiencies in practically every VA account, VA construction is to be dramatically and most detrimentally shortchanged as well; in fact, as you just heard the Secretary allude, since 1993, VA construction funding has been in steady decline.

The fiscal year 1993 combined major and minor construction total was $600 million, and the fiscal year 2005 proposal is only $200 million. VA's history of low construction budgets the last 12 years is an explicit indication of poor stewardship of the system's facility capital assets. It also flies in the face of statutory mandates to provide for the short- and long-term care needs of our most seriously service-connected veterans.

Once again, the administration is proposing counting State nursing home beds as part of its long-term care capacity. We view this as an attempt to circumvent both the letter and the intent of the law, with a number of our deserving and most vulnerable veterans suffering as a consequence.

Further, there appears to be a major resistance to fund an adequate construction budget before the CARES process has been completed. We have been supportive of the CARES process from the beginning, as long as the primary emphasis is on the ES, Enhanced Services. However, we believe that it is poor policy to defer all VA construction needs until the CARES process is complete.

We agree with the findings of the President's task force to approve health care delivery for our veterans, but the VA must accomplish three key objectives: invest adequately in the necessary infrastructure to ensure safe, functional environments for health care delivery; No. 2, right-size their respective infrastructure to meet projected demands for inpatient, ambulatory, mental health, and long-term care requirements; and finally, trade responsibilities to respond to a rapidly changing environment, using strategic and master planning to expedite new construction and renovation efforts.

In order to accomplish these objectives, we recommend that Congress budget $571 million to the major construction account for fiscal year 2005, not the totally inadequate $97 million asked for by the administration. This is needed for seismic construction, clinical and environmental improvements, National Cemetery Administration construction and land acquisition. We also call for the Congress to budget $545 million to the minor construction account for fiscal year 2005, while rejecting the administration proposal of $69 million.

These funds contribute to construction projects costing less than $7 million while providing for inpatient and outpatient support, infrastructure, physical plant, and historic preservation projects.

Mr. Chairman, this concludes my testimony, and I will be happy to respond to any questions you may have.

Chairman NUSSLE. Thank you very much.

[The prepared statement of Mr. Hayden follows:]

PREPARED STATEMENT OF PAUL A. HAYDEN, DEPUTY DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES

Mr. Chairman and members of the committee: On behalf of the 2.7 million men and women of the Veterans of Foreign Wars of the United States (VFW) and our Ladies Auxiliary, I would like to take this opportunity to thank you for being included in today's important hearing regarding the Department of Veterans Affairs (VA) budget. As a member of the Independent Budget for VA, the VFW is responsible for the Construction portion of the VA budget, so I will limit my testimony to that area.

The VA construction budget includes major construction, minor construction, grants for construction of State extended care facilities, grants for State veterans' cemeteries and the parking garage revolving fund.

The President's fiscal year 2005 budget indicates that, along with gross funding deficiencies in practically every VA account, VA construction is to be dramatically and most detrimentally short-changed as well. In fact, since 1993, VA construction funding has been in steady decline. The fiscal year 1993 combined total was $600 million and the fiscal year 2005 proposal is only $200 million once the Capitol Asset Realignment for Enhanced Services (CARES) is backed out. VA's history of low construction budgets the last 12 years is an explicit indication of poor stewardship of the system's facility capital assets. It also flies in the face of moral as well as statu-

tory mandates to provide for the short and long-term care needs of our most seriously service connected veterans. Once again, the administration is proposing counting State Nursing Home Beds as part of its own long-term capacity. We view this as an attempt to circumvent both the letter and intent of the law with a number of our most deserving and vulnerable veterans suffering as a consequence.

Further, there continues to be major resistance to fund an adequate construction budget before the CARES process has been completed. We have been supportive of the CARES process from the beginning, as long as the primary emphasis is on the "ES-enhanced" services; however, we believe that it is poor policy to defer all VA construction needs until CARES is complete.

Currently, most VA medical centers, with an average age of 54 years, are in critical need of repair. Sadly, the prospect of system-wide capital asset realignment through the CARES process has been used as an excuse to hold all construction projects hostage. These projects are essential to patient safety; moreover, they will eventually pay for themselves through future savings as a result of modernization. The ongoing reconfiguration of the system through CARES must not distract VA from its obligation to protect its current assets by postponing needed funding for the construction, maintenance and renovations of VA facilities.

While we still believe the CARES process should proceed, we perceive a need for further data to support various recommendations that would close or change missions of certain VA long-term care and small size facilities. These data should include such items as a cost analysis associated with these changes to include the costs of transferring patients and staff; the cost associated with contracting for care in the community; the cost related to shutting down and disposing of property to include asbestos removal; the cost to build or lease new facilities like community-based clinics and patient bed towers to include associated site elements to make the building functional, such as equipment, relocation, and activation costs; and updating facility infrastructures to handle additional patient workloads while maintaining privacy and safety requirements.

We acknowledge that the VA Office of Facilities Management has assembled construction cost data for various functional building types; however, the inclusion of the aforementioned cost could provide the rationale for reconsidering some decisions.

In addition, the assumption that Congress will adequately fund all CARES proposed changes must be questioned. The VFW and other Independent Budget Veterans Service Organizations (IBVSO) are concerned that when CARES implementation costs are factored into the appropriations process, Congress will not fully fund the VA system, further exacerbating the current obstacles impeding veterans' access to quality health care in a timely manner. It is our opinion that VA should not proceed with CARES changes until sufficient funding is appropriated for the construction of new facilities and renovation of existing hospitals is approved.

We recommend that Congress appropriate $571 million to the Major Construction Account for fiscal year 2005, not the totally inadequate $97 million asked for by the administration. This amount is needed for seismic correction, clinical environment improvements, National Cemetery Administration construction, land acquisition, and claims. Allocated as follows:

Seismic Improvements—$285,000
Clinical Improvements—$25,000
Patient Environment—$10,000
Research Infrastructure Upgrade and Replacement—$50,000
Advance Planning Fund—$60,000
Asbestos Abatement—$60,000
National Cemetery Administration—$81,000
IB Recommended fiscal year 2005 Appropriation—$571,000

We also call for the Congress to appropriate $545 million to the Minor Construction Account for fiscal year 2005 while rejecting the administration proposal of $69 million. These funds contribute to construction projects costing less than $7 million. This appropriation also provides for a regional office account, National Cemetery Administration account, improvements and renovation in VA's research facilities, a staff office account, and an emergency fund account. Increases provide for inpatient and outpatient care and support, infrastructure, physical plant, and historic preservation projects. Allocated as follows:

Inpatient Care Support—$130,000
Outpatient Care and Support—$100,000
Infrastructure and Physical Plant—$150,000
Historic Preservation Grant Program—$25,000
Other—$25,000
VBA Regional Office Program—$35,000

National Cemetery Program—$35,000
VA Research Facility Improvement and Renovation—$ 45,000
IB Recommendation fiscal year 2005 Appropriation—$545,000

Annually, the VHA submits a list of top 20 priority major medical construction projects to Congress, which identifies the major medical construction projects that have the highest priority within VA. This list includes buildings that have been deemed at "significant" seismic risk and buildings that are at "exceptionally high risk" of catastrophic collapse or major damage. Currently, 890 of VA's 5,300 buildings have been classified as significant seismic risk, and 73 VHA buildings are at exceptionally high risk.

The IBVSOs believe, as we have indicated in the past, that there is ill-advised resistance to funding any major construction projects before the CARES process has been completed, and this includes correcting seismic deficiencies in VHA facilities. Regardless of the recommendations of the CARES program on facility realignments, it is our contention that VA must maintain and improve its existing facilities to support the delivery of health-care services in a risk-free environment for veterans and VA employees alike.

Most seismic correction projects should include patient-care enhancements as part of their total scope. Also, consideration must be given to enhanced service recommendations provided for in CARES. Due to the lengthy and widespread disruption to ongoing hospital operations that are associated with most seismic projects, it would be prudent to make qualitative medical care upgrades at the same time.

We contend that Congress should appropriate $285 million to correct seismic deficiencies. Further, VA should schedule facility improvement projects and CARES recommendations concurrently with seismic corrections.

In the Independent Budget for fiscal year 2004, we cited the recommendations of the interim report of the President's "Task Force to Improve Health-Care Delivery for Our Nation's Veterans" (PTF). That report was made final in May 2003. To underscore the importance of this issue, we will cite the recommendation of the PTF again this year.

VA's health-care facility major and minor construction over the 1996 to 2001 period averaged only $246 million annually, a recapitalization rate of 0.64 percent of the $38.3 billion total plant replacement value. At this rate, VA will recapitalize its infrastructure every 155 years. When maintenance and restoration are considered with major construction, VA invests less than 2 percent of plant replacement value for its entire facility infrastructure. A minimum of 5 percent to 8-percent investment of plant replacement value is necessary to maintain a healthy infrastructure. If not improved, veterans could be receiving care in potentially unsafe, dysfunctional settings. Improvements in the delivery of health care to veterans require that VA and DOD adequately create, sustain, and renew physical infrastructure to ensure safe and functional facilities.

It was also recommended by the PTF that "an important priority is to increase infrastructure funding for construction, maintenance, repair, and renewal from current levels. The importance of this initiative is that the physical infrastructure must be maintained at acceptable levels to avoid deterioration and failure."

The PTF also indicated that "Within VA, areas needing improvement include developing systematic and programmatic linkage between major construction and other lifecycle components of maintenance and restoration. VA does not have a strategic facility focus, but instead submits an annual top 20 facility construction list to Congress. Within the current statutory and business rules, VA can bring new facilities online within 4 years. However, VA facilities are constrained by reprogramming authority, inadequate investment, and lack of a strategic capital-planning program."

The PTF believes that VA must accomplish three key objectives:

- Invest adequately in the necessary infrastructure to ensure safe, functional environments for healthcare delivery;
- Right-size their respective infrastructures to meet projected demands for inpatient, ambulatory, mental health, and long-term care requirements; and
- Create abilities to respond to a rapidly changing environment using strategic and master planning to expedite new construction and renovation efforts.

Additionally, it was recommended by the PTF that "an important priority is to increase infrastructure funding for construction, maintenance, repair, and renewal from current levels."

In a study completed in 1998, Price Waterhouse was asked to determine the spending level required to ensure that the Veterans Health Administration's (VHA) investment in facility assets would be adequately protected against adverse deterioration and to keep the average condition of facilities at an appropriate level. Price Waterhouse concluded that the VHA was significantly under funding its construc-

tion spending, and based on their observations across the industry, appropriate annual spending should be between 2 percent and 4 percent of the plant replacement value (PRV) on reinvestment to replace aging facilities. Price Waterhouse considered reinvestment to be improvements funded from the major and minor construction appropriations. PRV for the VHA is approximately $35 billion. The 2 percent to 4 percent range would therefore equate to annual funding of $700 million to $1.4 billion.

The VFW supports the Price Waterhouse recommendation that VA spend at least 2 percent of the value of its buildings or $700 million annually on upkeep. Together with the IBVSOs, we believe that $400 million should be appropriated in fiscal year 2005 with continued increases in the following years until an appropriate level of funding that will forestall the continued deterioration of VA properties is achieved.

Congress should appropriate no less than $400 million for nonrecurring maintenance in fiscal year 2005 to provide for adequate building maintenance. VA should direct no less than $400 million for nonrecurring maintenance in fiscal year 2005. VA should also make annual increments in nonrecurring maintenance in the future until 2 percent of the value of its buildings is budgeted and utilized for nonrecurring maintenance.

Good stewardship demands that VA facility assets be protected against deterioration and that an appropriate level of building services be maintained. Given VA's construction needs, such as seismic correction, compliance with the Americans with Disabilities Act (ADA) and Joint Commission of Accreditation of Healthcare Organization (JCAHO) standards, replacing aging physical plant equipment, and CARES, VA's construction budget continues to be inadequate.

In addition, it has been suggested that the VA medical system has vast quantities of empty space that can be cost effectively reused for medical services. It has also been suggested that unused space at one medical center may help address a deficiency that exists at another. Although the space inventories may be accurate, the basic assumption regarding viability of space reuse is not.

Medical facility planning is a complex task because of the intricate relationships that must be provided between functional elements and the demanding technical requirements of the sophisticated equipment that must be accommodated. For these reasons, space in medical facilities is rarely interchangeable-except at a prohibitive cost. Unoccupied rooms located on a hospital's eighth floor, for example, cannot offset a space deficiency in a second floor surgery because there is no functional adjacency. Medical space has very critical inter- and intra-departmental adjacencies that must be maintained for efficient and hygienic patient care. In order to maintain these adjacencies, departmental expansions or relocations usually trigger extensive "domino" impacts on the surrounding space. These secondary impacts greatly increase construction costs and patient care disruption.

Some permanent features of medical space, such as floor-to-floor heights, column-bay spacing, natural light, and structural floor loading, cannot be altered. Different medical functions have different technical requirements based on these permanent characteristics.

Laboratory or clinical space, for example, is not interchangeable with patient ward space because of the need for different column spacing and perimeter configuration. Patient rooms need natural light and column locations that are compatible with patient room layouts. Laboratories should have long structural bays and function best without windows. If the "shell" space is not appropriate for its purpose, renovation plans will be larger and more inefficient and therefore cost more.

Using renovated space rather than new construction yields only marginal cost savings. Build out of a "gut" renovation to accommodate medical functions usually costs approximately 85 percent of the cost of similar new construction. If the renovation plan is less efficient, or the "domino" impact costs are greater, the small potential savings are easily lost. Renovation projects often cost more and produce a less satisfactory result. Renovations are sometimes appropriate to achieve desirable functional adjacencies, but they are rarely economical.

Early VA medical centers used flexible campus-type site plans with separate buildings serving different functions. Since World War II, however, most main hospitals have been consolidated into large, tall "modern" structures. Over time, these central medical towers have become surrounded by radiating wings and connecting corridors leading to secondary structures. Many current VA medical centers are built around prototypical "Bradley buildings." These structures were rapidly constructed in the 1940s and 1950s for returning World War II veterans.

Fifty years ago, these brick facilities were easily site-adapted and inexpensive to build, but today they provide a very poor chassis for a modern hospital. Because most Bradley buildings were designed before the advent of air conditioning, for example, the floor-to-floor heights are very low. This makes it almost impossible to retrofit modern mechanical systems. The older hospital's wings are long and narrow

(in order to provide operable windows) and therefore provide inefficient room layouts by contemporary standards. The Bradley hospital's central service core with a few small elevator shafts is inadequate for the vertical distribution of modern medical services.

In addition, much of the currently vacant space is not situated in prime locations. If the space were, it would have been previously renovated or demolished to clear the way for new additions. Unused space is typically located in outlying buildings or on upper floor levels. Its permanent characteristics often make it unsuitable for modern medical functions.

VA should perform a comprehensive analysis of its excess space and deal with it appropriately. Some of this space is located in historic structures that must be preserved and protected. Some space may be appropriate for enhanced use. Some may be appropriate for demolition. While it is tempting to focus on unused space, it should not be a major determinant in CARES realignments. Each medical center should develop a plan to find appropriate uses for its vacant properties.

Mr. Chairman and members of this committee, this concludes my statement and I will be happy to respond to any questions you may have.

Chairman NUSSLE. Mr. Jones, welcome. We are pleased to receive your testimony at this time.

STATEMENT OF RICHARD "RICK" JONES

Mr. JONES. Thank you, sir.

Mr. Chairman, Ranking Member Spratt, and members of the House Budget Committee, I am honored to be here today before you to express AMVETS views on providing a strong fiscal year 2005 budget.

I would like to note as an appreciation your strong leadership in this committee, for what you have done to support veterans under your leadership, this committee gave us the budgetary headroom we needed for making a dramatic turn in the policy of concurrent receipt. We have made great strides in closing that injustice, and it was the policy position that you took that helped us get the first foothold, get some traction on that issue.

We thank you for that.

In addition, your personal action, Mr. Chairman, I would like to note that you voted the right way on last year's appropriations bill.

We appreciate that. We applaud your standup and standout defense of veterans. Thank you, sir.

As a coauthor of the Independent Budget, AMVETS supports the testimony of our Independent Budget partners, and we will now give you our best view of what is needed for a responsible National Cemetery Administration budget.

As you know, the National Cemetery Administration maintains more than 2.6 million grave sites on approximately 14,000 acres of cemetery. They do an outstanding job and they serve to give interments of over 100,000 veterans annually.

VA has opened a new cemetery in Oklahoma and is scheduled to open five new cemeteries in the coming year, or thereabouts, in Pittsburgh and Detroit, Atlanta, Miami, and Sacramento. Under legislation passed last year, VA is directed to design and to construct cemeteries at six additional sites, in Philadelphia, PA; in Birmingham, AL; Jacksonville, FL; Bakersfield, CA; Greenville, SC; and Sarasota, FL. The strong commitment of Congress is necessary to complete the job, and when done, burial space for millions of veterans and their eligible dependents will be available.

While we attend to the rising interment rate with accelerated construction and new facilities, there remains the need to repair

and upgrade national cemeteries. The study on improvements to veterans cemeteries submitted to Congress in 2002 identified nearly $300 million and more than 900 projects for grave site renovations, repairs, and upgrades.

We trust and recommend that Congress and VA will work together to establish a time frame for funding these projects based on the severity of the problems.

The members of the Independent Budget recommend Congress provide $175 million in fiscal year 2005 for the operational requirements of the National Cemetery Administration, the National Shrine initiative, and the backlog of repairs. We recommend your support for a budget that is consistent with the National Cemetery Administration's growing demands and in concert with the respect due every man and woman who wears the uniform of the armed forces. This is an increase of $30 million over current funding.

The State Cemetery Grants Program is a secondary program but yet an important program at the National Cemetery Administration. It is a vital program, it has greatly assisted the States to increase burial services to veterans, especially those living in less densely populated areas.

The Independent Budget recommends a funding level of $37 million for the Cemetery Grants Program. I might give you a couple of examples of what is happening in the State grants program and what we expect to happen in the new year: The States—in Boise, ID; in Wakeeny, KS, and also Winchendon, MA, will be opening State cemeteries. We also note that in Suffolk, VA, in the Tidewater area—approximately 200,000 veterans will be served with a new State cemetery. So we would note that this is important also to the policies and programs that VA operates.

In closing, Mr. Chairman, I would just like to note and ask you to take a look at this Independent Budget and notice on the cover in the bottom right-hand corner is a photograph of one of our disabled veterans with his family. He has returned from Iraq. Interestingly enough, in the photo above, he is with another family. You will see the same man, second from the left, with his Marine squad while they were in Iraq, serving in Iraq. We know that he has been replaced by someone, because we do not have victory without someone coming in to serve behind those who have been injured, and we hope through that service we will have victory.

And we also hope that that individual will return to America as a priority 8 veteran. We hope that he will be given the full benefits that he has earned. He may be a priority 8 veteran, but that does not diminish the hazards that he faced and the service that he gave to his country, and we hope that you will recognize those in the budget that you recommend this year.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Jones follows:]

PREPARED STATEMENT OF RICHARD "RICK" JONES, NATIONAL LEGISLATIVE DIRECTOR, AMVETS

Mr. Chairman, Ranking Member Spratt, and members of the committee:

AMVETS is honored to join fellow veterans service organizations at this hearing on the VA's budget request for fiscal year 2005. We are pleased to provide you our best estimates on the resources necessary to carry out a responsible budget for the

fiscal year 2005 programs of the Department of Veterans Affairs. AMVETS testifies before you today as a coauthor of the Independent Budget.

This is the 18th year AMVETS has worked with the Disabled American Veterans, the Paralyzed Veterans of America, and the Veterans of Foreign Wars to produce a working document that sets out our spending recommendations on veterans' programs for the new fiscal year. Indeed, we are proud that over 30 veteran, military, and medical service organizations endorse these recommendations. In whole, these recommendations provide decision-makers with a rational, rigorous, and sound review of the budget required to support authorized programs for our Nation's veterans.

In developing this document, we believe in certain guiding principles. Veterans must not be forced to wait for the benefits promised them. Veterans must be assured of access to high quality health care. Veterans must be guaranteed access to a full continuum of healthcare services, including long-term care. And, veterans must be assured burial in a State or national cemetery in every State.

It is our firm belief that the mission of the VA must continue to include support of our military in times of emergency and war. Just as this support of our military is essential to national security, the focus of the VA medical system must remain centered on specialized care. VA's mission to conduct medical and prosthetics research in areas of veterans' special needs is critical to the integrity of the veterans healthcare system and to the advancement of American medicine.

In addition, the budget must recognize that VA trains most of the Nation's healthcare workforce. The VA healthcare system is responsible for great advances in medical science, and these advanced benefits all Americans. The Veterans Health Administration is the most cost effective application of Federal healthcare dollars, providing benefits and services at 25-percent lower cost than other comparable medical services. In times of national emergency, VA medical services can function as an effective backup to the DOD and FEMA.

Noting the mission of the VA, it is important to understand the areas where VA funding must be increased. The VA budget must address the pending wage increases for VA employees. It must address the continuing backlog in veterans waiting for health care and it must address, as well, VA's benefits casework backlog. There are severely disabled veterans and those needing home-based healthcare in those backlogs, and I think we can all agree that this situation should be addressed and corrected.

As we look to fiscal year 2005, we watch a live lesson about the challenges inherent to inadequate funding. Due to a lack of resources, VA took action on January 17, 2003, to ban healthcare access to 164,000 veterans who could have enrolled last year. This ban remains in force, despite substantial increases in healthcare funding over the past 2 years. It is remarkable that after blocking entry to these so-called "high income" veterans, VA issued a healthcare directive (VHA Directive 2003-003, January 17, 2003) telling workers to send banned veterans to Community Social Work for assistance.

It is hoped that recently passed provisions contained in the fiscal year 2004 appropriations bill, which aim to overcome VHA Directive 2003-003, will remedy this breach of faith. When an individual commits to the defense of the rest of us, undertakes training that is inherently more dangerous than the typical civilian occupation, and stands ready to go into harm's way so that others need not, this country's gratitude should not be demonstrated with a simple referral, however courteous and sincere, to the welfare line.

Looking to the new year, the Independent Budget recommends Congress provide $29.8 billion to fund VA medical care for fiscal year 2005, an increase of nearly $3.1 above fiscal year 2004. We ask Congress to recognize that the VA healthcare system is an excellent investment for America. It can only bring quality health care, however, if it receives adequate funding.

We also ask Congress to understand that there are other potential challenges regarding veterans health care especially in regard to a new generation of veterans returning from Iraq, Afghanistan and the war on terrorism. By last year's count, more than 80,000 veterans who returned from the war have sought VA health care. And, it is likely the demand will remain strong for the foreseeable future. To facilitate their care, it is important that Congress work with the administration to accelerate the development of a seamless, transferable lifetime medical record between the DOD and VA.

It is also important to clearly state that AMVETS along with its IB partners strongly support shifting VA healthcare funding from discretionary funding to mandatory. Mandatory funding would give some certainty to healthcare services. VA facilities would not have to deal with the uncertainty of discretionary funding, which has proven inconsistent and inadequate. Mandatory funding would provide a com-

prehensive solution to the current funding problem. Once healthcare funding matched the actual average cost of care for veterans enrolled in the system, the VA can fulfill its mission.

THE NATIONAL CEMETERY ADMINISTRATION

Before I address budget recommendations for the National Cemetery Administration, I would like members of the committee to know that AMVETS fully appreciates the strong leadership and continuing support demonstrated by members of the House Budget Committee. AMVETS is truly grateful to those who serve on this important committee. Through your work, you have distinguished yourselves as willing to lead the country in addressing issues important to veterans and their families.

Since its establishment, the National Cemetery Administration (NCA) has provided the highest standards of service to veterans and eligible family members in the system's 120 national cemeteries.

Currently, the National Cemetery Administration maintains more than 2.6 million gravesites on approximately 14,000 acres of cemetery land, while providing nearly 90,000 interments annually.

VA is scheduled to open new cemeteries in Atlanta, GA; Oklahoma City, OK; Pittsburgh, PA; Detroit, MI; Miami, FL; and Sacramento, CA. Also under legislation passed last year (P.L. 108–109), VA is directed to design and construct cemeteries at six new national locations in Philadelphia, PA; Birmingham, AL; Jacksonville, FL; Bakersfield, CA; Greenville, SC; and Sarasota County, FL.

The strong effort to build new cemeteries recognizes the dramatic increases in the interment rate of veterans. NCA requires increases in funding if it is to carry out its statutory mandates. Without the firm commitment of Congress and its authorizing and appropriations committees, VA would likely fall short of burial space for millions of veterans and their eligible dependents.

The members of the Independent Budget urge Congress and the administration to significantly boost NCA resources for fiscal year 2005. It should be recognized that not only is the interment rate increasing and the construction of new facilities accelerating, but also there are repair and upgrades needed. "The Study on Improvements to Veterans Cemeteries," a comprehensive report submitted in 2002 by VA to Congress on conditions at each cemetery, identified nearly $300 million in over 900 projects for gravesite renovation, repair, upgrade, and maintenance.

As any public facilities manager knows, failure to correct identified deficiencies in a timely fashion results in continued, often more rapid, deterioration of facilities and increasing costs related to necessary repair. The IBVSOs agree with this assessment and believe that Congress needs to carefully consider this report to address the condition of NCA cemeteries and ensure they remain respectful settings for deceased veterans and visitors. We recommend that Congress and VA work together to establish a timeline for funding these projects based on the severity of the problems.

Volume 3 of the Study describes veterans cemeteries as national shrines saying that one of the most important elements of veterans cemeteries is honoring the memory of America's brave men and women who served in the armed forces. "The commitment of the nation," the report says, "as expressed by law, is to create and maintain national shrines, transcending the provisions of benefits to the individual even long after the visits of families and loved ones."

Indeed, Congress formally recognized veterans cemeteries as national shrines in 1973 stating, "All national and other veterans cemeteries?shall be considered national shrines as a tribute to our gallant dead." (P.L. 93–43) Moreover, many of the individual cemeteries within the system are steeped in history and the monuments, markers, grounds, and related memorial tributes represent the very foundation of these United States. With this understanding, the grounds, including monuments and individual sites of interment, represent a national treasure that deserves to be protected and nurtured.

Unfortunately, despite NCA continued high standards of service and despite a true need to protect and nurture this national treasure, the system has and continues to be seriously challenged. The current and future needs of NCA require continued adequate funding to ensure that NCA remains a world-class, quality operation to honor veterans and recognize their contribution and service to the Nation.

The members of the Independent Budget recommend that Congress provide $175 million in fiscal year 2005 for the operational requirements of NCA, the national Shrine initiative, and the backlog of repairs. We recommend your support for a budget consistent with NCA's growing demands and in concert with the respect due

every man and woman who wears the uniform of the U.S. Armed Forces. This is an increase of nearly $30 million over current year funding.

Clearly, the aging veteran population has created great demands on NCA operations. Nearly 655,000 veterans deaths are estimated in 2005 with the death rate peaking at 690,000 in 2009; of these, it is expected that 109,000 will seek burial in a national cemetery. As veteran deaths accelerate, it is obvious the demand for veterans' burial benefits will increase.

THE STATE CEMETERY GRANTS PROGRAM

For funding the State Cemetery Grants Program, the members of the Independent Budget recommend $37 million for the new fiscal year. The intent of the State Cemetery Grants Program is to develop a true complement to, not a replacement for, our Federal system of national cemeteries.

With enactment of the Veterans Programs Enhancement Act of 1998, the NCA has been able to strengthen its partnership with States and increase burial service to veterans; especially those living in less densely populated areas not currently served by a national cemetery.

During fiscal year 2004, the IBVSOs anticipate fast-track openings at new cemeteries under construction: Boise, ID (the last State in the United States without a veterans cemetery); Wakeeny, KS (300 miles east of Denver and west of Kansas City, serving rural areas in western Kansas); Winchendon, MS (serving the densely populated northern part of the State); and Suffolk, VA (serving 200,000 veterans in the Tidewater area).

To augment support for veterans who desire burial in State facilities, members of the Independent Budget support increasing the plot allowance to $725 from the current level of $300. The plot allowance now covers less than 6 percent of funeral costs. Increasing the burial benefit to $725 would make the amount nearly proportional to the benefit paid in 1973. In addition, we firmly believe the plot allowance should be extended to all veterans who are eligible for burial in a national cemetery not solely those who served in wartime.

The Independent Budget veterans service organizations (IBVSOs) also request Congress review a series of burial benefits that have seriously eroded in value over the years. While these benefits were never intended to cover the full costs of burial, they now pay for only a fraction of what they covered in 1973, when they were initiated.

The IBVSOs recommend an increase in the service-connected benefits from $2,000 to $4,000. Prior to action in the last Congress, increasing the amount $2,000, the benefit had been untouched since 1988. The request would restore the allowance to its original proportion of burial expense.

The IBVSOs recommend increasing the nonservice-connected benefit from $300 to $1,225, bringing it back up to its original 22 percent coverage of funeral costs. This benefit was last adjusted in 1978, and today covers just 6 percent of burial expenses.

The IBVSOs also recommend that Congress enact legislation to index these burial benefits for inflation to avoid their future erosion.

Mr. Chairman, this concludes my statement. I thank you again for the privilege to present our views, and I would be pleased to answer any questions you might have.

Chairman NUSSLE. I thank you and I want to appreciate all of your testimony, particularly the last statement. Certainly, we recognize that.

We hope and pray that we do not have to send men and women into that kind of a situation in defense of our country or freedom, but we know it happens and we do stand ready to make those tough choices.

I did not really have a question, as much as I wanted to make a statement or give you an explanation, by way of—particularly since you complimented me on one vote. That probably makes me 1 for 30, I do not know, maybe, on the scorecard. I am not sure. But I do appreciate when you do—I was going to give you another 5 minutes, too; you know, we know how to show appreciation.

No, what I wanted to say was, last year I came up with an awkward and less than perfect, I will put it that way, method to try and outline waste, fraud, and abuse within the budget, all budgets,

because, as the Secretary said and others have said, we do not want to waste any dollars, whether it is for veterans or seniors or school kids or people who might be homeless or hungry or whoever it might be.

It was a less than perfect assumption that we could probably find about a penny on the dollar, and as the Secretary said, he has already found close to $3 billion of savings that he has been able to plow back into improved benefits and services. And as we move forward, he said that that was probably only scratching the surface.

All I will tell you is that even though we found a less than perfect way of trying to highlight that, it is still something in my heart that I believe we can do and still serve our veterans. And I stand ready to work with you, even though we will probably still come up with less than perfect ways of doing it, and probably less than perfect budgets for that matter, too.

But I wanted to, since you gave me a compliment, do a little bit by way of explanation at least of what we tried to do last year, at least with a heart toward making improvements that work in the future as opposed to just coming in with a meat axe, so to speak, and trying to find savings that way.

It was less than perfect, but we want to work with you, all of you, as we move forward, making sure we do not waste any money as we try and provide services for veterans.

That is the statement I wanted to make. It is not really much of a question, but with that, I turn to Mr. Spratt for any questions or comments he would like to make.

Mr. SPRATT. Thank you, Mr. Chairman.

Let me thank each one of you not just for testifying, but for being there and understanding the complexities of all these accounts. You represent your constituency as well as any in this town, and you do a good job of helping us understand in our interaction what really is needed.

As I understand what the administration is proposing, basically, all of the increase between 2004 and 2005 is going to come from veterans themselves, or at least from third-party payers, insurance companies who insure these veterans.

There is an increase in anticipated collections of about $700 million which accounts for most of the nominal increase in their budget, even a bit more than that.

No. 1, is that realistic and, No. 2, is this something we can expand; and in particular, what is the potential for using Medicare as a third-party payer or to meet some of the unmet needs in the Veterans Administration?

I think we called it subvention years ago. We do not talk about it much now but it was a hot idea several years ago. Is it still a viable idea?

Mr. BOLLINGER. Well, as I understand it, Medicare is pretty much off the table. I know the Secretary is talking with the Secretary of HHS about some sort of reimbursement from them for certain veterans, but I do believe that that is pretty much off the table.

I will say, too, in regards to collections and insurance and all of that, this is all well and good. I believe that, hopefully, the VA will improve in this regard. But we do not believe and we strongly en-

courage the Congress not to let this kind of money substitute hard dollar appropriations that the VA needs to spend on veterans, because if you look at the history, throughout the years ever since VA has started this, there has been difficulty, year after year. They have gotten better, but they are a long way from being able to collect money that they really need; and all of us strongly encourage that this doesn't substitute appropriations.

Mr. JONES. You are right, sir, on the user fee making up a very large component of the prospective increase in VA funding. The increase is said to be $1.2 billion, it's important to note, however, that $800 million of the increase comes exactly from a user fee.

Those user fees may be more designed to add moneys and to drive veterans away. Some 200,000 veterans will not come back to the system if they are charged a user fee. That figure was reported to us, and it is part of the administration's budget. It was reported to us in the VA briefing that we received on this budget earlier this year.

With regard to Medicare, it is the Nation's larger insurance company. Veterans do pay into it, but when they choose veterans assistance in health care, there is no compensation to VA, so VA subsidizes, in some part, Medicare.

We had always hoped that there would be some sort of third-party payment to VA for the health care given to priority 8s and other veterans. We thought that Medicare would be a part of this package and we thought that HMOs would as well.

VA reports a problem receiving payments from insurance companies or HMOs; which is why their medical cost recovery system is lower than what it could be.

Mr. SPRATT. On another subject, you were saying in your Independent Budget that next year, 2005, at least $3.8 billion more than has been requested is needed to meet the levels that you regard as adequate for veterans health care.

Let me show you chart No. 2, please, on the screen. This is a simple bar graph that shows, No. 1, in the blue bars, current services out over a 5-year period of time; and No. 2, in the red bars, the level of funding proposed for next year; and then in the computer run for each subsequent year, which actually goes down in 2006, 2007, 2008, and 2009.

Each year, the discrepancy between current services gets to be larger and larger. In the fifth year—fourth year, really—the amount appropriated is about half of what current services would call for.

What happens if we track the red bars instead of the blue bars in funding?

Mr. JONES. Well, quickly, what happens is a diminished number of veterans would find health care access. There would be a precipitous drop in health care provided to veterans were we to follow the red lines; I mean, the red lines indicate how much money would be available.

Mr. SPRATT. In other words, these are not simply marginal changes, these are changes that would have a dramatic effect on the delivery of health care for veterans.

Mr. JONES. They would, should that be the course; and Congress in the past years has not shown that to be the course. They have

been generous. In fact, they have been generous to the fact where VA now has a very large carryover from last year. Last year, it was $600 million and they have in this budget an estimated carryover of some $800 million from fiscal 2004 into the fiscal 2005 budget.

At the same time, they are denying care to veterans, based on a lack of resources. We find this to raise a question. How does it happen that we have such a large rollover of money and a lack of resources available to care for priority 8 veterans who would like to have access.

Noting the carryover, if I could just make one more point to budget minds, VA says the average care for priority 8 veterans is $2,500, thereabouts. If you have an $800 million carryover and you divide that $2,000 care into 800,000, well, you have enough money to care for nearly 350,000 veterans. That is not the number of veterans coming to VA. The number coming to VA is around 167,000 per year, which would require approximately $400 million, just FYI.

Mr. SPRATT. Yes.

Mr. SURRATT. Mr. Spratt, I wanted to respond to an earlier question you had that I didn't get an opportunity to respond to. You were talking about the copays, and I would like to remind the committee, it has not been too long ago that veterans benefits were entirely a repayment for their service. There were no user fees, there were no copayments, and if you recall, from this committee we got copayments and user fees as a temporary budget reconciliation measure set to expire. Those kept being extended and became a regular feature of VA benefits and continued for the short time that we had a budget surplus.

And so each year now we see the administration proposing to shift more of the burden of health care away from the budgets and onto veterans through these user fees and increased copays; and I think that is why you see so much resistance to that concept. It really fundamentally departs from the principle of veterans benefits when you start making veterans pay for their own benefits.

Mr. SPRATT. I was talking about third-party benefits and, in particular, tapping Medicare to pay for some of their patients in VA facilities.

Mr. SURRATT. And what happens on that is, where we identify a funding source from somewhere else, OMB, it has a zero sum game. They just merely ask for less to the same extent, so the system does not gain anything to enhance services. It reduces the amount of appropriations they ask for by an equal amount.

Mr. JONES. In fact, Mr. Spratt, I think we asked for a proposal that we would ask for Medicare repayment less than dollar for dollar. I think it was 90 percent or 80 percent of the Medicare funds back to VA, and that ended up on the cutting room floor.

Mr. SPRATT. One final question: The Montgomery GI bill. I was surprised to see this language in the performance survey. It is such bureaucratese, I cannot figure out what it is.

Do they claim that the benefits are too lucrative, too generous?

Mr. SURRATT. I believe that is just the results from program evaluation done under the government's Performance and Results Act.

Mr. SPRATT. It struck me as odd that anybody even put it in here, "The VA should create a program outcome measure"—I do

not know what that means—"readjustment to civilian life, and reinstate a cost-effectiveness measure."

I guess you go figure out whether or not the education that people got under the GI bill actually benefited their future, but I think history will tell us it is one of the best investments this country ever made.

Mr. SURRATT. Well, I think you are right. And I would like to make a point on that, also, and it is the same thing as the user fees.

While the Montgomery GI bill is a great thing, the GI bill for World War II veterans paid the full cost of any educational institution you wanted to go to in this country, Princeton or whatever, and whatever that cost was, it paid it, and it was completely free.

Today, those service members contribute so much of their own pay to the GI bill, and today, as generous as that is and as much as it has been raised in the last few years, it probably still does not pay the full cost of education to many of the institutions in this country. And I am not knocking the GI bill, but I am just saying when we look at what we have in veterans benefits today, in many ways we have better benefits and in other ways we have lost ground.

Mr. SPRATT. Yes. Thank you for your testimony.

Mr. Bollinger.

Mr. BOLLINGER. Yes, I wanted to comment on your testimony that included the chart.

The figure you used was the total discretionary recommendation that we made, and in looking at that in the outyears, if that were allowed to persist the way it is, not only would all veterans be adversely affected, but I do fear that even the core veterans, those in need of specialized services—blind rehab, spinal cord injury, mental health and others—would be adversely affected by that kind of funding level. So we would be—we would be shocked if that continued over the years.

Chairman NUSSLE. Mr. Schrock, do you have questions.

Mr. SCHROCK. Thank you, Mr. Chairman.

Thank you all for being here. Let me start by talking about education. Education costs have so skyrocketed that there is no way that the Montgomery bill could pay for all of that, and that is unfortunate. I understand that.

This is a subject that has been of interest to me. I served 24 years in the Navy, and since then, I have been interested—even when I was in the State senate, people came to me thinking I could help with their veterans benefits so I got a little taste of it then, and frankly, I think as a country we have to take care of our veterans, especially like those that you see on the front page of this booklet here.

I think we have a moral obligation to do that, there is no question about that; and hopefully we have made some—as you heard me say when the Secretary was here, we have made some progress. There is obviously a ways to go, and this is just going to take some time to do that, but I appreciate the things you have said.

Let me ask Mr. Bollinger and Mr. Surratt: Secretary Principi outlined proposals to focus resources on the Department's core mis-

sion, namely, to ensure treating veterans with disabilities, low incomes and special needs is given the highest priority.

In your opinion, do you think that is the appropriate way to go, and is it appropriate or should include more than that.

Mr. BOLLINGER. I think it is very noble, and I applaud the Secretary for doing that.

I would throw out one word of caution and that is for veterans with catastrophic injuries, whether you are service connected or nonservice connected, just the most minor thing. And I will speak about spinal cord injury, because I know that disability very well. What may appear as a very slight disability, if not seen on an emergency basis or seen promptly, right away, that individual could end up in the hospital for literally three months taking care of a pressure sore.

So I think what the Secretary did was noble, I understand his reasoning, but I think it is very important when you ask, should there be more people included?

I think you have to look carefully at catastrophically disabled veterans.

Mr. SCHROCK. Ditto.

Mr. SURRATT. VA's the expert on the health care part of the IB, so I will defer to Mr. Bollinger on that.

Mr. SCHROCK. Clearly, health care costs have gone out of control. For 37 years I heard about it almost every day. Little did I realize I married into a family of all doctors, and I hear it all the time. So I know what health care costs are, and having survived cancer myself, I know what that can cost.

Can you all suggest ways that the skyrocketing cost of health care, especially in the VA system, can be brought under control? And are there particular recommendations for cross-control in the VA care system that you could make?

Clearly, there has been, you know, probably—I do not want to use—waste, fraud, and abuse gets thrown around too much, but there is probably a lot of waste in any organization; I do not care what it is. In my office there probably is, too. But are there areas that you think they could tighten up, that they could better save money so that more people could be looked at?

That is a question for all of you.

Mr. BOLLINGER. If I may.

Mr. SCHROCK. Sure.

Mr. BOLLINGER. I think there are certainly ways that management efficiencies play into this.

Let me answer your question this way: I believe that the money spent on research, on assistive technology and that whole side of the equation would do more in both the—well, probably more in the long run than the short run, because research requires years to sort of manifest itself and get a payoff.

But I think if research is done correctly, if they look into new ways of doing assistive technology, prosthetic research and rehab, that will probably save the VA more money over the long haul than any management efficiencies would.

Mr. SCHROCK. Is not that done by commercial civilian companies, private companies?

Mr. BOLLINGER. Some of it is, but the VA has—you know, over the years, been a leader.

Mr. SCHROCK. In that.

Mr. BOLLINGER. Surely.

Christopher Reeve has benefited from VA research, and so——

Mr. SCHROCK. Because the VA had the clientele that needed it the most.

Mr. BOLLINGER. Absolutely.

Mr. SCHROCK. Yes.

Mr. SURRATT. As the single largest health care provider in this country, with any system of a large nature, you can find economies of scale and so forth; and I do not know what those would be, but I would mention that the cost of health care provided by the VA—and I haven't seen the figures lately—is a fraction of what it is in the private sector or even Medicare. They are so much more efficient.

So they have to be commended for doing that well, and there is a point at which they cannot wring out enough savings to justify large budget cuts on the projection of efficiencies.

Mr. SCHROCK. One positive is, the VA probably cannot be sued by a bunch of lawyers like the civilian sector is, thank God for that; or am I wrong?

Mr. SURRATT. No. The VA is subject to the Federal Tort Claims Act.

Mr. SCHROCK. Oh.

Mr. SURRATT. And they have malpractice suits.

Mr. SCHROCK. Oh, oh, you just shattered me. I did not know that. Boy, the lawyers are going to get you one way or the other, are not they?

Mr. JONES. May I just say one thing about efficiencies.

Mr. SCHROCK. Yes.

Mr. JONES. The Presidential Task Force to Improve Health Care Delivery for our Nation's Veterans, established by the President, concluded and reported last year. In their report they said, Based on our findings, we recognize that even if VA were operating at maximum efficiency, it would not be able to meet its obligations to enrolled veterans with its current level of funding. That was in fiscal year 2003.

Mr. SCHROCK. Mr. Jones came to Virginia Beach for the Veterans Day parade, and I think he was probably surprised by the outpouring of affection for the military, and I think he was shocked at how many people were there.

Mr. JONES. It was a sunny day.

Mr. SCHROCK. I represent more military, retired military, than anybody in America, and when we have a Veterans Day parade, we have a Veterans Day parade.

The three of you are invited as well.

Chairman NUSSLE. Well, that ends the commercial for Virginia for at least about 2 more seconds, because I will recognize Mr. Scott of Virginia.

Mr. SCOTT. I was going to point out that southeast Virginia is the only support for the chairman that we have at the committee right now; and I thank the gentleman, my colleague from Virginia, and I think it points out the interest that we have on this issue.

We have in southeast Virginia a lot of military bases and a lot of military retirees, and this is an issue. We have one of the VA hospitals and other military hospitals in the area.

This chart, the blue line showed what it would take to keep the present level of services. I guess my question to whoever can answer is: How much of the Independent Budget is keeping up with present services and how much of it is new services?

Mr. BOLLINGER. I am going to have to respond to you in writing because the chart I have in front of me does not show it.

Mr. SCOTT. OK. The reason I say that is because people keep saying we are spending more and more on VA, but if you look, you need to spend substantially more each year just to maintain the present levels so that each veteran can expect the same levels of service he has been expecting in the past. And veterans are getting older and sicker. You need more money just to keep up with the present level of services.

So say you are paying a little more but not enough to maintain present services, you can call that more money, but I think the veterans would think that they do not get services, the waiting periods are longer, it is not a good thing.

Mr. JONES. The point is well taken, sir. I think 60 percent of the VA budget is personnel. Health care requires staff. And one of the interesting things is that when the President makes his budget projection, for example, last year's budget, the projection is based on a certain COLA. Last year's COLA was I think 1.35, 1.5 percent, in that area. When Congress lifted that to a 4 percent COLA, when that happens, the money does not expand; the employees have to be reduced or there are fewer new employees coming into the system, because the money remains the same but it is disbursed differently. So when you have a larger COLA taken from a lower COLA budget, you lose employees and you lose service despite the fact that discretionary spending goes up.

Mr. SCOTT. Mr. Bollinger, you mentioned the fact that some people, if they have copays, will not access the services. The Secretary will be giving updated answers to that question.

Can you tell me why people would not access VA if there is a copay?

Mr. BOLLINGER. Sure. First of all——

Mr. SCOTT. And how many people might be involved?

Mr. BOLLINGER. Please understand that the individuals that use these VA hospitals—in many cases our hospitals, the outpatient clinics and so are—are not what we would call wealthy people. When they are hit with increased fees, copays, user fees, all that type of thing, they may very well look elsewhere. Not all of them, but certainly a significant number of them. We believe it is somewhere around 200,000 people, and that is a fact of life. They will either not get their health care, they will go someplace else that may in fact cost more, and all of us—society in general—is going to end up picking up that tab.

Somewhere, somehow, health care costs have got to be paid. And if they do not use the VA system, if they choose not to because they perceive these copays or increased fees is more than they want to spend, they will not go there.

Mr. SCOTT. Let me ask one other question while I have a couple of seconds left, and that is the Allen decision on how you compensate veterans with substance abuse problems. What should be the response to the Allen decision? Should we just comply with it or should we try to overturn that?

Mr. SURRATT. I would like to respond to that. The DAV represented Mr. Allen and we told VA they were misinterpreting the law, and we had to go to court to prove it to them.

I think the argument of the government is deceptively simple on Allen. There is a great distinction between a person who uses alcohol for its pleasurable intoxicating effects and a former POW who has a psychiatric disorder that is so distressing that he or she uses alcohol to escape. And I think VA also inflates the amount of money that they would save by repealing that.

What the law says now is if you have a service-connected disability and that symptomatology is made somewhat worse because of the secondary use of alcohol, you take the whole symptomatology into account, you don't try to sever out the symptoms of alcohol. And my experience with VA rating decisions, not many of them are compensating veterans due to alcohol use, but Congress recognized that distinction when they passed the law.

The law is good the way it is. It is good public policy despite the arguments to the contrary. I have to respectfully disagree with the Secretary, and we would urge Congress to leave that as it is.

Mr. JONES. AMVETS agrees with the Secretary. We do not support self-medicated disability.

Mr. SCOTT. Thank you.

Mr. SURRATT. I would remind you, though, that is the position of the Independent Budget, we do have that, in the Independent Budget, opposing changing the law.

Mr. SCOTT. Thank you Mr. Chairman.

Chairman NUSSLE. Yes, my last—I just have one other thing I wanted to ask, just because I did not ask any questions, and one of the other colleagues, you had mentioned on the front cover of yours—and I should ask: Do you know his name?

Mr. JONES. Yes, sir.

Jason—his name is Jason Wittling, W-I-T-T-L-I-N-G, and he is a new member of the Paralyzed Veterans.

Mr. BOLLINGER. He was here on Veterans Day, Mr. Chairman.

Chairman NUSSLE. Is that right?

Mr. BOLLINGER. And we took him to the amphitheater for a service and brought him to our reception, he and his family; and he, unfortunately, there are too many of those people today.

Chairman NUSSLE. Right. And there is nothing, without being disrespectful to your budget any more than I would want to be disrespectful to my budget, there is nothing in here that can give him back what he lost in service to his country.

Having said that, I need to ask a question, and that is: What would Jason not receive under the Bush budget that he would receive under the Independent Budget that you believe he deserves; in other words, what is missing in your opinion, in all four of your opinions, from the Bush budget that is not in there but is in here?

Mr. BOLLINGER. In Jason's case, he would probably be able to access health care rapidly, depending on where he goes.

There are differences across the country, there are 23 spinal cord injury centers, some better than others.

I would say probably one of the most significant impacts it would have on him over his lifetime, and I will go back to it again, is research. The VA is doing so much in the area of spinal cord injury research and paralysis, the promise is out there, it benefits all Americans, and it is a shame that the administration has chosen to reduce that funding.

Chairman NUSSLE. Please—or anybody else would like to suggest from the areas you covered in your budget or in your presentation, something that Jason would not receive under the Bush budget that he deserves?

Mr. HAYDEN. I will respond, Mr. Chairman, just from our portion, the construction portion of it, there is the potential that Jason would not have access to secure and safe facilities.

You know, these buildings are old and some of them are falling down, so that is just from the construction portion.

The Bush budget falls about $800 million short.

Chairman NUSSLE. Are there any personal benefits that he is not receiving that he would receive under your budget that—under the, I keep saying your budget—the Independent Budget, that he is not receiving under the Bush budget?

Mr. BOLLINGER. You know, it is kind of a case-by-case thing, Mr. Chairman, but I would say one area——

Chairman NUSSLE. And I am not trying to—I am really not trying to make it a trick question.

Let me say, instead of Jason, the core group of veterans that are similar—although no one is exactly similar—similar to Jason's situation.

Mr. BOLLINGER. Sure.

Chairman NUSSLE. I do not mean just to single out Jason. You may not know exactly his specific situation.

Mr. BOLLINGER. Sure.

Let me say in addition to health care, there is another area we have not talked about today, and that is vocational training and employment. That could be a gem if it was properly funded and, again, VA under this administration budget is going to experience a cut there. Vocational rehabilitation and employment is the first benefit that veterans from Iraq and Afghanistan are exposed to when they come home. It is the benefit that gets people back into the mainstream, whether they choose to go back to college, whether they need independent living, or whether they need other ways to be integrated back into society.

The vocational rehabilitation and employment program could conceivably hurt Jason if that program is not properly funded.

Mr. SURRATT. Mr. Chairman, I would like to speak on that also.

In the Independent Budget, the Secretary has a task force to look at the vocational rehabilitation and employment program, and that task force is about to come out with a report that recommends many changes; and those changes, it is vocational rehabilitation and employment. VA doesn't really have many employees dedicated to employment, and that is one of the, I understand, recommended changes.

Now, the President's budget recommends cutting the staffing of vocational rehabilitation and employment in 2005. We recommend 200 more employees than they had last year, there is a substantial difference. So that is what my testimony about the proposed cuts in VBA was all about; when we have these veterans returning from Iraq and other places, and they are putting greater demands on the system, and VA has been working very hard to improve all of its benefit lines, and this budget cuts the benefits back.

In the '90s, they started having some problems with their claims adjudication system. Some of it was more claims, some of it was budget cuts, a combination of things. But this is not the time to be cutting the staff in vocational rehabilitation, employment compensation, or education, or any of those benefit lines.

Chairman NUSSLE. Any of those witnesses want to respond to the personal side of the benefits at all or anything?

Mr. SCOTT. Just one other question?

Chairman NUSSLE. Certainly.

Mr. SCOTT. Thank you, Mr. Chairman. I know you had the same complaints I do about the time it takes to process a disability claim.

What does your budget do about reducing the time it takes to get an answer on a disability appeal?

Mr. SURRATT. Well, to repeat what I just said, the VA, this problem with disability claims got to the point that it was just intolerable. And when Secretary Principi came in—and that was one of his goals, to improve the claims processing. And they brought in Admiral Cooper and they started making some real reforms in their processes, and Congress gave VA some more money.

The solution is better trained people who make the correct decisions the first time, so they do not have to rework the claims and overload the system and result in further delays. But part of it is information technology, that uses the best technology to reduce the transfer of paper and systems that have rules in them that prompt the adjudicator and achieve uniformity.

In the Independent Budget, our proposal is to let C&P Service keep the same number of employees they had at the end of the year, 2003. We recommended more money than the President's budget recommends.

In cutting back, that is some of the places they cut back. They cut back some money that is going to slow down the implementation of some of these very valuable technology systems and put off their deployment.

Mr. SCOTT. How much more is in your budget than in the President's budget?

Mr. SURRATT. Oh, it is just a matter of, like, a half a million dollars for the information technology. But the FTE—and I do not have a cost on that—we are recommending about, I think, 900 or some FTE employees, more than what the President's budget seeks to do this job.

Mr. SCOTT. Did I understand that the President is cutting back on the full-time employees on disability benefits.

Mr. SURRATT. In fiscal year 2004 they had less FTE than 2003, and the fiscal year 2005 calls for further cuts.

Mr. SCOTT. Fewer people.

Mr. SURRATT. Fewer people.

Chairman NUSSLE. Gentlemen, thank you very much for your testimony and waiting here today, and then for spending the rest of the afternoon with us.

We appreciate your testimony. Your testimony will be part of the record, as will your budget, and we look forward to working with you in the future.

Thank you very much.

Mr. BOLLINGER. Thank you.

Mr. SURRATT. Thank you.

Mr. HAYDEN. Thank you.

Mr. JONES. Thank you.

Chairman NUSSLE. And, with that, the hearing stands in recess, actually adjourned, and we will meet after the recess for additional hearings with regard to the budget.

[Whereupon, at 4:08 p.m., the committee was adjourned.]

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