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MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
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DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTOR, NET ASSESSMENT
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Implementation of Military Health System Governance Reform

This memorandum directs implementation of the Military Health System (MHS) governance reform outlined in my memorandum of March 2, 2012, "Planning for Reform of the Governance of the Military Health System," and affirmed by section 731 of the National Defense Authorization Act for FY 2013. The centerpiece of the reform is the establishment of a Defense Health Agency (DHA) to assume responsibility for shared services, functions, and activities of the MHS and other common clinical and business processes. This implementation will include extensive transition actions over the coming months, with initial operating capability of the DHA to be achieved by October 1, 2013, and full operating capability within two years.

MHS governance reform is a Departmental imperative. We must operate the MHS in the same manner that medical support of operational forces has been so effectively provided in our recent conflicts: jointly. We must also be responsive to the fiscal challenges facing the nation by achieving a sustainable health program budget. In doing so, we must attain greater integration of our direct and purchased healthcare delivery systems, essential to accomplishing the quadruple aim of the MHS: to assure medical readiness, improve the health of our people, enhance the experience of care, and lower our healthcare costs.

In addition to the three submissions to Congressional defense committees required by section 731, I direct that the following transition actions shall be completed by the dates specified:

1. Defense Health Governance Councils. The Under Secretary of Defense for Personnel and Readiness (USD(P&R)) and the Assistant Secretary of Defense for Health Affairs (ASD(HA)) will establish appropriate Defense Health Governance Councils, including senior representatives of the Military Departments, with purposes and functions relating to Defense health programs similar to those under DoD Directive 5105.79, "DoD Senior Governance Councils," relating to the Department overall. These councils will support achieving the objectives of jointness, fiscal sustainability, and health delivery integration. These governing councils will be established and chartered consistent with DoD Instruction 5105.18, "DoD Intergovernmental and Intragovernmental Committee Management Program," and replace the existing MHS governance council, effective not later than May 1, 2013.

2. DHA Charter. The Director, Administration and Management (DA&M), will prepare and coordinate a Charter Directive for the DHA and submit it to me for approval not later than July 1, 2013.

3. Combat Support Agency. The DHA shall be designated a Combat Support Agency in accordance with DoD Directive 3000.06, "Combat Support Agencies." This will be completed by July 1, 2013, in coordination with the Joint Staff and the Office of the Assistant Secretary of Defense for Health Affairs (OASD(HA)). DA&M will ensure this designation is included in the DHA Charter Directive described in the preceding paragraph.

4. DHA Director. The selection of the DHA Director in the grade of Lieutenant General or Vice Admiral shall proceed as expeditiously as possible using the process outlined in CJCSI 1331.01D, followed by the formal nomination processes required for Senate confirmation.

5. Shared Services, Functions, and Activities of the MHS. The DHA will assume management responsibility for shared services, functions, and activities of the MHS and other common clinical and business processes as initially outlined in my March 2, 2012, memorandum. These services, functions, activities, and processes will be managed in accordance with coordinated concepts of operation adopted with the advice and assistance of the Governance Council structure referred to above. The DHA will develop appropriate management models to most effectively and efficiently assume responsibility for particular functions and processes. A detailed plan for effecting this transition of shared services will be coordinated and submitted to me with the DHA Charter noted above by July 1, 2013. In additional, functional leads within the DHA for all 9 of the shared services, functions, and activities specifically listed in the memorandum of March 2, 2012, will be identified not later than September 1, 2013.

6. OASD(HA). Discontinuation of the "dual-hat" arrangement of the ASD(HA) and Deputy ASDs with TRICARE Management Activity (TMA) senior management officials requires a reorganization of OASD(HA) to ensure effective policy

development, resource management, fiduciary responsibility, program oversight, and Departmental representation for all DoD health matters. DA&M will prepare and coordinate a revised Charter Directive for the ASD(HA) to accompany the DHA Charter mentioned above by July 1, 2013. The USD(P&R) will submit to me by April 1, 2013, staffing options for the reorganized OASD(HA).

7. Multi-Service Market (MSM) Areas. Enhanced MSM (eMSM) management authorities initially will be implemented in six markets, including the National Capital Region (NCR) (further addressed below). The other five markets are the following (lead Military Department(s) noted in parentheses): Tidewater, Virginia (Navy); Puget Sound, Washington (Army); Colorado Springs, Colorado (rotate Air Force/Army); San Antonio, Texas (rotate Air Force/Army); and Oahu, Hawaii (Army). The NCR Director will be the market manager for the NCR. Enhanced management authorities will include authority to manage the allocation of the budget for the market, direct the adoption of common clinical and business functions for the market, optimize readiness to deploy medically ready forces and ready medical forces, and direct the movement of workload and workforce between or among the medical treatment facilities. The ASD(HA) will establish procedures by May 1, 2013, for oversight and management of all markets and ensure a periodic review assessing whether additional sites should be designated for eMSM management. Initial business performance plans will be submitted to the ASD(HA) by the six market managers by July 1, 2013. The initial set of authorities and responsibilities of these market managers will be effective October 1, 2013.

8. National Capital Region. By October 1, 2013, the DHA's NCR Directorate will exercise authority, direction, and control over the inpatient facilities and their subordinate clinics in the NCR and enhanced MSM authorities over other NCR facilities. This will be accomplished by the establishment of the NCR Directorate and disestablishment of the Joint Task Force National Capital Region Medical Command (JTF CapMed). During this period of the transition to the NCR Directorate, all authorities previously delegated to the Commander, JTF CapMed remain in effect, but authority is delegated to the ASD(HA), under the authority, direction, and control of the USD(P&R), for oversight of the JTF CapMed and to direct matters of operation and management of the Walter Reed National Military Medical Center and the Fort Belvoir Community Hospital, including their operation as joint facilities. This delegation is effective immediately. The identification of personnel positions to be transferred to the DHA (or returned to the Services) will be completed by April 1, 2013. The formal realignment of the identified NCR medical facilities to the DHA will be effective October 1, 2013.

9. Transition of TRICARE Management Activity. In anticipation of the disestablishment of TMA coincident with the establishment of the DHA, the ASD(HA) shall take such interim management steps as appropriate and consistent with DoD Directive 5136.12, "TRICARE Management Activity," to facilitate an effective transition. TMA will be disestablished and its designated functions transferred to the DHA effective October 1, 2013.

The imperative of MHS Governance reform requires the strong support across all levels of the military and civilian leadership of the Department. I expect all components' full participation and cooperation to achieve MHS transformation. The ASD(HA), through the USD(P&R) and the Director of the Joint Staff, will provide quarterly reports to the Deputy Secretary of Defense and the Chairman of the Joint of Staff in achieving the actions directed by this memorandum.