

June 17, 2020

Donna Jerry, Health Care Administrator
Green Mountain Care Board
114 State St
Montpelier, VT 05620

***RE: Questions from Green Mountain Care Board provided on April 2, 2020
related to Docket No. GMCB-019-19con CON application to modernize SVMC's
emergency department and hospital main entrance***

Dear Ms. Jerry,

Below find responses to the questions posed in the letter of feedback from the Green Mountain Care Board dated April 2, 2020.

Financial

1. Explain in detail the timing of when you expect to receive the \$14,562,000 in fundraising and secure the \$10 million loan with \$5 million being repaid. Make specific notes so the line item titled "Other" is detailed on Table 2, the Project Cost table titled, *Debt Financing Arrangement, Sources and Uses of Funds*.

There are three parts to the question.

Part 1:

Fundraising of \$14,562,000 and the timing of receiving funds;

The fundraising total \$14,562,000, as of the submission of the CON application, consisted of:

- 1) Funds already received by SVMC's Foundation of \$2.7 million;
- 2) Funds committed, not yet collected, through unconditional pledges of \$2.6 million;
- 3) A conditional pledge of \$5 million that will be provided at completion of project;

- 4) Future fundraising during fiscal years 2020 through 2023 – funds yet to be received of \$4.2 million. It is worth noting that more than \$1 million has been pledged since the financial plan was developed and submitted in the CON application.

Part 2:

The proposed \$10 million loan with a \$5 million repayment;

To maintain cash flows during the project, a \$10 million loan will be secured during the last year of the project. Southwestern Vermont Medical Center (SVMC) will repay a significant portion of the loan with the \$5 million conditional pledge expected to be received upon project completion and other funds raised through the project campaign. SVMC anticipates continuation of debt financing beyond the end of the project of approximately \$4.3 million.

Part 3:

The line item labelled other on Table #2 (line 3d) shows negative \$5,662,000. This consists of the \$5 million conditional pledge and more than \$600,000 in collections of pledges and fundraising. These funds are in excess of cash requirements for the project as projected in fiscal year 2023.

2. Specify the beginning and end dates that the loan will be at an interest rate of 5.5% with debt interest equaling \$600,000. Provide more detail on the loan arrangement and source of the loan. Based on your assumptions, interest costs during the project will be capitalized and once the project is complete interest expense will become an operating expense. Explain how much debt interest is expected to be capitalized, considering the assumptions are expensing \$522,500.

When the CON was submitted, SVMC was in discussions with TD Bank on the structure of debt instruments. In consultation with advisors and bank management, SVMC was provided the high end of the interest rate range, financing costs and fees. It is probable that lower rates and costs will be possible when the loan is secured. The project cash flows require SVMC to acquire the loan with about one year remaining in the project. The table includes capitalized interest and finance costs at \$600,000 using a simplified calculation and is subject to change. Management and the bank anticipate achieving a lower rate and fees, however, for modeling purposes the higher rate was included in the CON submission.

The interest expense of \$522,500 inquired about consists of the following:

- Fiscal Year 2023 interest expense \$275,000
- Fiscal Year 2024 interest expense \$247,500

As with all debt in the projections, management assumed the maximum debt and interest rate to hedge against risk, see below.

- FY 2023 interest expense assumes \$5,000,000 outstanding at 5.5% at the beginning of the year, and equals \$275,000;
- FY 2024 interest expense assumes \$4,500,000 outstanding at 5.5% at the beginning of the year, and equals \$247,500.

Depending on many financial factors, the final interest expense may differ, likely to SVMC's advantage.

Below is a list of some considerations that could impact of the final interest expense.

- 1) Debt instrument structure;
- 2) Actual fundraising amounts and collection of pledges;
- 3) Timing of the project;
- 4) Project cost;

As well as others.

3. The Balance Sheet, Table 4, shows the \$10 million loan in Bonds Payable for FY2022 which decreases to \$4.5 million in FY 2023 and changes to Cash and Investments, Construction in Progress and Fund Balances. If the parent organization is fundraising, does the hospital's financial statement reflect the transfer to and from related organizations within Non-Operating Revenue on the Income Statement, which should then flow to cash and fund balances on the Balance Sheet. Please revise and resubmit if appropriate.

In FY 2022, SVMC will execute the \$10,000,000 loan with about a year to go in the project. On the balance sheet, the loan will be reduced by \$5 million at the completion of the project and receipt of the conditional pledge plus principle of more than \$600,000 in FY 2023. The debt instrument amounts and timing may vary. Transfers of donor restricted funds for capital are not classified as non-operating revenues according to our auditors. The transfer is a change in net assets (fund balance) as presented on table 4 on the next page are the planned amounts to be transferred from the Foundation.

FY 2021	\$4,697,704
FY 2022	8,180,396
FY 2023	6,450,800
FY 2024	<u>2,133,100</u>

**Amounts Transferred from Foundation
including Equity Contribution \$21,462,000**

4. Explain the contingency plan if the fundraising goal of \$14,562,000 is not achieved especially in light of COVID-19's impact on your plans.

If the fundraising goal is not achieved, the Parent organization could fund the deficit. Another option would be to delay repayment of the loan at the accelerated rate shown in the projections. A combination of both strategies may be considered. As of May 31, 2020 the Parent organization had over \$56 million in cash and investments. The debt instrument will be developed to allow maximum flexibility.

5. Explain how COVID-19 may change the expected timetable for the project and impact on cost.

SVMC management is not expecting the timetable for the project to change as a result of COVID-19, significantly. Upon CON approval, detailed design will revisit features to maintain patient and staff safety. Design changes will be balanced to maintain the overall project cost indicated in the application. However, if refined project estimates increase cost by more than 10%, the designated threshold set by statute, the Green Mountain Care Board will be alerted.

Mental Health Component

6. Provide a more detailed explanation regarding the need for mental health spaces included in the project, especially regarding locked areas as state data indicates that 95% of mental health patients in EDs voluntarily seek mental health care. Please explain how and when specific doors will be locked or remain unlocked.

See the answer to question 12 for data supporting the need for mental health spaces included in the project.

Approximately 7% of patients with a mental health diagnosis in SVMC's emergency department are involuntary and require a locked area. However, some patients begin as

voluntary and advance to involuntary over the course of their stay and vice versa. The segmented and flexible design of the mental health crisis treatment area provides the appropriate balance between freedom of movement, including egress, and safety for patients, staff, and the community.

The mental health crisis treatment area will be fitted with delayed egress doors that will allow the area to remain unlocked the majority of the time. The layout allows locking of a portion treatment area during the unusual circumstance when the provider's assessment or best-practice indicates that locking is necessary to increase the safety of others. The layout separates identified involuntary patients from voluntary patients allowing voluntary patients to seek treatment in a safe environment with maximal freedom of movement. The entire mental health crisis treatment area could be temporarily locked in the rare instance of a sudden behavior change of a voluntary patient, such as expressing threat to harm others. Temporary lock-down of the entire unit would last only as long as necessary for the provider to assess the situation and determine the best course forward to maintain safety for all patients, staff, and community.

SVMC's appreciates the importance of freedom of movement for effective mental healing of voluntary patients and is committed to delivering the most flexible and safe environment. The group room exemplifies this commitment. Free access to the group room for voluntary patients will be temporarily restricted only in rare instances when safety is at heightened risk.

SVMC has engaged individuals with lived experience to review and discuss the layout, functionality, patient flow, and processes to safely care for voluntary and involuntary patients in mental health crisis. The public comment, dated June 2, 2020, is evidence of this engagement and shows support for the design proffered. SVMC will continue to engage the mental health community during the detailed design phase (post-CON approval) to ensure that the modernized emergency department provides a respectful, trauma-informed healing environment with maximum freedom, while sensibly maintaining safety for patients and staff.

7. Do you plan to offer group treatment/therapy in the group area? If so, please specify.

Yes. Through collaboration with community partners, SVMC plans to offer peer-support services, group therapy, and group activities in the group area. The initial development and deployment of this programming will begin as early as phase 3 of construction, when patients begin to inhabit the newly constructed mental health crisis treatment area.

8. Explain whether the Group Room can also be used as a waiting room for mental health patients who are awaiting evaluation or placement in an appropriate setting.

Yes, the group room could serve as an evaluation or brief waiting space based upon the census of patients present in the mental health crisis treatment area. The first and best use of the group room is for “as-wanted use” and mental healing by voluntary patients. Use of the group room as an evaluation or waiting space would usurp access by voluntary patients and thereby will be subordinate to its primary purpose as a group healing space. During the detailed design phase, SVMC will collaborate with individuals with lived experience to integrate features and best-practices from Emergency Psychiatric Assessment, Treatment, and Healing units (EmPATH). Evidence suggest that embedding EmPATH characteristics into the group room could enhance peer support and joint healing while reducing length of stay.

9. Explain whether any of the mental health rooms are convertible to medical rooms.

No. The mental health crisis treatment rooms are not convertible to medical rooms.

SVMC has not designed convertible rooms for several reasons;

- Rare use – although some institutions have constructed a medical headwall behind sliding doors in mental health crisis treatment rooms, discussions have indicated that these rooms are rarely converted for medical treatment.
- Medical patient management- SVMC believes that individuals requiring medical treatment, including those with a mental health comorbidity, are better cared for in treatment rooms specifically designed for medical treatment and located in the medical section of the modernized emergency department.
- Ligature free environment- designing a convertible room is inherently difficult. Implementing sliding doors and latches that are not ligature risks can be challenging when creating an environment optimized for mental health healing.
- Cost – medical headwalls are expensive. Building medical headwalls for rare use does not appear to be an appropriate deployment of resources.

For these reasons the mental health crisis treatment rooms in SVMC modernized emergency department will not be convertible to medical rooms.

10. Explain plans for monitoring the rooms that are more distant from the Staff Area.

The mental health crisis treatment rooms that are distant from the Staff Area will be monitored by video technology without recording. An SVMC staff member will be dedicated 24/7 to monitor the video feeds from the cameras throughout the mental health crisis care area.

11. Explain whether the project includes ligature resistant features for the mental health rooms and area in compliance with the Joint Commission and CMS requirements.

Yes, the mental health crisis treatment rooms will be ligature resistant consistent with Joint Commission and the Center for Medicare and Medicaid Services (CMS) requirements. The bathrooms within the mental health crisis care area, including the shower, will be ligature resistant. Careful attention to the details of construction will ensure a facility optimized for mental health healing while keeping patients safe.

12. For 2016, 2017, 2018 and 2019, provide in a table format,:

- a) SVMC's total number of ED visits;**
- b) the total number and percentage of ED visits that were mental health visits;**
- c) the number and percentage of ED mental health visits where services were sought voluntarily; and**
- d) total number of percentage of ED mental health visits where the patient was committed involuntarily.**

Explain how these volumes relate to the number of mental health rooms (increase from 3 to 5 treatment rooms with the project) needed to treat mental health patients.

The percentage of ED patients with a mental health diagnosis has increased from 5.4% in 2016 to over 7% in 2019.

Fiscal Year	ED visits	ED patients with mental health diagnosis	Percent of ED patients with mental health diagnosis
2016	23,744	1,277	5.4%
2017	23,231	1,261	5.4%
2018	23,517	1,710	7.3%
2019	24,239	1,773	7.3%

Of patients with a mental health diagnosis in the emergency department, approximately 7% are involuntary. However, this percentage does not reflect the progression of patients, as some begin as voluntary and advance to involuntary over the course of their stay and vice versa. Thereby the percentage of involuntary patients with a mental health diagnosis in SVMC's emergency department is fluid.

Every year approximately 7% of patients with a mental health diagnosis are transferred from SVMC's emergency department to a psychiatric hospital. Another 11% of patients are admitted to SVMC for medical care, transferred to another medical facility, or admitted to a skilled nursing facility. The majority, approximately 70%, of patients with a mental health diagnosis are discharged from SVMC's emergency department to home or the community. These ratios have been consistent since 2016.

The average length of stay in the emergency department for patients with a mental health diagnosis is 7 times longer (19 hours) than patients without a mental health diagnosis. The average length of stay has greatly expanded from 10 hours in 2016 to over 36 hours in 2019. This expansion of length of stay in the emergency department is particularly acute for patients transferred to a psychiatric facility, which has increased from a delay of 1.3 days to 4.2 days. More than 35% of the patients transferred to a psychiatric facility spend more than 5 days in SVMC emergency department prior to transfer. In 2019, 23 patients with a mental health diagnosis were in SVMC's emergency department 10 days or more prior to transfer to a psychiatric facility. Long lengths of stay consume critical emergency department resources and create complexity in estimating the number of mental health crisis treatment rooms needed in the modernized emergency department.

Estimating the number of mental health crisis treatment rooms to build into SVMC's modernized emergency department is an imprecise science. SVMC opened its current 3 room emergency crisis area (ECA) at the beginning of 2014. Demand consistently outstrips capacity. The proposed design expands capacity from 3 to 5 mental health crisis treatment rooms. Importantly, the design includes several features that should enhance mental health healing including natural light and a group room. We anticipate that these features will advance healing and reduce the length of stay for some patients. In addition,

outpatient mental health treatment resources in the community are in transition and on-demand outpatient tele-psychiatry services are expanding. As such, precisely calculating demand and determining the appropriate number of mental health treatment rooms to build is difficult. At present, 5 mental health crisis treatment rooms, configured as currently designed, provides the best solution to meet the emergency mental health needs of the community.

Other

13. On page 27 it is stated that local subcontractors will be used. Identify the specialties of subcontractors that will be used; explain whether the local contractors will have sufficient experience and skills to complete work on a project of this nature and scope.

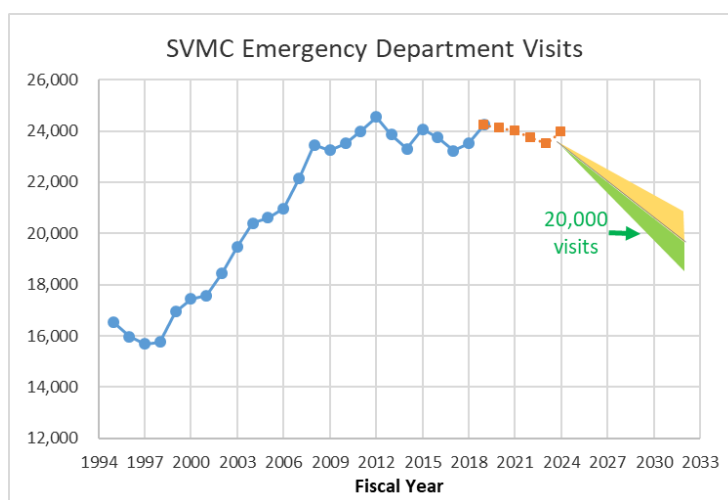
SVMC is committed to using local subcontractors to maximize the flow of project spending to the local economy. SVMC has extensive experience using local contractors on prior CON projects including, installation of a linear accelerator, building a heating plant, and renovation a medical practice for conversion to a dental clinic. Local subcontractors are regularly utilized by SVMC for smaller renovation and construction projects across SVMC's various campuses. SVMC maintains a robust list of experienced contractors that have been vetted through demonstration to deliver to the highest standards required for medical construction. This list of SVMC approved subcontractors has been shared with the project management team and includes (but not limited to);

- Plumbers
- Electricians
- Heating, Ventilation, and Air Conditioning (HVAC) technicians
- Concrete and iron beam specialists
- Window and door installation specialists
- Drywall and finish work contractors
- Painters

SVMC's preferred subcontractors are professionals and have the skills required to execute the full scope of the modernization project.

14. On page 25 of the application it is stated that planned reduction in ED utilization has demand at 20,000 patients, However, Table 7C, *Utilization Projections*, shows ED visits of 24,000 in proposed year 1, 23,750 in year 2, 23,500 in year 3 and 23,962 in year 4. Please explain this discrepancy.

SVMC is building a modernized emergency department that will be functional for 15 to 20 years. The size and scale of the emergency department must consider the trajectory of healthcare and the move of care away from the acute care setting. The financial tables project the beginning of the decline in ED visits, as stated in the question. The chart below extends that projection and shows a future with 20,000 ED visits.



SVMC has developed a series of programs aimed at reducing ED utilization including the transitional care team, enhanced case management within primary care, and the community collaborative. The impact of programs that advance chronic care management will reduce acute care needs, particularly ED visits.

The design of the modernized emergency department, with the expanded mental health crisis treatment area and the vertical treatment spaces, will allow delivery of effective high quality care, while other care efforts are decreasing ED utilization to achieve the projected target of 20,000 ED visits annually. SVMC is confident that the modernized ED design meets community need and will enhance focus on care management to reduce acute care need.

15. Appendix 5, page 3 reflects that non-MD salaries will be reduced through retirements and attrition through the projection period with nine new FTEs

(Appendix 5, page 5) added in 2024 to support the project. Explain the nature and impact of staff reductions in 2021-2023 on services at SVMC.

The reduction of FTE's from 782 budgeted in fiscal year 2020 to 754 in fiscal year 2023 (a reduction of approximately 28 FTE's) is an important task for management to accomplish its financial goals. These staff reductions will be accomplished by using industry benchmarks for hospitals of similar size to SVMC. The overall goal is to be at the 50th percentile benchmark for patient care areas and approximately the 40th percentile benchmark for non-patient care or support areas. Most of the reductions will appear in fiscal year 2021 and SVMC management is diligently working towards the stated benchmarks.

Management is using various tools to achieve these staffing goals. SVMC has contracted with a national firm since 2018 to work with management and understand SVMC's operations. The management team will be following the benchmarks in fiscal 2021.

The reductions in staff will not impact SVMC's care services because processes are being redesigned to ensure high quality care is delivered efficiently. As evidenced by the national benchmarks, peer hospitals are capable of delivering quality care and maintaining patient safety while employing a smaller labor force. SVMC is committed to efficiently delivering high quality care.

We thank the Green Mountain Care Board for considering this important project.



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