COMMONWEALTH of VIRGINIA

Department of Veterans Services

John Maxwell
Commissioner

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November 15, 2020

Delivered via electronic mail

The Honorable Luke E. Torian
Chair, House Appropriations Committee
900 East Main Street, 13th Floor
Richmond, Virginia 23219

The Honorable Janet D. Howell
Chair, Senate Finance and Appropriations Committee
900 East Main Street, 14th Floor
Richmond, Virginia 23219

Re: Report of the Veterans Care Center Workgroup

Dear Delegate Torian and Senator Howell:

The Virginia Department of Veterans Services operates two veterans care centers, one in Richmond and the other in Roanoke. Two additional care centers, one in Fauquier County and the other in Virginia Beach, are under construction and will open in 2022.

On behalf of the Secretary of Veterans and Defense Affairs and the Secretary of Finance, enclosed is the report from the workgroup that was formed pursuant to Chapter 1289, 2020 Acts of the Assembly, Item 462.

Please let me know if we may provide additional information.

Sincerely,

John Maxwell

Cc: The Honorable Carlos Hopkins, Secretary of Veterans and Defense Affairs
The Honorable Aubrey Layne, Secretary of Finance

Report of the Veterans Care Center Workgroup

Formed pursuant to Chapter 1289, 2020 Acts of Assembly, Item 462

to

The Honorable Luke E. Torian, Chair, House Appropriations Committee

and

The Honorable Janet D. Howell, Chair, Senate Finance & Appropriations Committee

from

The Honorable Carlos L. Hopkins, Secretary of Veterans and Defense Affairs

and

The Honorable Aubrey L. Layne, Jr., Secretary of Finance

November 15, 2020

Contents

Executive Summary

The Commonwealth of Virginia operates two Veterans Care Centers (VCC) and is building two additional VCCs. These VCCs provide skilled nursing care for Virginia's veterans. Chapter 1289, 2020 Acts of the Assembly, directed the Secretary of Veterans and Defense Affairs and the Secretary of Finance to oversee the development of business plans for operations at all four VCCs. Chapter 1289 also instructed the Secretaries to submit reports to the Chairs of the House Appropriations and Senate Finance and Appropriations Committees no later than November 15, 2020.

To meet this requirement, the Secretaries convened a workgroup with representation from staffs of the Secretary of Veterans and Defense Affairs and the Secretary of Finance, and a variety of agencies. Agency representatives included leadership and staff from: the Department of Veterans Services, Department of Planning and Budget, Department of Medical Assistance Services, staff from the House Appropriations Committee and Senate Finance and Appropriations Committee, members from the Board of Veterans Services (BVS), including Legislators who are members of the BVS, and the Chairman of Joint Leadership Council of Veterans Service Organizations (JLC).

Virginia currently has two operating VCCs, also known as State Veterans Homes (SVH); one is located in Richmond near McGuire VA Medical Center and one is in Roanoke, near Salem VA Medical Center. Two new care centers are under construction in Fauquier County near the Vint Hill area and in Virginia Beach, near the Municipal Center.

The care centers operate as symbols of Virginia's commitment to veterans by providing holistic care that focuses on resident physical and mental health, while serving the greatest amount of veterans. Care includes skilled nursing, Alzheimer's care, rehabilitation, and domiciliary care (assisted living – Roanoke only). Hundreds of employees staff the care centers 24 hours a day, 7 days per week. They provide a full range of services that includes medical care, pharmacy, dietary, housekeeping, therapy, social services, and transportation. To receive care at a VCC, a resident must be an honorably discharged veteran with a medical need for this level of care, and have an eligible payer source.

More than a dozen federal, state, and local agencies regulate State Veterans Homes and several funding sources reimburse costs for care center operations and capital improvements. The care centers do not receive General Fund appropriations for their operations, but rely on a combination of private pay, Medicaid, Medicare, and US Department of Veterans Affairs reimbursements.

The existing VCCs typically operate with a small revenue surplus that enables them to fund maintenance and small capital improvements once the costs of daily operations are covered. This surplus is also vital to a care center absorbing perturbations in census, and they can to some degree, help a VCC weather small-scale, more drastic events. To undertake larger capital improvements, the VCCs request grants from the U.S. Department of Veterans Affairs for a

portion of the costs and then fund the remaining costs through state capital funding or facility operational cash reserves. One care center is waiting for the VA to release funds to start a capital improvement project; VDVS requested grant federal funding for four additional projects at the existing VCCs, with state capital funding and facility reserves committed for a portion of the projects.

As construction nears completion at the two new care centers in FY 22, they will begin hiring staff to care for the residents. This process starts eight months prior to opening. Each facility will obtain certification (Medicaid, Medicare, VA) in the first two months of operation, after which they will be able to step up the census from six to 128 (maximum capacity at each new care center). The estimated time to reach full census (95% occupancy or higher) is 17 months while the operating break-even point should occur 19 months from opening. Therefore, each new care center will require supplemental funds for their first 27 months of operations.

During the workgroup process, the Department of Medical Assistance Services identified potential additional Medicaid revenue that would require a language change to Virginia Code. VDVS submitted that requested change as part of a language-only decision brief for FY 2022 budget actions.

The current plan to provide supplemental funds to support initial operations at the two new care centers through working capital advances (WCA) will allow the new VCCs to be up and operating at full occupancy within approximately two years. Based upon the experiences of the two existing VCCs, it will take some amount of time until those VCCs are financially healthy enough to begin substantial, if any, repayment of that WCA. Therefore, this workgroup recommends proceeding as planned and reassessing the business plans when the new care centers have had a substantial amount of time operating at full occupancy.

Commissioning the Study

Chapter 1289, 2020 Acts of Assembly, Item 462, directed:

> *E.1. The Secretary of Veterans and Defense Affairs and the Secretary of Finance, shall convene a workgroup to oversee the development of detailed business plans for the operation of Veterans Care Centers in the Commonwealth. The workgroup shall include the Department of Veterans Services, the Department of Medical Assistance Services, the Department of Planning and Budget, and staff of the House Appropriations and Senate Finance and Appropriations Committees, as well as other agencies deemed appropriate. The purpose of the workgroup shall be to plan for business needs, funding needs, and estimate viable revenue streams in anticipation of opening new Veterans Care Centers in the state.*
>
> *2. The workgroup shall prepare a business plan for each existing, planned, or proposed Care Center that includes, by fiscal year: appropriate staffing levels, anticipated care populations, costs, and revenue streams. The plans shall be specific to each facility and shall base revenue projections on estimated reimbursement rates from Medicare, Medicaid, and other payers. Each plan shall identify payment schedules for any loan or capital advance, with identified revenue streams, covering the entirety of the loan until projected defeasance.*
>
> *3. The Secretary shall report to the Chairs of the House Appropriations and Senate Finance and Appropriations Committees on the business plans required in this paragraph by November 15, 2020.*

Work Group Membership and Methodology

The Secretary of Veterans and Defense Affairs and the Secretary of Finance established a work group to address the tasks outlined in Chapter 1289, 2020 Acts of Assembly, Item 462. The larger group was further broken into a Tiger Team and Executive Committee. The Tiger Team was responsible for the detail-level planning and the Executive Committee (EXCOMM) reviewed their work products prior to submission to the Secretaries. Work group meetings commenced in early August 2020 via video calls and continued through early October. At full group meetings, the Secretaries reviewed and approved those products and the future work of the Tiger Team and EXCOMM. Below is the composition of the respective groups:

Full Group

- Carlos Hopkins, Secretary of Veterans and Defense Affairs (VADA): co-chair
- Aubrey Layne, Secretary of Finance: co-chair
- Kathleen Jabs, Deputy Secretary, VADA
- Jonathan Ward, Assistant Secretary, VADA
- June Jennings, Deputy Secretary, Finance
- Joe Flores, Deputy Secretary, Finance
- John Maxwell, Commissioner of the Virginia Department of Veterans Services (VDVS)

- Steven Combs, Chief Deputy Commissioner, VDVS
- Tammy Davidson, Chief Financial Officer, VDVS
- Robyn Jennings, Administrator, Sitter & Barfoot Veterans Care Center (SBVCC), VDVS
- James Darragh, Assistant Administrator, SBVCC, VDVS
- Todd Barnes, Administrator, Virginia Veterans Care Center, VDVS
- Dan Timberlake, Director, Virginia Department of Planning and Budget (DPB)
- Banci Tewolde, Associate Director, Public Safety Division, DPB
- Renae Vanderveldt, Budget & Policy Analyst, Public Safety Division, DPB
- Karen Kimsey, Director, Department of Medical Assistance Services (DMAS)
- Ivory Banks, Chief of Staff, DMAS
- Chris Gordon, Deputy Director for Finance & Technology, DMAS
- Tammy Whitlock, Integrated Care Director, DMAS
- Anne Oman, Staff Director, House Appropriations Committee (HAC)
- David Reynolds, Legislative Fiscal Analyst, HAC
- April Kees, Staff Director, Senate Finance and Appropriations Committee (SFAC)
- Jason Powell, Special Projects Deputy Staff Director, SFAC
- Caitlin Kilpatrick, Legislative Analyst, SFAC
- Michael Dick, Chair, Board of Veterans Services (BVS)
- Thurraya Kent, member, BVS
- Senator Mamie Locke, member, BVS
- Senator Bryce Reeves, member, BVS
- William Ashton, Chair, Joint Leadership Council of Veterans Service Organizations (JLC)

Executive Committee (EXCOM)

- Kathleen Jabs, VADA
- June Jennings, Finance
- Joe Flores, Finance
- John Maxwell, VDVS
- Karen Kimsey, DMAS
- Banci Tewolde, DPB
- Jason Powell, SFAC
- Anne Oman, HAC

Tiger Team (small group)

- Jonathan Ward, VADA
- Steven Combs, VDVS
- Tammy Davidson, VDVS
- Robyn Jennings, VDVS
- James Darragh, VDVS
- Todd Barnes, VDVS
- Ivory Banks, DMAS
- Chris Gordon, DMAS

- Renae Vanderveldt, DPB
- Caitlin Kilpatrick, SFAC
- David Reynolds, HAC

Workgroup meeting schedule

1. August 7 (full group)
2. August 24 (EXCOM and Tiger Team)
3. August 28 (full group)
4. September 9 (EXCOM and Tiger Team)
5. September 11 (full group)
6. September 28 (EXCOM and Tiger Team)
7. October 1 (full group)

Virginia's Veterans Care Centers (VCC)

Overview

Virginia operates two VCCs and is building two additional VCCs:

1. Virginia Veterans Care Center (VVCC), Roanoke (opened 1992);
2. Sitter & Barfoot Veterans Care Center (SBVCC), Richmond (opened 2007);
3. Jones & Cabacoy Veterans Care Center (J&CVCC), Virginia Beach (opening 2022); and
4. Puller Veterans Care Center (PVCC), Vint Hill, Fauquier County (opening 2022).

Virginia's veterans care centers provide four levels of care for Virginia's veterans:

1. Skilled nursing;
2. Alzheimer's/memory;
3. Rehabilitation; and
4. Assisted Living (domiciliary) – Roanoke only.

Residents of Virginia's Veterans Care Centers must be veterans who meet the following eligibility requirements:

- Residency (current resident or entered service from Virginia)
- Character of military service (honorable discharge)
- Medical necessity
    - Veteran has medical need for level of care provided
    - Care center can provide level of care the Veteran needs
- Have a source of payment (Medicaid, Medicare, U.S. Department of Veterans Affairs, private pay)

Virginia is not unique in having a Veterans Care Center or State Veterans Home (SVH). Connecticut established the first SVH in 1864 and now all 50 states and Puerto Rico operate at least one SVH. All receive some form of federal operating supplement and all are eligible for federal construction grants.

- 157 SVHs: CA and TX have 8 SVH each; FL, MO, and OK = 7 each;
- More planned: 12 new construction and eight-bed replacement projects are on the U.S. Department of Veterans Affairs (VA) FFY20 grant priority list.

Across the Nation, there is a mix of SVH operating models. Like Virginia, many other states directly operate their veterans care centers; others contract out those services to corporate/private entities.

Operating Goal

The Virginia Department of Veterans Services (VDVS) operates Virginia's veterans care centers in a manner that a) provides veteran residents with exceptional care in a home-like environment and b) that enhances their sense of well-being. To achieve this goal, the VCCs:

- Take a whole person approach that focuses not just on providing physical health care to residents, but also providing recreational, therapeutic, and social opportunities that contribute to overall physical and mental health;
- Operate the care centers as symbols of the Commonwealth's commitment to her veterans; and
- Serve the greatest possible number of veterans by maintaining the highest practical facility census at state veterans care centers

Services Provided to/for Residents

Residents of Virginia's State Veterans Homes receive a wide range of services while living at the care centers. These services support the whole person approach as described in the operating goal stated above.

- Direct resident (patient) care – medical care/activities of daily living (ADLs) in four areas: skilled nursing, Alzheimer's/memory, short-term rehabilitation, and assisted living;
- Transport to outside care, medical appointments;
- Food service – three meals/day plus special events/celebrations tailored to residents' dietary needs;
- Environmental, housekeeping, laundry, linens, etc.;
- Therapy – physical, occupational, speech, recreational;
- Social services – care coordination, family connections;
- Pharmacy – in-house, integrated into direct care planning/delivery;
- Activities – physical/mental/spiritual. Community groups;
- Physical plant – maintenance, grounds;
- Security; and
- Financial and eligibility services.

Evolving care/design concepts in long-term care

VDVS operates long-term care facilities in a highly competitive environment. There are myriad choices for in-residence facilities and home health options continue to increase. To remain a viable option for Virginia's veterans, the VCCs in Virginia must continually evolve to meet quality of life objectives for veterans and their families. The Virginia Veterans Care Center (VVCC) in Roanoke opened in 1992. At the time, the standard of design/operation was semi-private rooms (i.e. two veterans to a room) opening on long hallways. The design concept then moved to private rooms (i.e. each veteran has his own room), and remained organized around 40 to 60-bed units; SBVCC reflects this design concept. The latest standard, applied to the new centers in Virginia Beach and Fauquier County, is to organize around smaller "households," which are 16-bed units with private rooms and a shared living room and dining room.

Appendix A shows a comparison of design/operating concepts.

Staffing

VCC Administrators face a competitive environment when recruiting, hiring and retaining staff. While Virginia offers a healthy benefits package for full-time employees, current and future employees still focus heavily on salary. Salary can also be a key factor as the work is challenging, and as we have seen during the COVID-19 pandemic, carries a large amount of risk. Therefore, staffing levels, pay and hours are set to retain staff committed to achieving the operating goals outlined above.

Appendix B shows a comparison of staff levels across the four care centers

The Regulatory Environment

Licensed nursing home administrators lead Virginia's veterans care centers as they operate in a complex regulatory environment. They must abide by policies delineated by federal and state entities. Below is a list of organizations that regulate how a VCC operates:

- Federal:
  - U.S. Department of Health and Human Services (HHS), Centers for Medicare & Medicaid Services (CMS);
  - U.S. Department of Veterans Affairs (VA); and
  - HHS, Centers for Disease Control & Prevention (CDC).
- State:
  - Virginia Department of Health (VDH);
  - Department of Medical Assistance Services (DMAS);
  - Department of Social Services (DSS);
  - State Fire Marshal's Office (Department of Fire Programs); and
  - Department of Health Professions (DHP): licensure/certification of administrators, nurses, CNAs, pharmacists, rehabilitation therapists, etc.
- Regional and local:
  - Regional health coalitions (ex. – Central Virginia Health Coalition);
  - Local health departments (ex. Richmond City Health Department); and
  - Regional disaster response (ex. Near Southwest Preparedness Alliance).
- Other:
  - Federal and state employment law/policy (ex. FLSA);
  - Environmental law/policy (NEPA, DEQ);
  - Federal/state building requirements/codes (ex. Davis-Bacon Act, Virginia Uniform Statewide Building Code); and
  - Occupational Health and Safety Administration.

Construction and Capital Projects

Virginia's veterans care centers are/were constructed using a mixture of state and federal funding. In addition, the two currently operating VCCs must undertake construction projects in order to implement much-needed improvements; a mix of state and federal dollars fund these projects. Grants from the U.S. Department of Veterans Affairs (VA) cover a maximum of 65% of project costs; applying for and being awarded a VA grant is often a multi-year process.

Congress appropriates a set amount of funding for grants to the VA every year and states usually request more federal funding than VA has to award. Because of this, federal law establishes a priority system for grant awards to the states. First priority for available VA grant money is for states with life/safety projects. New construction ranks lower on the priority list, such that a new construction project may be on the VA priority list for years before there is enough money for VA to award a grant.

The Virginia Department of Veterans Services (VDVS) has seven construction projects associated with the current and new Veterans Care Centers in various stages of development.

In December 2019, the VA awarded federal grant funding to build two new VCCs in Virginia; these started in early 2020 (See ***Appendix C*** for a summary):

- Jones & Cabacoy Veterans Care Center (Virginia Beach): 128-bed facility
- Puller Veterans Care Center (Vint Hill, Fauquier County): 128-bed facility

Although the site of the Puller Veterans Care Center (Vint Hill, Fauquier County) is of sufficient size to permit future expansion, VDVS does not envision expanding on that site in the near future.

Appendix D presents a summary of the major milestones in the Puller Veterans Care Center (PVCC) and Jones & Cabacoy Veterans Care Center (J&CVCC) construction projects.

At the existing care centers, VDVS has one approved construction project and four planned projects. The VA approved federal funding for the Sitter & Barfoot Veterans Care Center (SBVCC) emergency generator replacement; construction will start when the VA releases funds. VDVS also requested federal grant funding (65% of total project costs) for the following projects (total cost annotated):

- Virginia Veterans Care Center (Roanoke): CARES/COVID-19 project ($1.73M);
- Sitter & Barfoot Veterans Care Center (Richmond): CARES/COVID-19 project ($1.49M);
- Virginia Veterans Care Center (Roanoke): renovation project ($891K);
- Sitter & Barfoot Veterans Care Center (Richmond): renovation project ($1.31M).

See ***Appendix E*** for a summary of the capital projects at the existing care centers.

Initially, the operating care centers committed facility operating cash reserves for the one approved (SBVCC generator replacement) and four planned projects. Lower census counts and meeting new and enhanced regulatory guidelines for resident and staff safety in the current COVID 19 environment placed a strain on both care centers' cash reserves. This affects the ability for the existing care centers to fund their portion of project costs.

Operational Business Plans – Existing veterans care centers

The working group reviewed business plans for the existing veterans care centers (Roanoke and Richmond) at the August 24 and August 28 meetings. Virginia's veterans care centers do not receive a General Fund appropriation, relying on facility-generated revenue and the per diem from the federal government to cover all operating expenses. Under normal circumstances, the VCCs revenue exceeds their daily operating costs, which contributes to cash reserves. Each facility maintains cash reserves to cover operational shortfalls, delayed receipt of reimbursements from payer sources, and to fund smaller-scale construction or renovation projects. Virginia's VCCs receive reimbursement for their daily operational costs through the below sources:

- Medicaid;
- U.S. Department of Veterans Affairs (VA) payment to care for veterans who are rated with a 70-100% service-connected disability (SCD);
- VA per diem (for veterans who are not 70-100% SCD);
- Medicare;
- Private Pay; and
- Pharmacy.

Appendix F details VDVS's operating principles regarding resident care and fiscal management.

Prior to the start of the COVID-19 pandemic, Virginia's existing care centers operated with positive income statement balances as revenues were sufficient to cover current expenses, maintain adequate cash reserves, provide for facility upkeep and equipment replacement, and fund smaller-scale renovation projects.

Census levels at both VCCs remained at or near 90% prior to the COVID pandemic, but decreased due to the onset of outbreaks. In just the short time between the end of August and the beginning of November, the census and revenue pictures at the Roanoke and Richmond facilities changed dramatically, especially in Roanoke, due to those outbreaks. The COVID-19 pandemic brought new admissions to a halt, meaning that census is well below normal/desired, which should be at/above 90% to generate sufficient revenue for the purposes outlined above.

By the end of FY 2021, SBVCC estimates an 83% average census rate and VVCC anticipates average census to be at 75% for skilled nursing and 92% for domiciliary. ***Appendix G*** outlines estimated FY21/22 census levels.

Potential for increased Medicaid reimbursement rates in FY22

In order to maximize the number of veterans who live in Virginia's VCCs, the existing VCCs discount their services by up to 30%. The existing VCCs receive reimbursement based on what they charge residents versus based on the cost of providing those services. As part of the veterans care center workgroup process, the Department of Medical Assistance Services (DMAS) analyzed VDVS care center reimbursements through Medicaid and Medicare. DMAS estimates that a change in how VDVS bills Medicaid and Medicare could increase annual revenue by an estimated $3M per year for both facilities, beginning in FY22.

VDVS submitted a decision package (language only) to execute a regulatory change by July 1, 2021. Below is the proposed budget language:

> *Effective July 1, 2021, the Department of Medical Assistance Services shall amend the State Plan for Medical Assistance to modify reimbursement for facilities operated by the Department of Veterans Services such that the facilities are reimbursed retrospectively based on cost irrespective of facility charges. The department shall have the authority to implement these changes effective July 1, 2021 and prior to the completion of any regulatory process undertaken in order to effect such change.*

Business Plans – New Care Centers

The September 9, September 11, September 28 and October 1 meetings were devoted to the study of the opening and initial operating plans of the two new veterans care centers (Virginia Beach and Vint Hill/Fauquier County).

New Veterans Care Centers: Assumptions

The workgroup agreed to the following assumptions as it developed operational business plans for the two new care centers:

- 24/7/365 operations with same types of services as current VCCs;
- Competitive wage structure for both the Hampton Roads and Northern Virginia markets to attract and retain staff dedicated to delivering exceptional care;
- Staffing levels will be such that staff can provide resident-centric, holistic care;
- For direct care staff, staffing ratios based on multiples of 8;
    - Certified Nursing Assistants (CNA) – 1:8 ratio on days and evenings, 1:16 nights.
    - Licensed Professional Nurses (LPNs) – 1:16 ratio on days and evenings; 1:32 nights.
- Leadership, direct care staff (LPN, CNAs), support staff (housekeeping, dietary, etc.) and back office team employees (finance, HR, IT) will be hired in phases prior to opening; (Additional staff will be hired in phases as census grows.)
- Staff hiring will begin eight months prior to projected admission of first resident;
    - Administrator, Director of Nursing (DoN), HR Director, Admissions/Marketing Director are first priority.

    - New care center staff train at SBVCC and VVCC to learn state/VDVS policies and procedures.
- New buildings should require no major capital/maintenance reserve projects for 4-5 years;
- Funding for equipment replacement (ex. – wheelchairs, lifts, etc.) and "routine maintenance" (ex – carpet replacement) will be needed sooner, at 2-3 year point;
- Full census (95% or better) will be reached around Month 17; the care centers will break even two months later (month 19);
- VCCs will adhere to state prompt pay rules – pay vendors within 30 days;
- VCCs will have to used mandatory suppliers (ex. VITA) for some goods/services;
- Community groups will play an active role in delivering activities for residents (in-house and off-site).

New Veterans Care Centers: Census

The new Veterans Care Centers will have a capacity of 128 beds. They will admit their first residents in Month 1; census will be at six residents for Months 1-2 during facility shakedown and certification period.

After certification, census growth will resemble a stair step, with approximately 10 new admissions a month and two discharges a month until Month 17, when a 95% or better occupancy rate is projected.

Appendix H details the census plan for the new VCCs.

New Veterans Care Centers: Staffing

The first hires will include the Administrator, Director of Nursing (DoN), HR Director, Admissions/Marketing Director, Facilities Director, and IT Director.

Staff hiring will begin eight months prior to the projected admission of first resident and will continue through approximately 15 months after opening when the last household (8 of 8) will begin to fill with residents.

See ***Appendix I*** for hiring by month of the Puller Veterans Care Center (PVCC) in Vint Hill, Fauquier County. Puller VCC expects to begin hiring in July 2021. The same hiring model is in place for Jones and Cabacoy Veterans Care Center (J&CVCC) and it will commence in November 2021.

Appendix J illustrates the link between staffing levels and census levels. Staffing growth will lead census growth in order to hire and train employees before admitting residents.

Revenues vs. Expenditures

While expenditures start when the first staff member is hired (in Month -8), there is no reimbursement until approximately two months after opening. The care centers receive operational funding (Medicaid, Medicare, VA funding, etc.) on a reimbursement basis, so incoming payments for services will likely not start until month 3 of operations. In addition, expenditures will lead revenue until approximately month 19; at this point the VCCs will be at full occupancy (95% or better) and reimbursements for care at this occupancy level will be flowing. Once reaching break-even or better, the care centers will need to commit revenues in excess of expenditures towards building an operating cash reserve, in order to have 45-60 days of cash on hand to meet contingencies. Based on 95% occupancy, each care center estimates to accumulate between $2.6M (45 days) and $3.5M (60 days) in operational reserves; building these reserves could take two years after break-even.

See ***Appendix K*** for a comparison of expenditures vs. revenues for the Puller VCC for FY22-24. The same will hold true for the Jones & Cabacoy Veterans Care Center (J&C VCC) in Virginia Beach, except that the J&CVCC will be approximately five months behind the Puller VCC.

Supplemental funding for new VCC opening/operations

The new Veterans Care Centers will need supplemental funding to open and sustain them until the break-even point. This period will last for approximately 27 months (month -8 to month 19). For PVCC, this period lasts from July 2021 to October 2023. J&CVCC will be on the same path, only with a lag of five months. The facilities expect to break even in FY25, at which point they will want to commit excess funds to their operational reserves.

Appendix L covers the supplemental funding requirements that will be required for operations from Month -8 to Month 19, broken down by fiscal year.

The total working capital advance authorized by the Governor and General Assembly in Chapter 1289 of the 2020 Acts of the General Assembly is sufficient to cover FY22 operations (estimated at $4.5M). The working capital advance will have to be extended into FY23 and FY24, in the estimated amounts detailed in Appendix L.

FY25 operations and beyond

Appendix M illustrates the projected revenues and expenses in FY25.

FY25 operations are projected to be at break even, though the proposed change to Medicaid reimbursement rates proposed by the Department of Medical Assistance Services (DMAS) to go into effect in FY22 may create a slight operating surplus. As noted above, to absorb unexpected changes in the operating environment, the VCCs will want to commit revenues in excess of expenses in FY25 to accumulating a cash reserve.

To fund major capital requirements over/above regular equipment replacement before accumulating a sufficient cash reserve, the VCCs will need additional state bond dollars for the

state share of the project (with, hopefully, VA grant dollars part of the project costs). To fund equipment replacement, painting, new carpets, etc., the VCCs will be required to use any operating surplus.

By FY25, there should be sufficient data, based on facility expenditures and revenues, to determine feasibility for the VCCs to repay some or the entire working capital advance. Based on the work group analysis, the Commonwealth should wait until this time to determine if there are sufficient operating revenues to repay the working capital advance.

Conclusion

Through its current and future Veterans Care Centers, Virginia has committed to providing excellent skilled nursing services in a home-like atmosphere to its elderly veterans. Under normal circumstances, Virginia's VCCs receive sufficient revenue from multiple sources to support operations; however, they operate on thin margins, even when at full occupancy. The unforeseen impacts of the COVID-19 pandemic have further decreased the margins, and created uncertainty as to the sufficiency of revenues to cover expenses in the short term. The current plan to support initial operations at the two new care centers through working capital advances (WCA) will allow those new VCCs to be up and operating at full occupancy within approximately two years. In the current environment, it will take some amount of time until those VCCs are financially healthy enough to begin substantial, if any, repayment of that WCA. Based on the experiences of the existing care centers and potential for additional Medicaid revenue, it is too soon to tell if there is a need to adjust the operating plans or current source of operational funding. Therefore, this workgroup recommends proceeding as outlined in this report and reassessing the business plans when the new care centers have had a substantial amount of time operating at full occupancy.

Appendix A – Evolving Care/Design Concepts

	Virginia Veterans (Roanoke)	Sitter & Barfoot (Richmond)	Sitter & Barfoot addition (Richmond)	Jones & Cabacoy (Virginia Beach) and Puller (Vint Hill)
Opened	1992	2007	2015	2022
Basic design philosophy/layout	120 semi-private rooms; rooms open onto hallways	160 private rooms; rooms open onto hallways	40 private rooms; organized into four 10-bed households	128 private rooms; organized into eight 16-bed households
Dedicated memory unit?	Yes (60 beds)	Yes (40 beds)	N/A	No. Any of the eight households can be used as a memory unit
Assisted living (domiciliary) unit?	Yes (60 beds); reduced to 28 beds 2020	No	No	No
Oversize (bariatric) rooms	No	No	No	Yes (25% of rooms)
Dining	Central dining rooms	Central dining rooms	Household dining	Household dining

Appendix B – Staffing Levels

Department/Area	VVCC (Roanoke)	SBVCC (Richmond)	J&C VCC (Virginia Beach)	Puller VCC (Fauquier County)
Nursing	191.8	192.6	125.4	125.4
Environmental Services	55.3	43.2	31.5	31.5
Dietary	47.5	31.0	25.5	25.5
Administration	6.0	4.0	4.0	4.0
Admissions & Marketing	2.0	2.0	1.5	1.5
Human Resources	4.0	4.0	3.0	3.0
Social Services	4.0	4.0	3.0	3.0
Finance (AR/AP/Procurement/Payroll)	8.0	10.0	7.0	7.0
Activities	12.6	8.4	5.6	5.6
Maintenance	7.0	5.0	3.0	3.0
Rehab	0.0 (contracted)	11.0	6.0	6.0
Pharmacy	7.0	6.0	4.0	4.0
	345	321	219	219

Appendix C – Summary of current construction projects

Location: Virginia Beach, Jones & Cabacoy Veterans Care Center

- Type: New Construction: 128-bed VCC
- Status: under construction (started March 30, 2020)
- Target completion: Spring 2022
- Total project budget: $68,632,446
  - Federal: $32,943,625 (VA grant)
  - State: $35,688,821 (VPBA bonds, pool)
- Next steps: FF&E procurement and first hires in December 2021

Location: Fauquier County, Puller Veterans Care Center

- Type: New Construction: 128-bed VCC
- Status: under construction (started March 30, 2020)
- Target completion: Winter 2022
- Total project budget: $73,862,337
  - Federal: $34,130,346 (VA grant)
  - State: $39,731,991 (VPBA bonds, pool)
- Next steps: FF&E procurement and first hires in Summer 2021

Location: Richmond, Sitter & Barfoot Veterans Care Center

- Type: Renovation – generator replacement
- Status: CM bid process complete; awaiting release of VA funds
- Target completion: Summer 2021
- Total project budget: $1,593,706
  - Federal: $743,409 (VA grant)
  - State: $850,297
- Next steps: award construction contract after release of VA funds

Appendix D – Summary of major milestones in new VCC projects

Event/Milestone	Puller VCC	J&C VCC
State funding committed	2015/16	2015/16
Land donated	2016	2016
Design complete	March 2019	March 2019
VA awards matching grant	December 2019	December 2019
Contract signed with CM	March 2020	March 2020
Construction started	March 2020	March 2020
Month -8 (hiring starts)	July 2021	December 2021
Construction complete	January 2022	June 2022
Month 1 (1st residents admitted)	March 2022	August 2022
Month 3 (“regular” cycle of admissions begins”)	June 2022	November 2022
Month 17 (target for full occupancy)	August 2023	January 2024
Month 19 (target breakeven)	October 2023	March 2024

Appendix E – Summary of planned construction projects

Location: Roanoke, Virginia Veterans Care Center

- Type: New construction/renovation – COVID19/CARES project. Isolation area, PPE storage, vinyl flooring, and air filtration system
- Status: grant request submitted to VA; awaiting release of VA grant funding list and award letter
- Target completion: Fall 2021
- Total project budget: $1,734,096
  - Federal: $1,127,163 (VA grant - requested)
  - State: $500,000 (approved VPBA bond $)
  - State: $106,933 (VVCC cash reserves or additional VPBA bond $)

Location: Richmond, Sitter & Barfoot Veterans Care Center

- Type: New construction/renovation – COVID19/CARES project. Isolation area, PPE storage
- Status: grant request submitted to VA, awaiting release of VA grant funding list and award letter
- Target completion: Fall 2021
- Total project budget: $1,490,343
  - Federal: $968,723 (VA grant - requested)
  - State: $500,000 (approved VPBA bond $)
  - State: $21,620 (SBVCC cash reserves or additional VPBA bond $)

Location: Roanoke, Virginia Veterans Care Center

- Type: Renovation – replace Wanderguard, building control, and telephone system; new water treatment system (Legionella)
- grant request submitted to VA; awaiting release of VA grant funding list and award letter
- Target completion: Fall 2021
- Total project budget: $890,800
  - Federal: $579,020 (VA grant - requested)
  - State: $310,780 (VVCC cash reserves or additional VPBA bond $)

Location: Richmond, Sitter & Barfoot Veterans Care Center

- Type: Renovation – replace Wanderguard, building control system; install new circuitry for generator
- Status: grant request submitted to VA, awaiting release of VA grant funding list and award letter
- Target completion: Fall 2021
- Total project budget: $1,309,785
  - Federal: $851,360 (VA grant - requested)
  - State: $458,425 (SBVCC cash reserves or additional VPBA bond $)

Appendix F – Operating Principles for Resident Care and Fiscal Management

Adopted October 30, 2019

Historical Background and Mission:

The mission of Virginia's veterans care centers has always been to provide Virginia veterans who can no longer be at home with a quality of life that not only meets their individual care needs but also provides a safe "home like" environment for living.

This "Quality of Life" mission must not only address Veterans' medical needs but also support their sense of well-being, provide a level of satisfaction with life, and bolster a feeling of self-worth and self-esteem. This is the least we can do to repay the debt owed to them and to honor the sacrifices and individual commitment they have made to this great nation and to the citizens of the Commonwealth of Virginia.

In order to accomplish this mission, we must understand not only the complex meaning of the term "quality of life" for each veteran, who because of medical needs and physical limitations, is compelled to give up his or her home and most of the earthly belongings to move into a care center.

We likewise must understand the complex nature of the operations including financial resources, fiscal responsibilities and accountability, and capital resource management that are required to complete the mission at hand.

Historically Virginia's veterans care centers' operations have been fiscally managed using a "Stand Alone" non-general fund philosophy. This included an expectation that startup funding, provided through general appropriations or other public funding options, would support the 20-30 month period leading up to "self-sufficiency," a level of occupancy sufficient to support independent financial operations.

Once these startup milestones were achieved, the expectations shift to a self-funding model that includes fiscally responsible management of financial resources in support of continuing operational and financial needs and to provide for ongoing capital investments that would ensure these important State assets will be available for Veterans with future needs.

The veterans care centers have operated for over a decade applying solid financial management techniques and practices that have safeguarded the delivery of high quality of care for its veterans while ensuring the necessary cash reserves needed to support day-to-day operations.

Whether the funding received by the veterans care centers is provided by a federally-sponsored program or a Veteran paying privately out of pocket for their care, it is clearly the

expectation of these payers that the dollars provided will be used for the exclusive purpose of ensuring the delivery of high quality healthcare in a well maintained living environment.

Regulatory Environment and Expectations:

Virginia's veterans care centers provide services to Veterans with different and sometimes multiple financing sources. This include Federal funding sources that include both the U.S. Department of Veterans Affairs (VA) and the Centers for Medicare and Medicaid Services (CMS). This also includes private pay sources, with Veterans who pay from their own personal financial resources.

The VA and CMS programs are governed by the Code of Federal Regulations (CFR) and include Rules of Participation and other governing regulatory requirements that must be adhered to in order to maintain facility program participation.

One example of is provided for in CFR 38 U.S.C. 1741 VA Grant Program, which includes the governing regulations for the VA Per Diem Paid to States for Care of Eligible Veterans in State Homes. The specific requirements are described in Subpart C - Requirements Applicable to Eligibility, Rates, and Payments 51.40 that defines the payments usage as "payments to the State to support the care of veterans in State homes"; it is not "coverage" for specific services, like insurance. The State homes must meet certain standards as a condition of receiving VA per diem, which are designed to ensure that State home provides for the health, safety, and well-being of veterans in its care. This obviously implies the overall quality of care including the environment in which the care is received.

CMS includes similar language in their "Rules of Participation" governed by 42 CFR Part 483- Requirements for states and long-term care facilities. These regulations include a comprehensive set of regulatory requirements that include the resident rights, quality of care, services that shall be provided, administration, quality assurance, training, the physical environment, and governing body responsibilities. Additionally CMS requires the facilities to have compliance and ethics programs that include monitoring, control mechanisms, and reporting procedures that prevent waste, fraud and abuse.

The VA Office of Inspector General (OIG) heavily audits the VA per diem program for "improper payments" which would include inappropriate use of per diem payments. Likewise, CMS also continues to make this a focus of their Medicare and Medicaid auditing programs.

Whether the beneficiary is paying privately or receiving federal resources in support of their care, it is implied and presumed that the funding be explicitly used for the beneficiaries cost of care, both direct and indirect, and not for other purposes.

Facility Operations - Cash Reserves:

Adequate cash reserves are required in order to meet both federal and state regulatory requirements. Without adequate cash reserves the facility would not be able to meet the required federal regulations mandated by CMS and the VA.

These program requirements include an expectation to provide "Quality of Life" and clinically appropriate care to residents as a Condition of Participation. These needs are often emergent and unpredictable requiring immediate medical attention, and frequently involve contracted services including laboratory, radiology, psychiatric, and other diagnostic services.

The Code of Federal Regulations 483.70(g) clearly states, "If the facility does not employ a qualified professional person to furnish a specific service to be provided by the facility, the facility must have that service furnished to residents by a person or agency outside the facility under an arrangement described in section 1861(w) of the Act. Additionally, the Code states that these services must meet professional standards and principles that apply to professionals providing services in such a facility, **and the timeliness of the services**.

Additionally, the care centers would be unlikely to meet the requirements of Virginia Public Procurement Act, § 2.2-4347 through § 2.2-4356 which requires agencies to pay for delivered goods and services by the "required" due date. The Act defines the "required" due date as established by the terms of the contract or if the contract includes no payment terms, then 30 calendar days after receipt of a proper invoice, or 30 days after receipt of the goods or services, whichever is later. The Virginia law also requires 100% prompt payment with a "no exceptions" compliance mandate.

The care centers regularly experience accounts receivable balances of $1-2M dollars and associated 60-90 day delays in cash receipts from federal funding sources. This coupled with the absence of general fund appropriations requires prudent budget planning and appropriate levels of cash reserves.

This "normal" operating receivables creates a need for at least 45-60 days cash reserves in order to meet quality of care expectations, payroll, and to maintain compliance with the Virginia Public Procurement Act mandate. Healthcare industry providers generally strive to maintain between 90-120 days cash reserve as an essential part of their financial planning and budget management methodology.

The care centers average monthly expenses, which can total as much as $2.5 M per facility, coupled with the A/R balances and cash receipt delays described above, create a need for at least 45-60 days cash reserves as a normal and fiscally responsible expectation.

Facility Operations - Capital Funding:

The care centers have historically funded capital improvement and upkeep projects using non-general funds produced through federal funding sources, which include provisions for

capital reimbursement. These payment methodologies include settlement of annual cost reports that retrospectively provided adjustments to the facility future rates. As these reimbursement rates are retrospective, they provide reimbursement for capital expenses previously incurred by the facility. Therefore, it would be inappropriate for these funds to be "redirected" to other state government programs through intergovernmental transfer.

Furthermore, the care centers' multiple federal funding providers include complex reimbursement methodologies that necessitate a sound understanding of the funding expectations and thus comprehensive budgetary practices and management, including adequate cash reserves, which ensure compliance with their respective agreements of program participation.

Additionally, SBVCC has recently been approved for a FY19 VA "Life Safety" grant, which means a project to remedy a condition, or conditions, at an existing facility that have been cited as threatening to the lives or safety of one or more of the residents or program participants in the facility. This grant will support the installation of a new emergency backup generator that will provide the necessary power to support critical services during an emergency incident or event, including providing air conditioning capabilities and life safety electrical outlets and lighting to patient care areas not currently available. As a condition of the grant, the State has certified that the facility has their share of the funding, approximated at $400,000 as of 04/15/20, held in reserve for this grant project. These dollars are part of the existing cash reserves the facility maintains and would put this critical capital project in jeopardy should the funds be swept out of their account via a state-initiated intergovernmental transfer.

Summary

Virginia's veterans care centers have a long-standing operational philosophy: provide Virginia veterans who can no longer be at home with a quality of life that not only meets their individual care needs but also provides a safe "home like" environment for living. For the 400+ plus residents, the care centers are their home. They are places for family and friends to visit. They are places around which volunteer groups, and indeed, the whole community, rallies to care for our veterans. And the care centers are symbols of the Commonwealth's enduring commitment to serving those who served.

The Department of Veterans Services has developed management processes and fiscal controls that carefully balance expenditures against revenues, while maintaining the cash balances necessary to ensure the timely and prudent delivery of services to residents.

Appendix G – Existing Care Center Census: Capacity vs FY21/22 Assumptions

Facility/bed type	Capacity (# of beds)	Census – 02/20/20*	Census – 08/21/20	Census – 11/04/20	Census – 06/30/21 (target)	Census – average FY21 (estimated)	Census – average FY22 (estimated)
VVCC – Skilled (including memory care)	196	176 (90%)	163 (83%)	135 (69%)	154 (79%)	147 (75%)	176 (90%)
VVCC – Domiciliary	28	24 (86%)	24 (86%)	22 (79%)	24 (86%)	23 (82%)	24 (86%)
SBVCC – Skilled (including memory care)	200	193 (97%)	175 (87%)	154 (77%)	176 (88%)	166 (83%)	187 (94%)

* In early 2020, VVCC converted 32 domiciliary (assisted living) beds to 16 skilled nursing beds. Prior to this, domiciliary occupancy rates had averaged under 50%

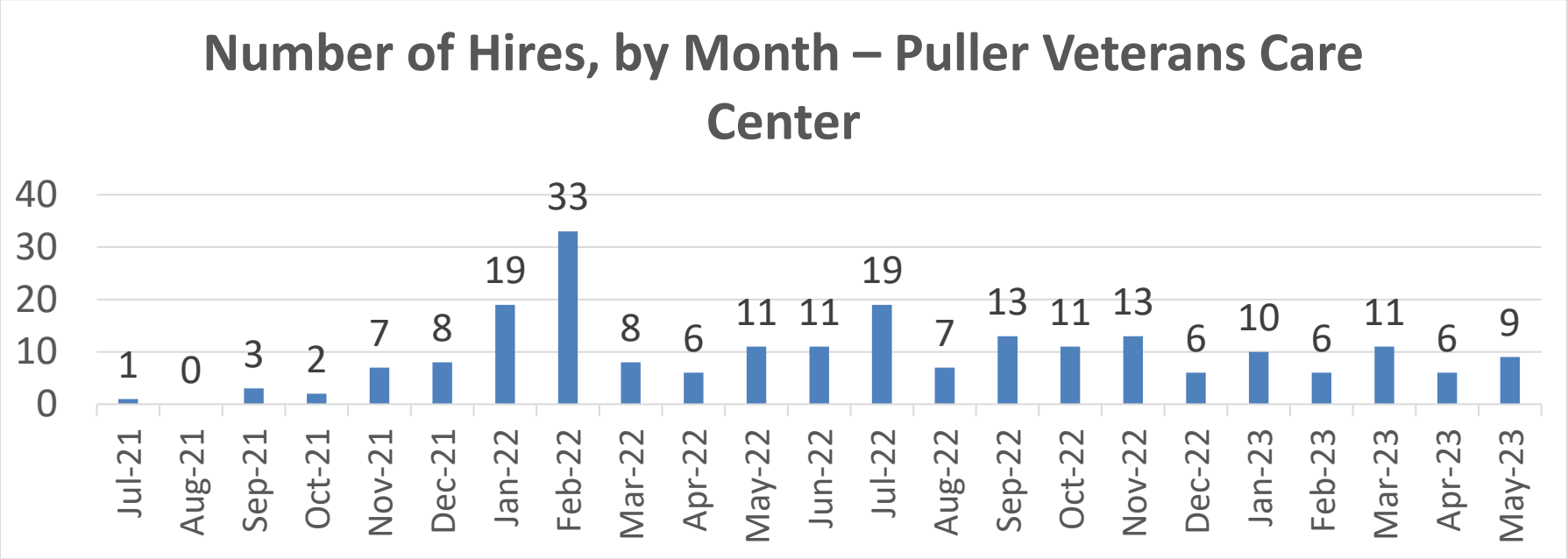
All nursing beds are Medicaid, Medicare, and VA certified

Appendix H - Census: Growth and Assumptions – new veterans care centers

Facility	Capacity	Census: Month 1	Census: Month 3	Census: Month 17	Census: average after Month 17
Jones & Cabacoy	128	6	14	122 (95%)	122 (95%)
Puller	128	6	14	122 (95%)	122 (95%)

- Census will stay at six for Months 1-2 during facility "shakedown" and certification period (VA, Medicare, Medicaid)
- Census growth will look like a "stair step," with approximately 10 new admissions a month and two discharges a month until full occupancy
- Staffing will grow as census grows, with a new household coming on line about every two months until full occupancy

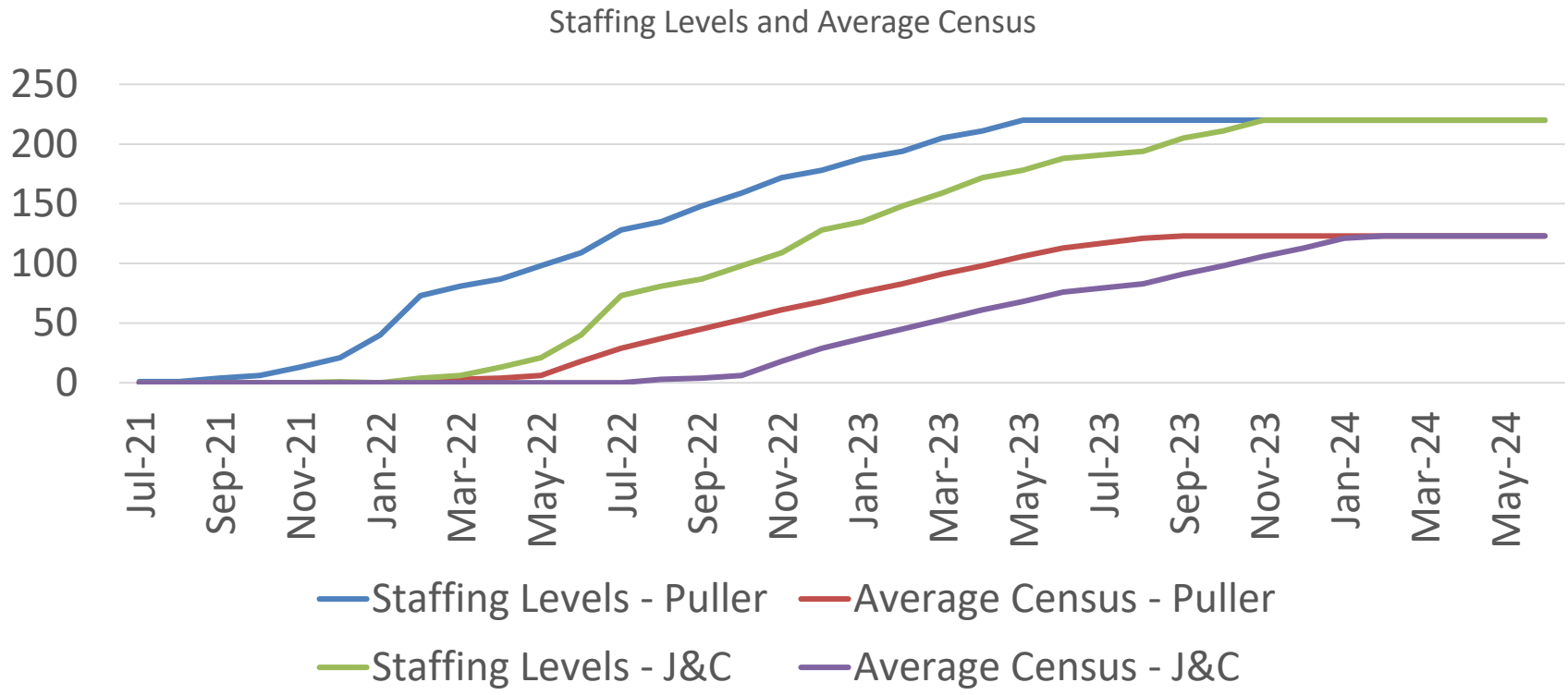
Appendix I – Hiring by month – Puller Veterans Care Center



NOTE: Jones & Cabacoy VCC hiring: shift five months to the right

Appendix J – Staffing Levels and Average Census: new Veterans Care Centers

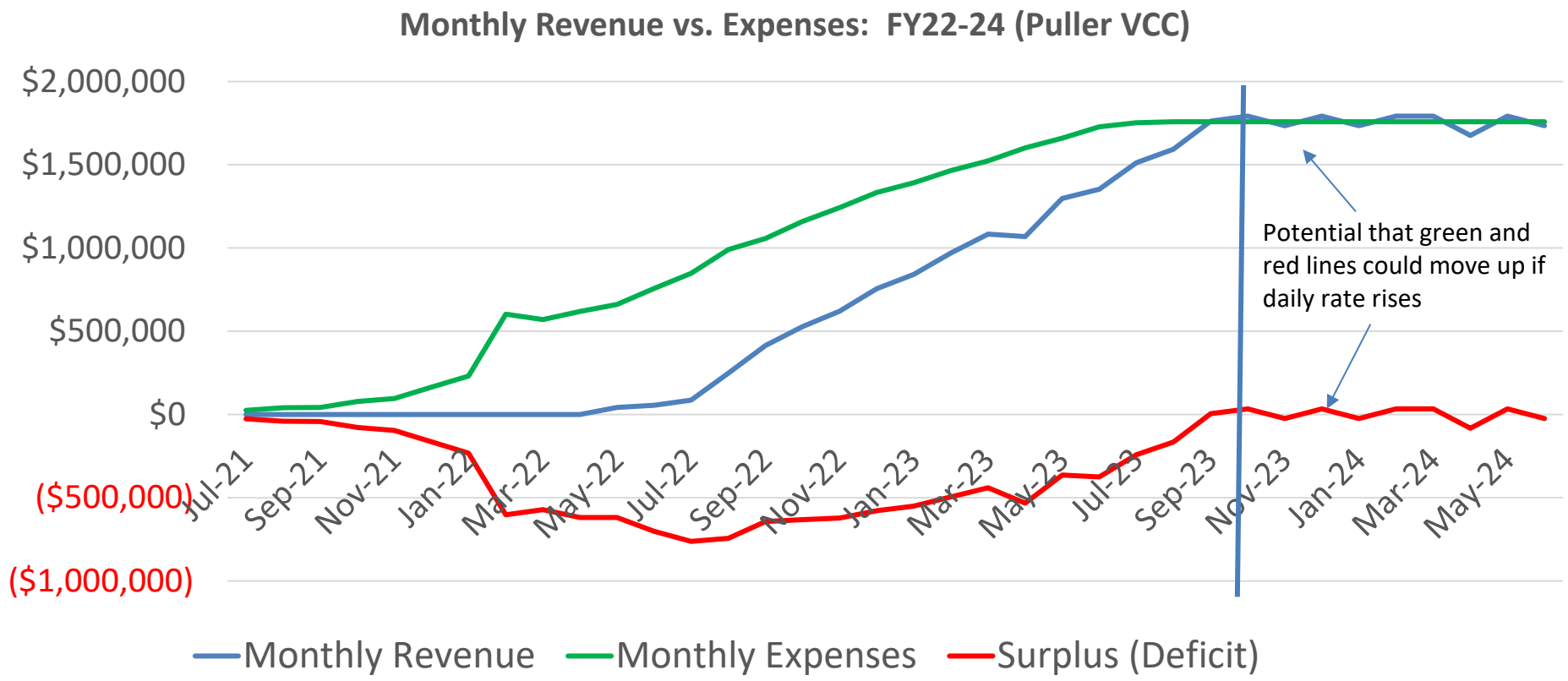
- Staff must be hired/trained before residents are admitted
- Admissions will look like a "stair step" pattern: 10 new admissions and 2 discharges per month until target census (95%) occupancy is reached in Month 17



Appendix K – Monthly Revenue vs. Expenses: FY22-24 (Puller VCC)

- Supplemental funding needed for 27 months of operations
  - Month -8 (July 2021) to Month +19 (October 2023)
- FY25 operations break even

NOTE: the new VCCs will be more expensive to operate per capita than existing VCCs, and there will be fewer beds over which to spread staffing costs



Appendix L – Supplemental Funding Requirements (estimated) – new Veterans Care Centers

Fiscal Year	Supplemental Funding (Estimated) – Puller VCC	Supplemental Funding Estimated) – J&C VCC	Total
FY22	$3,787,235	$675,967	$4,463,202
FY23	$6,784,432	$7,641,241	$14,425,673
FY24	$386,594	$2,586,496	$2,973,090
FY25	$0	$0	$0
Total FY22-24	$10,908,261	$10,903,704	$21,811,965

Appendix M – FY25 expenditures and revenues

- In FY25, average monthly revenue should equal expenses
- Revenue will be positive in “longer” months – i.e. those with 31 days
- Slight negative dips two months after “short months” (fewer than 31 days)