

- Identify realignments of services and campuses that will improve quality and efficiency;
- Provide a 5-year estimate of the capital required to meet all the needs identified; and
- Identify collaborations within VA and with DoD that will result in more efficient use of capital resources.

#### *The Economics of CARES*

CARES is a systematic process for determining the resources required to meet expected demand for VHA services over the next 20 years. The National CARES Plan reflects thousands of micro decisions made regarding how each VISN would address gaps in forecasted supply and demand for the CARES categories of health care services. Based upon the CARES forecasting planning model and using the computerized Market Planning Template<sup>8</sup>, VISNs were able to develop planning scenarios and methodically determine costs of alternatives to manage workload changes or maintain current capacity as determined by the workload forecasts. Decisions whether to renovate, lease, build, or contract were facilitated for all CARES planning categories by using the Market Planning Template.

The CARES process required assessment of the quality of all existing space in use within the VHA—a monumental task in itself. The decisions (and costs) for acquiring additional space vs. renovating existing space were

analyzed with the operating costs necessary to meet future patient services.

The use of standardized methods allowed many cost alternatives to be assessed in determining how to meet future demands. For example, the costs of contracts could be compared with using in-house resources. In addition, initial estimates of future revenues expected from enhanced use and other revenue generating solutions were identified.

Thus, CARES is multifaceted and no single dollar figure can be placed on all aspects of the process. Depending upon the specific financial aspect being considered, there are several ways of viewing the economics of CARES, as illustrated by the following observations:

#### Cost Minimization

A distinguishing characteristic of the proposals to address predicated gaps in clinical capacity and of any capital proposal valued at more than \$2,000,000 dollars was that VISNs were required to consider alternative solutions. Comparative costs between ways to manage workload forecasts received strong consideration in selecting the preferred solution. However, other CARES criteria such as quality, and potential impact on DoD sharing and academic affiliations also were considered. In the Draft National

CARES Plan, the lower cost alternative was selected in nearly 60% of all planning solutions. Improvements in the costing model may increase this percentage when the final National CARES Plan is completed.

#### Budget

A summary of budget implications of meeting capital costs for the expected workload demand projected in CARES is presented below. The estimates do not include any of the costs, savings, and revenue estimate from the realignment and consolidation of services discussed in Chapters 8 and 9 (Small Facilities and Realignment), except where they were part of the VISN proposed market plans and were included in the market plan template. In most cases, the estimated costs and savings were not included, but will be further developed prior to and during implementation.

Table 1.1 shows the current dollar cost estimates for the five-year budget cycle. These costs include all CARES categories except Research and Other Space. While all the costs represented in Table 1.1 must be refined through specific project applications and further costing to include capital costs and savings from realignments, they do provide an estimate of the magnitude of investment required to maintain and prepare the VHA capital infrastructure for the future.

TABLE 1.1.—ESTIMATED 5-YEAR CAPITAL BUDGET (IN CURRENT DOLLARS) FY 2004–FY 2008

Fiscal year	2004	2005	2006	2007	2008
Capital Estimates* .....	\$921,356,849	\$824,137,915	\$743,161,421	\$652,717,033	\$455,889,005
Efficiency Savings Estimates** .....	157,137,865	202,516,767	233,910,786	241,083,813	287,966,010
Revenue Estimates*** .....	27,955,741	31,930,287	65,059,026	68,245,255	70,579,766
Total Cost Estimates .....	736,263,243	589,690,862	444,191,609	343,387,966	97,343,228

\* *Capital Investment Costs* include all proposed construction, demolition and build-out costs for new leases. The capital estimates do not include recurring lease costs. They do not yet include capital costs of savings associated with the realignment or consolidation of services that are in the Draft National CARES Plan but require further cost analysis before inclusion in the final Plan.

\*\* *Efficiency Savings* include such things as savings in utility or maintenance costs from demolishing buildings or consolidation of services. These costs were estimated by VISNs. However, they did not have a standardized way to estimate these savings so this dollar figure is not a comprehensive estimate. These savings will be more fully developed during implementation.

\*\*\* *Revenues* were also estimated by the VISNs and are not comprehensive. Examples of revenues include estimates from Enhanced Use Lease initiatives or revenues from the sale of property. These estimates will also be more fully developed during implementation.

#### All Capital Investments

Capital investments for the 20-year planning period are estimated at \$4,655,503,656 (in current dollars) plus \$468,555,970 proposed for Research. Capital investment needs and estimates beyond the five-year period used in the budget estimates above are not as reliable as the 5-year budget period due to the inherent difficulty of capital planning beyond a 5-year period.

Capital Investment needs will be dictated by changing health care delivery practices and changes in technology. Although the amount of space required for future needs can be estimated using the workload projections, other capital needs cannot be identified beyond five years with the same degree of accuracy. The forecasting results will be reconsidered each year in the VHA planning cycle in

order to ensure that the capital forecasts reflect changing policy, technology and other dynamics within the health care system.

#### Vacant/Underutilized Space

- The National CARES Plan would achieve a 42% reduction in vacant/underutilized space nationally, from 8,571,605 square feet in FY 2001 to 4,934,002 square feet in FY 2022.

<sup>8</sup> Described in Chapter 2.