



Oregon

Kate Brown, Governor

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May 3, 2019

Senator Fred Girod, Co-Chair
Representative Paul Holvey, Co-Chair

Joint Committee on Ways and Means
Subcommittee on Capital Construction
900 Court Street NE
Salem, Oregon 97301

Re: Roseburg Veterans' Home

Dear Co-Chairs,

During the April 26, 2019, public hearing on House Bill 5006, Committee members requested an update on the Roseburg Veterans' Home. The Oregon Department of Veterans' Affairs (ODVA) respectfully submits the information below.

Summary

The Roseburg Veterans' Home would be the third state veterans' home in Oregon upon completion. ODVA currently operates The Dalles Veterans' Home that was completed in 1998, and the Lebanon Veterans' Home, completed in 2014. The funding formula per the U.S. Department of Veterans Affairs (USDVA) State Home Construction Grant for veterans' homes is based on federal law and is a combination of 65% federal funds and 35% state/local funds. Both the grant process and the construction process are lengthy and complex, and require a close partnership between ODVA, the USDVA, the Legislature, the community where the veterans' home will be located, and many other important stakeholders.

In order to be considered for USDVA State Home Construction Grant approval for the Roseburg Veterans' Home, ODVA will need to certify that the required 35% local/state matching monies are available and that no further State action is needed to make the funds available (such as further action to issue bonds). Reauthorization of the Article XI-Q bonds for the 2019-21 biennium would provide approximately \$10.5 million towards the required local/state match. By November 2019 ODVA is expected to have updated construction costs for the project, but current estimates indicate that at least an additional \$7.0 million to \$8.0 million will likely be needed from either the state or local jurisdiction to meet the full required local/state match.

\$10.5 million of Article XI-Q bond proceeds were reauthorized in the 2017-19 biennium as a portion of the local/state matching monies needed for construction related costs of a third veterans' home in Roseburg. However, the bonds were not issued during the biennium as ODVA was still in the process of performing the necessary due diligence on the proposed

Roseburg Veterans' Home, obtaining updated estimated project related costs, and remaining matching funds had not been identified.

Background

In 2012, ODVA submitted an application to the USDVA for a State Home Construction Grant to build a third veterans' home, two years after construction began on the second veterans' home in Lebanon. The second Veterans' Home opened in Lebanon in 2014 with full occupancy achieved in 2016. In the 2013-15 biennium, the Legislature initially authorized \$10.5 million in lottery bonds as a portion of the local match needed for the USDVA grant. Reauthorization of the initial \$10.5 million in bonds has occurred in subsequent biennia. Bonds have not yet been issued, as ODVA needed time to assess the ongoing financial viability of the small-home operating model of the second veterans' home prior to commencing work on the third veterans' home.

USDVA State Home Construction Grant Funding

In order for the Roseburg Veterans' Home to be considered for future construction grant funding, the Home must be on USDVA's Priority Group 1 list of State Home Construction Grant Projects. This program provides matching grant funds – 65% of associated costs, with the remaining 35% required to be from local/state funding – for renovation and construction of state veterans' homes. The Priority List serves as the USDVA's basis for awarding State Home Grants. The Priority Group 1 projects are eligible for funding under the State Veterans Home Construction Grant Program, based on available funding to the USDVA. However, placement on the list does not guarantee USDVA funding. One of the key requirements for a project to be placed on the USDVA Priority Group 1 List is the State's certification that matching funds are available and that no further State action is needed to make the funds available (such as further action to issue bonds).

A number of factors influence project selection. In order just to be considered for selection, the project must meet the requirements of Title 38, the federal law governing the USDVA, by the application deadline. For the most recent cycle, the USDVA considered all completed applications received on or before April 15, 2018. Additionally, certification of State/Local matching funds would have been needed to be completed by August 1, 2018. Another key factor in project selection is the total amount of USDVA funding available. The USDVA routinely receives applications for far more projects than they can completely fund. For Fiscal Year 2019, there are \$250 million in projects on the Priority Group 1 list, but the USDVA is only able to fund \$150 million in projects. Lastly, the USDVA prioritizes by project category. Safety and security projects are ranked above all other projects. New construction generally tends to be a lower priority. In addition, the USDVA assesses each State's need for a new Home and takes that into account when prioritizing new construction requests.

Status of Project

While awaiting clarification on how the remaining \$7-8 million in state/local funding will be provided, ODVA is currently working with a contractor to develop pro-forma financial statements. ODVA has also issued a Request for Proposal (RFP) for the Roseburg Veterans' Home's architectural services. Additional near-term work includes executing Memoranda of Agreement with 1) USDVA for the transfer of the required land adjacent to the Roseburg VA Medical Center and 2) Roseburg and/or Douglas County on system development charges,

permits and utilities. After completion of these critical steps, ODVA will be able to finalize the scope and provide an update on the approximate cost of this project. ODVA will need to submit a revised grant application to the USDVA with the updated information. However, ODVA will be unable to move forward beyond these critical but still preliminary steps without assurance that the full amount of the state/local funding will become available in the 2019-2021 biennium.

Thank you for the opportunity to submit an update on the status of the Roseburg Veterans' Home, please let us know if we can provide any additional information.

Sincerely,

A handwritten signature in blue ink that reads "Kelly Fitzpatrick". The signature is written in a cursive style.

Kelly Fitzpatrick
Director

Enclosure:

Report on the Progress of Establishing the Roseburg Veterans Home (December 2018)



December 22, 2018

**UPDATE TO THE SEPTEMBER 1, 2018 LEGISLATIVE REPORT
Under HB 4038 (2018)**

**Report on the Progress of Establishing the Roseburg Oregon Veterans' Home
(Update on Increased Construction Costs)**

Background

House Bill 4038 (2018) directed the Director of the Oregon Department of Veterans' Affairs (ODVA) to “study the progress of the establishment of the Roseburg Oregon Veterans’ Home authorized under ORS 408.385 and shall report the findings of the study to the Legislative Assembly no later than September 1, 2018.”

On September 1, 2018, ODVA submitted the “Report on the Progress of Establishing the Roseburg Oregon Veterans’ Home” (Report) to the Oregon legislative Assembly. The Report is attached as Attachment A and may also be found here: <https://www.oregon.gov/odva/Connect/Pages/Reports.aspx>.

In the Report, ODVA made a recommendation to the Legislative Assembly that the Roseburg Oregon Veterans’ Home be built on the grounds of the Roseburg campus of the Roseburg Veterans Affairs Health Care System. The United States Department of Veterans Affairs (USDVA) has agreed to transfer more than 13 acres on the campus to the State of Oregon for the purpose of siting the new Veterans’ Home, a skilled nursing facility, which would be adjacent to the new main hospital the USDVA is building on the campus.

Purpose of the Update: Increased Construction Costs

The purpose of this update is to provide new information on the potential costs of the Roseburg Oregon Veterans’ Home (Roseburg Home). As stated in the September 1, 2018 Report, The Roseburg Home would be based on the Edward C. Allworth Veterans’ Home, located in Lebanon (Lebanon Home), which is a state-of-the-art skilled nursing facility that is organized around the idea of an intentional community or neighborhood.

The very rough cost estimates in the September 1, 2018 Report were based in part on the initial grant application ODVA submitted to the USDVA for a State Home Construction Grant in 2012 to build a third veterans’ home and in part on the costs of the Lebanon Home that was completed in 2014.

Since the September 1, 2018 report, ODVA has been able to refine and more accurately estimate the future hard and soft construction costs that include cost escalations; more expensive and restrictive USDVA design requirements and state building requirements; and an additional three years of projected future cost escalation. Note that the project will take roughly four years to complete all aspects of financing, grant application and approval, and construction.

The September 1, 2018 Report estimated the costs as follows:

Oregon Department of Veterans' Affairs has done a very rough estimate of the costs of a Roseburg Veterans Home based on the costs of the Lebanon Home. It is important to note that the \$40 million for the Lebanon Home was based on costs of construction in 2012 for a 154 bed skilled nursing facility.

Assuming \$40 million in total costs for a skilled nursing facility in Roseburg based on the Lebanon Home model:

- *To build a \$40 million skilled nursing facility with construction beginning in 2018, the project would need to be scaled back to 126 beds. (A 150 bed facility would be roughly \$45 million)*
- *Based on current trends in costs of construction, for each year of delay in construction after 2016, the construction escalation costs will be 6 percent per year.*

The Federal VA will donate the land, parking lots, and some of the infrastructure costs (utilities). Therefore, the ODVA will need to pay additional costs that are unknown at this time.

As stated, the U.S. Department of Veterans Affairs will only provide 65 percent of the costs of construction and the state will need to match with 35 percent of the costs through state, local and county funding. Assuming \$40 million for the total costs:

- *USDVA would provide approximately \$26 million (65%)*
- *The state and local partners need to provide \$14 million: \$10.5 million in approved capital construction bonds, leaving an additional \$3.5 million needed in additional funds (35%)*

This update will describe the rationale and analytics driving the increased construction costs.

Roseburg Home Construction Cost Update

History

In 2012, ODVA submitted a grant application to the USDVA for a State Home Construction Grant to build a third Oregon veterans' home. The State Home Grant Program is a partnership between the USDVA and the States to construct skilled nursing facilities and for renovations to existing homes. USDVA may participate in up to 65 percent of the cost of construction; the remaining 35 percent of constructions costs are provided by state and local funds and must be in place before consideration of a grant application. Grant funds may be used only for construction costs; they may not be used for land acquisition.

In 2012, total project costs were estimated to be between \$37 and \$40 million, with the expected Federal grant request projected to be \$24 to 26 million, representing 65% of the project cost. The remaining 35% of the costs, estimated to be between \$13 and \$14 million, was expected to come from either state or local match funding. (See ODVA letter to Emergency Board, requesting approval to submit USDVA grant application)

At that time, estimates for the size of the facility (154 beds), layout and cost (\$37 to \$40 million) were based on rough costs estimates to the planned Lebanon Home, which was not yet under construction.

The Legislature also authorized \$10.5 million in bonding authority to be used to partially meet the required state/local matching funds for the Roseburg Home. The amount of state/local matching funds was intended to mirror the original local match amount provided by Linn County and Lebanon for the Lebanon Home, which was \$10.5 million.

To date, the bonds have not been issued because the status of the Roseburg Home has not been finalized.

Impact of Construction Cost Escalation to Overall Costs of the Roseburg Home

In 2012, the initial estimated total cost of the Roseburg Veterans' Home was approximately \$37 million; including \$29 million in hard costs (actual construction costs) and \$8 million in soft costs (architectural, engineering, equipment, etc.). The current proposed project timeline estimates construction of the Roseburg home to begin in 2021 to 2022.

The impact of six years of cost escalation (from 2012 to 2018), more expensive and restrictive USDVA design requirements and state building requirements, and an additional three years of projected future cost escalation (2018 to 2021) will likely increase hard costs from \$29 million to \$38 million. **Total project costs, including hard and soft costs, will likely increase the original cost estimates from \$37 million to \$48 million.**

To mitigate some of the costs, the total proposed number of beds for the Roseburg Home was reduced from 154 beds to 126 beds. This reduction of 28 beds lowered the overall cost; however, the need for a storage building and activity rooms at each neighborhood eliminated any cost savings that would be realized from a reduced bed count.

In addition, ODVA applied lessons learned from the Lebanon Home construction to this project. These lessons included the need for additional square footage to some of the ancillary spaces in each neighborhood and in the community center, and a covered portico for the front entrance.

Rationale and Analytics Used to Estimate Future Cost Escalation

- Long term construction cost inflation is normally about double consumer price inflation (CPI). Since 2000, taking out the two worst years of recession (-8% to -10% total for 2009-2010), the 20-year average inflation is 4.2%.

- In times of rapid construction spending growth, construction inflation averages about 8%. Nonresidential building inflation has averaged 3.7% since the recession bottom in 2011; and it has averaged 4.2% for the last four years. Although inflation is affected by labor and material costs, a large part of the change in inflation is due to change in contractors/suppliers margins. When construction volume increases rapidly, margins increase rapidly. Construction inflation can be very different from one major sector to the other and can vary from one market to another. It can even vary considerably from one material to another.
- Construction analytics from respected industry estimating groups, forecast nonresidential building spending in 2018 will reach the fastest rate of growth in three years, which historically leads to accelerated construction cost inflation. Anticipated construction inflation for nonresidential building for 2018 and 2019 will be between 4.5% to 5.5%, rather than the long term average of 3.5% to 4.0%. This trend in cost escalation is projected to continue for the next 4 to 5 years.

Impact of Cost Increases to the ODVA Grant Application Submitted to the USDVA

As stated, ODVA submitted a grant application to the USDVA for a State Home Construction Grant in 2012 to build the Roseburg Home. The application was based on the best cost estimates at that time.

The Code of Federal Regulation (CFR) Title 38 Part 59, which governs veteran home construction, only allows a 10% increase in construction costs for a project. Based on the significant increases in costs, the USDVA central office advised ODVA that the best course of action would be to resubmit all documents for the Roseburg Home. ODVA is currently assembling the required documents for that resubmission.

Summary of Cost Estimates for a Veterans Home in Roseburg as of December 22, 2018

Project:

- 126 bed skilled nursing facility in Roseburg, Oregon
- Veterans Home based on the Lebanon Home model
- The Federal VA will donate the land, parking lots, and some of the infrastructure costs (utilities). (May be additional unknown infrastructure costs)

Costs:

- Hard and soft construction costs \$48.0 million
- USDVA Construction Grant 65% \$31.2 million
- State and local match to cover 35% \$16.8 million
 - State capitol construction bonds \$10.5 million
 - Additional funds required \$ 6.3 million
\$16.8 million