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HUMAN RESOURCES
DIVISION

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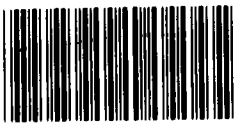

The Honorable Robert P. Nimmo
Administrator of Veterans Affairs

Dear Mr. Nimmo:

Subject: VA Should Consider Less Costly Alternatives Before Constructing New Nursing Homes (GAO/HRD-82-114)

We are evaluating the Veterans Administration's (VA's) readiness and plans to provide health care to the rapidly increasing aging veteran population. As part of that effort, we examined VA's nursing home care programs and the processes it uses to plan for meeting future nursing home care needs. Upon reviewing the planning criteria and processes used to justify proposed nursing home construction projects, we have concluded that they do not adequately consider local conditions or less costly alternatives.

Specifically:

--VA justified new nursing home construction using national demographic and needs projections with little input about the characteristics and resources of the medical districts or the medical centers' primary service areas.

--VA did not adequately consider the option of providing more nursing home care in community nursing homes by expanding its use of existing legislative authority to contract for care.

--VA did not adequately consider converting, renovating, or changing the mission of its existing VA facilities to help meet the need for more nursing home beds.

The cost of new VA nursing home construction is much higher than that in the private sector, and the average operating costs of VA nursing care units far exceed the average operating costs of community nursing homes, making new construction an expensive alternative. We are reporting on these matters now so that (1) VA's medical districts can consider our recommendations as they prepare new planning documents, due in November 1982,

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(2) your revalidation task force can consider our recommendations when examining nursing home construction projects, and (3) you can consider our recommendations in preparing VA's budget justifications for future nursing home construction projects.

BACKGROUND

VA provides nursing home care to veterans with service-connected disabilities and, to the extent space is available, to veterans whose disabilities are not service-connected. Since initially authorized to do so in 1964, VA has provided or helped pay for nursing home care through three programs: (1) VA nursing home care units through direct provision of care, (2) community nursing homes through contract payments for care, and (3) State veterans' homes through matching grants for construction and per diem reimbursements for care.

To help meet future needs for direct provision of nursing home care in its own facilities, VA has requested funding for four new nursing home care units in fiscal year 1983. A total of 360 new beds would be added to VA's in-house nursing home capacity at a projected cost of $35.45 million, or about $98,500 per bed. 1/ The proposed fiscal year 1983 projects would be built as follows:

Location	Number of beds	Total estimated costs
		(000 omitted)
Hines, IL (note a)	120	$10,950
San Antonio, TX	120	10,100
St. Louis, MO	60	8,200
Boise, ID	60	6,200
Total	360	$35,450

a/To be added through vertical expansion of a 120-bed unit presently under construction.

VA has requested funding for these projects in its fiscal year 1983 appropriation request, which, as of September 13, 1982, was pending before the Congress.

1/Although some initial construction cost savings may result from recommendations of a VA task force on nursing home construction cost, savings estimates were not available during our review.

In addition to the four nursing homes in VA's fiscal year 1983 construction program, VA lists 19 proposed nursing home construction projects for fiscal years 1984 through 1986 in its latest 5-year medical facility construction plan. The projected cost of the projects is $245 million. In addition, VA plans to include nursing home beds in the replacement hospital planned at the Minneapolis VA medical center (VAMC).

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective during this part of our study of VA's plans to provide health care to aging veterans was to examine how VA determined veterans' future nursing home care needs, what portion of the need it would try to meet, and how it planned and justified construction of new nursing home care units.

We reviewed several VA studies projecting veterans' nursing home care needs between 1985 and 1990 and interviewed VA officials responsible for making those projections. We also interviewed agency officials responsible for (1) administering VA nursing home care programs and (2) planning and constructing VA health care facilities. We determined how VA arrived at its current projection for the number of nursing home beds it wants to have in its own facilities by 1987 and its strategy for reaching that number. We also examined VA's justifications for the four nursing home construction projects proposed in its fiscal year 1983 budget.

We reviewed VA's planning process and criteria in connection with a specific example--the 120-bed nursing home project planned for the San Antonio VAMC. We chose the San Antonio project because (1) we had staff knowledgeable about nursing homes and other health care issues available in our regional office that covers San Antonio and (2) we were aware from other GAO work that community nursing homes in Texas had a relatively low occupancy rate compared to the Nation as a whole. We discussed the need and justification for the proposed nursing home with VA officials at the San Antonio and Kerrville, Texas, VAMCs; the director of the medical district in which San Antonio is located; the executive director of the local health systems agency; and administrators and other officials of community nursing homes in the San Antonio area. We also obtained data from the Texas Department of Health.

We coordinated our work with VA's Office of Inspector General, which was also reviewing VA's planning process for determining future nursing home bed requirements through fiscal year 1987. Among other things, the Inspector General sought to determine if VA considered alternative sources of acquiring nursing home beds in developing its overall strategy. The Inspector General's staff reviewed VA central office planning functions and visited six medical centers with planned new nursing home care units:

Dallas, Texas; Denver, Colorado; Kerrville, Texas; Portland, Oregon; Prescott, Arizona; and Spokane, Washington.

We conducted our audit work in accordance with generally accepted standards as contained in the Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

VA'S PROCESS FOR PROJECTING VETERANS' NURSING HOME CARE NEEDS IN 1987

The first step in VA's planning process was to project the estimated 1985 veteran demand for nursing home care beds. A June 1977 national study by VA's Department of Medicine and Surgery's Planning Service, "1985 Alternative VA Requirements for Nursing Home Care," calculated 1985 veteran demand for nursing home care by applying historical male civilian nursing home utilization rates 1/ for certain age groups to the projected veteran population in those age groups. A basic assumption of that study was that veterans generate demand for nursing home care at the same rate as all male civilians (including veterans). VA concluded that about 126,500 veterans would require nursing home care from all (VA and non-VA) sources in 1985 and that, based on 1973-74 data, it would provide or pay for care for about 16 percent of them. This was considered VA's "market share." At the conclusion of the June 1977 report, several alternatives were presented--each based on supporting a different market share for the future. None was proposed as an optimal choice.

In its October 1977 report "The Aging Veteran," VA projected a 1985 total veteran demand for nursing home care of 145,817--which was somewhat higher than the 126,500 projected in the earlier 1977 study. VA also projected that its market share would increase to 20 percent by 1980. 2/

A May 1978 study, "Nursing Home Care for Veterans - 1985 Estimates for the Nation and the Medical Districts," presented updated and expanded demand projections arrived at through a

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1/These rates were calculated using data from two National Center for Health Statistics surveys of national nursing home utilization in 1969 and 1973-74, and census data for those periods. Different utilization rates were calculated for four geographical regions, in accordance with National Center statistics. These were added together to produce national rates.

2/According to VA officials the estimated present market share is between 14 and 16 percent.

similar methodology and, for the first time, broke down the projections for each of VA's 28 medical districts. In addition, the report proposed to support the 20-percent market share in future years and concluded that VA would be supporting an average daily census of 29,163 in its three nursing home programs in 1985.

According to VA officials, about this time VA made a policy decision that the 1985 projected VA market share of 29,163 should be allocated through its three programs in approximately the following ratio:

--40 percent in VA nursing home care units.

--40 percent in community nursing homes under contract.

--20 percent in State veterans' homes.

We were told that this distribution ratio was based upon historical patterns of the VA programs. Applying this ratio and assuming a 95-percent occupancy rate in VA and State homes, the May 1978 study arrived at nationally projected bed needs of 12,279 in VA nursing homes, 11,665 in community nursing homes, and 6,140 in State veterans' homes.

District bed needs based on national projections

To calculate medical district bed needs, VA applied national nursing home utilization rates to its 1985 projected veteran population by age group. The 20-percent market share was then applied to the total number of veterans by age group who would need nursing home care in 1985 to arrive at projected VA-supported census rates. These rates were then applied to the veteran populations for the 28 medical districts to calculate each district's VA-supported census. For example, in medical district 20 (most of Texas and Oklahoma) VA projected that it would need to provide nursing home care for an average daily census of 1,723 veterans in 1985.

In June 1978 these projections were adjusted to reflect needs for 1987, rather than 1985. The projected 1987 national VA nursing home care unit bed need--13,107 beds--was approved by President Carter and became the official target. At the time of our review, this projection was still considered valid by VA officials. For district 20, the 1987 data projections indicated that VA would need to provide nursing home care for an average daily census of 1,822 veterans:

District 20 Bed Needs - 1987

	Average daily census (note a)	Beds needed
VA	729 (40%)	767
Community nursing homes	729 (40%)	729
State homes	364 (20%)	383
Total	1,822	1,879

a/Assumes a 95-percent occupancy rate in VA and State homes. Occupancy rate does not apply for community homes because VA only pays for the beds it actually uses.

On June 17, 1981, VA decided to build the 120-bed San Antonio nursing home because it had 502 nursing home beds in operation or planned in district 20, and it needed 265 more beds to meet its goal of 767 by 1987.

In February 1982 VA announced that it was going to revalidate all major construction projects planned for fiscal years 1984 and later. As part of this revalidation, VA was going to reexamine the criteria used to justify the projects. However, we were informed by the Executive Director of the VA revalidation committee in June 1982 that no changes are planned in the criteria VA has been using to justify its nursing home construction projects. We believe that these criteria should be revised because they do not require VA planners to (1) ensure that national demographic data and assumptions reflect actual local situations before proposing new construction, (2) consider the option of obtaining more nursing home care in community nursing homes instead of building new VA nursing home care units, or (3) consider converting, renovating, or changing the mission of existing VA facilities to provide more nursing home beds.

NEW CONSTRUCTION JUSTIFIED ON BASIS OF NATIONAL PROJECTIONS WITHOUT ADEQUATE CONSIDERATION OF LOCAL CONDITIONS

VA applied its national utilization rate projections and its assumptions about what percentage of veterans' nursing home care needs it would meet through each of its three programs to each medical district uniformly to determine the number of VA nursing home beds each district would need by 1987. Using national data and assumptions to plan for construction of additional VA nursing home care units without adjusting for the characteristics and existing resources of the medical districts or medical centers could result in unequal access to care for veterans in different medical districts.

VA expects that, of the veterans to be provided nursing home care under its sponsorship in 1987, 40 percent will be cared for in its own facilities, 40 percent will be placed in community nursing homes under contract, and 20 percent will be placed in State veterans' homes. This 40/40/20 ratio is based on historical trends viewed from a national perspective, yet the actual ratios vary significantly from district to district. During the first half of fiscal year 1982, the range by district of veterans actually provided care in VA facilities was 15 to 70 percent; in community nursing homes 14 to 72 percent; and in State homes 0 to 72 percent.

Eleven of VA's 28 medical districts have no State veterans' homes, yet VA's 1978 study assumed that State homes in these districts would be available by 1987 to meet 20 percent of VA's market share. In medical district 17 1/ for example, VA projected that it will need 477 beds in its own nursing homes, 453 beds in community nursing homes, and 239 beds in State veterans' nursing homes. There are no State nursing homes presently in district 17, and if none are opened by 1987, VA will have to either build more VA facilities, increase its use of community nursing home beds, or care for fewer veterans than it now assumes will need VA-supported care.

A different situation arises in district 20, which has five State homes offering nursing home care to veterans. These homes are all in Oklahoma and are not available to Texas veterans, yet the national study applied the above-described 40/40/20 ratio to the entire medical district. As of May 1982, VA was supporting an average daily census of 675 patients in Oklahoma State nursing home beds, far more than the 383 beds VA says will be needed in the district in 1987.

In our recent report, "State Veterans' Homes: Opportunities to Reduce VA and State Costs and Improve Program Management" (HRD-82-7, Oct. 22, 1981), we concluded that none of the 11 districts with no State homes will have enough VA nursing home beds to compensate for the projected bed shortage. We recommended that VA establish, in coordination with State and local planning agencies and the National Association of State Veterans Homes, more realistic medical district plans for the construction and/or use of VA, community, and State nursing homes to provide care to veterans. VA agreed to initiate this coordination into its planning process.

The prediction of VA's market share is based on a national calculation, and the 40/40/20 ratio is based on national historical patterns which do not reflect local conditions. Some VA officials

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1/District 17 includes the greater Chicago area, where VA plans to expand the nursing home care unit already under construction at the Hines VAMC.

describe the existing 40/40/20 ratio as "equitable" because VA plans to provide the same proportion of care in VA facilities in each district. However, this could result in oversupplies of nursing home beds in some districts and shortages in others. Since veterans with nonservice-connected disabilities can be provided nursing home care only when VA-supported beds or resources are available, distribution of new VA beds without regard to other available resources could result in unequal access to care.

AVAILABILITY OF COMMUNITY NURSING HOME BEDS NOT ADEQUATELY CONSIDERED

Another problem with uniformly applying the national ratios to each medical district is that they do not recognize that there are geographic differences in the availability of community nursing home beds. VA has justified its nursing home construction projects in its budget requests to the Congress without adequately considering the local availability of community nursing home beds or the experiences of individual VAMCs with providing nursing care in community nursing homes. Information on the existing and projected availability of community beds, which could have been obtained by the individual medical centers or districts, has not routinely been obtained for use by VA Central Office in decisions about whether and where to build new nursing homes. As a result, plans for building new VA nursing homes have moved ahead with little consideration being given to a less costly alternative to new construction.

One reason that VA does not adequately consider expanding its use of community nursing home beds in lieu of building new VA nursing homes is that Central Office officials view the community nursing home care program as separate and distinct from the provision of nursing home care in VA facilities, and believe that one program cannot be interchanged with the other. VA officials have claimed that veterans placed in VA nursing homes need more intensive care than veterans in non-VA nursing homes. VA officials have also claimed that the VA nursing homes can provide more appropriate care to these patients because the homes are located in or adjacent to VA hospitals and patients have immediate access to additional diagnostic and treatment services. However, VA policy requires VAMCs to make special efforts to ensure that the care provided to their patients in community nursing homes meets VA standards. VA directs that medical center directors choose the community nursing homes they contract with on the basis of their own inspections or State inspections. Policy also requires periodic followup visits, including making additional inspections as needed and maintaining regular contact with patients. Furthermore, VA supplements the care provided veterans in community nursing homes by regular social worker visits and immediate transfer to the VA hospital if acute care needs arise.

Criteria for placement in either program are essentially similar, except that VA's guidelines state that patients placed in community nursing homes should normally require only occasional visits by physicians and only minimal laboratory or other special services.

There are, however, some legislatively enacted differences in eligibility for care under the two programs. Perhaps most significant is the maximum time limitation on the provision of nursing care to certain veterans in community nursing homes at VA expense. While veterans with service-connected disabilities may be placed in community nursing homes indefinitely, contract care at VA expense for veterans with nonservice-connected conditions may not exceed 6 months. There is no such limitation on any veterans placed in VA nursing homes. By the end of the 6-month period, the financial responsibility for care must be assumed by the nonservice-connected veteran or his family, or if the veteran qualifies, his care may be reimbursed by Medicaid. VA hospital officials have told us that, in many cases, if the veteran does not or will not qualify for Medicaid, and his family is unable to pay for nursing home care, he either is not placed in a community nursing home or is placed and then returned to a VA facility at the end of the 6 months. VA's policy states that if a veteran will most likely be returned to the VAMC, the veteran should not be placed in a community nursing home. Thus, economic factors, as well as medical and social considerations, play a role in decisions about which nursing home program is appropriate for individual patients.

Another factor which may have a role in decisions about where to place a veteran needing nursing home care is where beds are available. VAMCs which have no nursing home beds or have nursing home units which are full rely more heavily on community nursing homes than those VAMCs with available nursing or long-term care beds. Where community nursing home beds are in short supply, VAMCs must seek other resources, such as State homes or long-term care beds at other VAMCs to meet patient care needs.

Use of community nursing homes can be a less costly alternative to construction and operation of a VA nursing home. According to VA, its nursing homes are about twice as expensive to build and operate as community nursing homes. 1/ The average construction cost per square foot for VA nursing homes is about $131. Community nursing homes are being built for $58 to $65 per square foot. The

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1/While provision of care in State nursing homes is generally VA's least expensive option (it pays only a portion of construction and operating costs), operation of State homes is at the initiative of the States; individual States establish eligibility requirements for admission to their homes; VA has no direct control.

average cost per patient day of care in VA nursing homes for the first half of 1982 was $85.59--almost double the $42.95 average that VA paid for care in community nursing homes.

Building a new nursing home care unit costs the Government several million dollars for construction and results in an ongoing need for additional employees. VA uses a high proportion of licensed nursing personnel and pays standardized Federal salaries across the Nation. Projected operating costs for the two proposed fiscal year 1983 120-bed nursing home care units average about $3.5 million and about $1.7 million for the two 60-bed units.

The fact that State or community nursing home beds are available in an area where VA plans to build its own nursing home care unit does not necessarily mean that the VA project is not justified. We believe, however, that VA should consider whether enough State or community beds are projected to be available to meet its needs, before deciding to construct VA facilities.

To determine the availability of information, we contacted State and local agencies and nursing homes in the San Antonio area. For example, we contacted the 22 community nursing homes under contract with the San Antonio VAMC in July 1982 and found that they had 311 skilled beds available. 1/ Eighty-nine of those beds were in the immediate San Antonio vicinity. Data we obtained from the Texas Department of Health show that a similar availability of beds in those facilities existed in 1980. However, data we obtained from the local health systems agency show that, by 1984, 14 of the 41 counties served by the VAMC will need an additional 1,745 nursing home beds (skilled and intermediate). At the time of our fieldwork, local nursing homes had requested preliminary approvals to build a total of 507 skilled nursing home beds.

In justifying its proposed new nursing home to the Congress as part of its appropriation request, VA relied on national projections to determine need and on the 40/40/20 ratio to determine how to meet that need. We did not try to determine whether enough community nursing home beds would be available to meet VA's needs several years from now, or whether shortages may develop. We believe that VA should use data from local sources concerning the projected availability of community nursing home beds in justifying its nursing home construction projects to the Congress. These data should

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1/San Antonio VAMC has chosen to contract with only community nursing homes which offer skilled nursing beds or a combination of skilled and intermediate care beds; 75 percent of the patients which the VAMC places in community nursing homes are placed in skilled nursing beds.

be used to determine whether, considering relative costs and other factors, veterans' nursing home needs could be met through increased use of community beds.

USE OF EXISTING FACILITIES NOT ADEQUATELY CONSIDERED

Plans for the number of additional VA nursing home beds needed in each medical district were made at a national level. However, VA did not adequately consider whether those needs could be met by converting, renovating, or changing the mission of existing VA facilities. Although VA Central Office officials told us the medical districts share the responsibility for suggesting where to provide those additional beds, medical district officials told us they knew little about the project we reviewed, and VA local officials characterized it as basically a Central Office decision. Information on the amount of available unused space in VA facilities with potential for conversion or renovation for nursing home care has not normally been collected or analyzed as part of the Central Office planning process. As a result, another less costly alternative to new construction was not adequately considered.

The staff of VA's Office of Inspector General found that each of the six VAMCs with new nursing home construction projects which they visited had many vacant hospital beds. The staff found that VA officials could not provide adequate documentation that conversion or renovation had been considered before deciding upon construction of new nursing home care units.

VA Central Office and local officials believe the information on the availability and utilization of excess space will be gathered and analyzed in the future as part of the new Medical District Initiated Planning Process (MEDIPP)--a move to decentralized planning. Officials in district 20 told us that better use of existing facilities for providing long-term care would be made a priority. For example, they said that at a November 1982 meeting, the VAMC directors will consider transferring the 63-bed surgical capacity presently operated at the Kerrville VAMC, 60 miles from San Antonio, to the San Antonio VAMC. The beds no longer used for surgical patients at Kerrville would then be considered for other uses.

CONCLUSIONS

VA has justified the need for recently constructed and proposed new nursing homes based upon national projections of veterans' needs for nursing home care, historical trends which indicate that VA will meet 20 percent of that nationally projected need, and a policy that it should provide 40 percent of its nursing home care in its own facilities. However, VA has had little input from district or local sources and has not given adequate consideration

to less costly alternatives to new construction. Despite the move to decentralized planning under MEDIPP, continued reliance upon the existing criteria for justifying nursing home construction projects may result in an unnecessarily expensive response to projected veterans' nursing home care needs, with oversupplies of nursing home beds in some geographic areas and shortages in others.

We believe that VA can improve its nursing home planning process by studying local needs and resources and considering less costly alternatives. We recognize that VA will be gathering and analyzing some of the information as part of MEDIPP, and that greater local input to planning decisions is expected. If the districts become fully involved in construction planning, the application of this information to the districts' projections of their needs and the consideration of less costly alternatives to new construction may allow VA to more efficiently and effectively meet the nursing home care needs of aging veterans in the future. We believe that VA should present the results of these considerations to the Congress when proposing new nursing home construction projects.

RECOMMENDATIONS TO THE ADMINISTRATOR OF VETERANS AFFAIRS

We recommend that you ensure that VA nursing home care unit construction be proposed to the Congress only after a thorough consideration of less costly alternatives by requiring Central Office and district planners to

- --supplement national projections with local information on actual and projected needs for nursing home care in each medical district;
- --consider meeting nursing home needs wherever possible through greater use of the contract community nursing home program; and
- --consider meeting nursing home needs by renovating, converting, or changing the mission of existing VA facilities.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires you to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report, and to the House and Senate Committees on Appropriations with your first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the above-mentioned Committees, as well as the Director, Office of Management and Budget; the Chairmen and Ranking Minority Members of the House and Senate Appropriations and Veterans' Affairs Committees; and their subcommittees of jurisdiction.

Sincerely yours,

Gregory J. Ahart
Director