

## MEMORANDUM

**TO:** Donna Jerry, Senior Health Policy Analyst, Green Mountain Care Board

**FROM:** Emily Hawes, Commissioner, Department of Mental Health

**DATE:** July 15, 2021

**RE:** Docket No. GMCB-002-21con, Construction of Secure Residential Treatment Program for Individuals Requiring Residential Treatment Program Services for Mental Health Conditions.

Project Cost: \$21,900,521.

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Thank you for your questions dated July 2, 2021. Below please find our responses.

**1. Explain in more detail the use and reporting of funds and expenses of the GO Bond.**

The State finances long-term capital projects with General Obligation Bonds (GO Bonds) for which the full faith and credit of the State are pledged to the payment of principal and interest on the bonds. The capital project process starts with the Governor submitting a capital budget request to the General Assembly. This request becomes what is called the Capital Bill, if passed by the legislature and signed by the Governor it becomes the Capital Act which will include a host of capital projects the State will undertake and the authorization for the State Treasurer to issue GO Bonds to financing the capital projects. The life of the bonds issued is typically 20 years.

When the State plans a GO Bond issuance, the State works with financial advisors and investment bankers to determine the optimal bond terms based on market conditions at that time. Since this project has not been financed yet, the estimates of the GO Bond financing for this project were based on the most recent GO Bond issuance at the time this application was being completed, which was the 2019 GO Bond issuance. The total par value of the 2019 GO Bond issuance was \$88,255,000, plus \$11,631,361 of bond premium was received for a total bond proceeds of \$99,889,361. The bond premium is money the State receives above the par value of the bond because the bond's interest rate is higher than current market interest rates. The effect of the bond premium is it makes the bond yield (the return the investor realizes on the bond) to be in line with current market rates.



Based on the estimated \$16,100,000 of project costs that needs to be financed, the 2019 GO Bond par value and premium was allocated to this project based on the ratio of \$16,100,000 required as compared to the total proceeds of \$99,889,361. The result of this allocation was, \$14,224,793 of par value bond cash plus \$1,875,207 of bond premium cash to get the required total of \$16,100,000. The source of funds includes \$14,224,793 of par value bonds, \$1,875,207 of bond premium, \$373,385 of State money available for the project, and an equity contribution of \$5,427,136, for a total of \$21,900,521. The use of the funds includes the \$5,427,136 for debt financing expenses, and \$16,473,385 for project constructions costs, for a total of \$21,900,521.

**2. Based on your June 17, 2021, response to questions, Table 2 the Sources of Funds-Equity Contribution is equal to the Financing Expenses which includes an interest rate of 3.75% for a 20-year loan reported in the Uses of Funds. Explain why these are the same. If in error, revise and resubmit Table 2.**

The equity contribution of \$5,427,136 is the money the State will pay in bond interest expense of \$5,297,871, and bond issuance costs of \$129,265 that were allocated to this project based on the same ratio described above using the total 2019 bond issuance interest expense of \$32,869,625, and bond issuance costs of \$802,000. The State pays the interest expenses, not the project, so that is why we considered it an equity contribution.

**3. Please explain the lending arrangement in more detail because the loan and or bond has an interest rate of 3.75% but also has estimated premiums in the amount of \$2,248,592. Also, explain whether the bond is tax-free and if so, explain how the premium has been appropriately amortized.**

The financing for this project would be tax-exempt bonds. The 2019 GO Bond issuance had an average interest rate of 3.725%, when including the bond premium, the actual yield was approximately 1.95%. The estimated bond premium was \$1,875,207, the \$2,248,592 referenced includes \$373,385 of additional money available for the project that is not related to the financing. Based on the actual average interest rate of the 2019 GO Bond of 3.725%, an estimated 3.75% average interest rate was listed as the interest rate on Table 2. However, this should be changed to 3.725% to be accurate. The bond premium is amortized over the life of the bond in the State's financial statements, the amortization would result in a reduction of interest expense on an accrual accounting basis. However, on a cash flow basis the State pays the estimated full interest expense of \$5,297,871 over the life of the bond.

**4. Based on your June 17, 2021, response to questions, explain why the Operating Expenses do not include depreciation/amortization and the Debt Financing expenses of approximately \$5,427,136 for the new facility on Table 3B. Revise and resubmit Table 3B as these expenditures for the new facility must be included in the Income Statement.**



The State pays the interest expenses, not the project, the costs of the debt financing are not built into the project costs when determining rate revenue requirements to ensure full cost recovery. Since the building construction is financed and paid for by the State, not the project, the building depreciation costs are not built into the project costs when determining rate revenue requirements to ensure full cost recovery. These costs could be added to the income statement if required, but the revenue offset would be a state subsidy to cover the costs.

**5. The application assumes 100% occupancy, with all 16 beds being utilized 365 days a year. However, as reflected on page 7 of DMH's June 17, 2021, response to questions, the existing secure residential facility in Middlesex has operated at a capacity of just over 90%. Explain in further detail the basis for projecting 100% utilization for a 16-bed facility, when the existing facility has not operated at 100% capacity. Please explain the contingency plan if 100% occupancy is not realized and address the negative impacts vacancies may have on the facility's financial stability.**

Table 7, Utilization Projections, has been revised and updated in the Secure Residential Recovery CON Financial Tables to reflect 90% occupancy: 5,256 bed days per year.

**6. Explain how it was determined that it was not "economically feasible to use electric based systems for the snow melt and domestic hot water systems," including a summary of any economic analysis conducted to determine the feasibility of using electric based systems for the snow melt and domestic hot water systems.**

The State must comply with 3 V.S.A. § 2291, State Agency Energy Plan. This requires that a Life Cycle cost analysis must show the investment will be recouped to invest in energy efficiency technologies. In this case, snowmelt requires approximately 481,870,871 btu/year. Electrically, this cost would be over \$21,000/year to operate versus gas which would require only \$5,000/year to operate. This would also require upsizing of the electrical service entrance, adding significant upfront cost.

There are similar economic discrepancies with the domestic hot water system. Based on the required hot water capacities, the technology is too expensive to be recouped. Provisions will be provided for trying a water to water or air to water heat pump in the future.

**7. Explain whether there was any investigation into the feasibility of choosing an electric induction stove and the results of that inquiry.**

The project is in design phase and decisions have not been made on all items. We will work with Efficiency Vermont when choosing final appliances.

**8. In selecting a gas-fired range, explain whether there was any analysis performed to determine the impact of that choice on energy use, additional ventilation requirements, and**



**indoor air quality standards.**

As stated in Efficiency Vermont's letter included in our Application, Efficiency Vermont will review the proposed kitchen equipment and suggest appropriate energy efficient upgrades. Electric induction does reduce ventilation requirements but adds additional things like grease filtration.

**9. Please confirm whether the gas range hood vents are vented to the outside of the building and whether the hood vents are controlled by the user or whether the ventilation is turned on automatically whenever the gas range is in use.**

The range vents to outside. The hood can be manually turned on, if desired (manual feature can also be locked out) but manual manipulation is always overridden by on and will modulates based on heat sensors in the hood.



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Emily Hawes, Commissioner, Department of Mental Health

On 7 / 15 /2021, Emily Hawes appeared before me and swore the truth, accuracy and completeness of the foregoing.



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Notary Public

My commission expires 1 / 31 / 2023



**Vermont Department of Mental Health  
Secure Residential Recovery Facility**

C-Table 1  
Project Costs

<b>Construction Costs</b>	
1. New Construction	\$ 9,367,227
2. Renovation	\$155,614
3. Site Work	1,755,746
4. Fixed Equipment	162,250
5. Design/Bidding Contingency	\$978,136
6. Construction Contingency	\$592,682
7. Construction Manager Fee	622,642
8. Other (please specify)	55,121
Subtotal	<u>\$ 13,689,418</u>
<b>Related Project Costs</b>	
1. Major Moveable Equipment	\$ -
2. Furnishings, Fixtures & Other Equip.	\$400,000
3. Architectural/Engineering Fees	\$1,406,717
4. Land Acquisition	-
5. Purchase of Buildings	-
6. Administrative Expenses & Permits	\$977,250
7. Debt Financing Expenses (see below)	5,427,136
8. Debt Service Reserve Fund	-
9. Working Capital	-
10. Other (please specify)	-
Subtotal	<u>\$ 8,211,103</u>
<b>Total Project Costs</b>	<u><b>\$ 21,900,521</b></u>

<b>Debt Financing Expenses</b>	
1. Capital Interest	\$ 5,297,871
2. Bond Discount or Placement Fee	-
3. Misc. Financing Fees & Exp. (issuance costs)	129,265
4. Other	-
Subtotal	<u>\$ 5,427,136</u>

**Less Interest Earnings on Funds**

- 1. Debt Service Reserve Funds
- 2. Capitalized Interest Account
- 3. Construction Fund
- 4. Other

\$	-
	-
	-
	-

Subtotal

\$	-
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**Total Debt Financing Expenses**

\$	<b>5,427,136</b>
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feeds to line 7 above



**Vermont Department of Mental Health  
Secure Residential Recovery Facility**

C-Table 3B  
Income Statement  
Project Only

	Latest Actual	Proposed Year 1 2023	Proposed Year 2 2024	Proposed Year 3 2025
<b>Gross Patient Revenues</b>				
Resident Care Revenue (Free Care & Bad Debt)	N/A	\$ 8,728,727	\$ 8,878,982	\$ 9,189,747
Other Operating Revenue	N/A	\$ -	\$ -	\$ -
<b>Total Operating Revenue</b>	\$ -	\$ 8,728,727	\$ 8,878,982	\$ 9,189,747
<b>Operating Expense</b>				
Salaries (Non-MD)	N/A	\$ 3,631,297	\$ 3,758,392	\$ 3,889,936
Fringe Benefits (Non-MD)	N/A	2,748,374	\$ 2,844,567	\$ 2,944,127
Operating Expense	N/A	\$ 1,871,641	\$ 1,781,898	\$ 1,844,265
Contracts	N/A	\$ 477,415	\$ 494,125	\$ 511,419
Interest Expense (net of premium amortization)	N/A	\$ 193,010	\$ 363,034	\$ 340,047
Depreciation	N/A	411,835	\$ 411,835	\$ 411,835
<b>Total Operating Expense</b>	\$ -	\$ 9,333,572	\$ 9,653,851	\$ 9,941,629
<b>Net Operating Income (Loss)</b>	N/A	\$ (604,845)	\$ (774,869)	\$ (751,882)
Non-Operating Revenue (State Subsidy)	N/A	604,845	774,869	751,882
<b>Excess (Deficit) of Rev Over Exp</b>	N/A	\$ -	\$ -	\$ -

Secure Residential Recovery - no inpatient or outpatient services  
Cost of initial set up is included in year 2 - 2023



**Vermont Department of Mental Health  
Secure Residential Recovery Facility**

C-Table 6B

Revenue Source Projections  
Project Only

	Latest Actual	% of	Proposed	% of	Proposed	% of	Proposed	% of
	0	Total	Year 1	Total	Year 2	Total	Year 3	Total
			2023		2024		2025	
<b>Gross Resident Revenue</b>								
Medicare	N/A		-	0.0%	-	0.0%	-	0.0%
Global Commitment (Federal portion)	N/A		4,848,356	55.5%	4,932,499	55.6%	5,106,527	55.6%
Commercial	N/A		-	0.0%	-	0.0%	-	0.0%
Self Pay	N/A		70,949	0.8%	70,949	0.8%	70,949	0.8%
(Free Care / Bad Debt)	N/A		-	0.0%	-	0.0%	-	0.0%
State General Fund matched	N/A		3,809,422	43.6%	3,875,535	43.6%	4,012,271	43.7%
	N/A		\$ 8,728,727	100.0%	\$ 8,878,982	100.0%	\$ 9,189,747	100.0%

**Vermont Department of Mental Health**  
**Secure Residential Recovery Facility**  
 UTILIZATION PROJECTIONS  
 TOTALS

<b>B: PROJECT ONLY</b>		<b>Proposed</b>	<b>Proposed</b>	<b>Proposed</b>
	<b>Latest Actual</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
	<b>0</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
<b>Inpatient Utilization</b>				
Staffed Beds	N/A	16	16	16
Admissions	N/A			
Resident Days	N/A	5,256	5,256	5,256
Average Length of Stay	N/A	-	-	-
<b>Adjusted Statistics</b>	N/A	-	-	-
Adjusted Admissions	N/A	N/A	N/A	N/A
Adjusted Patient Days	N/A	N/A	N/A	N/A

Footnote: staffing will equal a licensed bed

**Vermont Department of Mental Health  
Secure Residential Recovery Facility**

C-Table 9  
Staffing Projections  
Totals

<b>B: PROJECT ONLY</b>	<b>Latest Actual</b>	<b>Proposed</b>	<b>Proposed</b>	<b>Proposed</b>
	<b>0</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
		<b>2023</b>	<b>2024</b>	<b>2025</b>
<b>Non-Clinical FTEs</b>				
Principal Assistant	N/A	1.0	1.0	1.0
Administrative Services Coordinator III	N/A	1.0	1.0	1.0
(DMH) Quality Control Specialist III	N/A	1.0	1.0	1.0
Staffing Office Manager (Staffing)	N/A	1.0	1.0	1.0
Mental Health Scheduling Coordinator (Staffing)	N/A	5.0	5.0	5.0
Food Service Worker	N/A	2.0	2.0	2.0
Cook C	N/A	2.0	2.0	2.0
Supervising Chef	N/A	1.0	1.0	1.0
<b>Total Non-Clinical FTEs</b>		<b>14.0</b>	<b>14.0</b>	<b>14.0</b>
<b>Clinical FTEs</b>				
Nurse Supervisor	N/A	1.0	1.0	1.0
Registered Nurse II; Clinical Specialty Nurse (Med)	N/A	4.0	4.0	4.0
Registered Nurse III; Charge, Clinical Specialty Nurse	N/A	5.0	5.0	5.0
Activity Therapist	N/A	2.0	2.0	2.0
Social Worker	N/A	2.0	2.0	2.0
DMH Psychologist	N/A	2.0	2.0	2.0
Mental Health Recovery Specialist (Peer)	N/A	2.0	2.0	2.0
Mental Health Specialist	N/A	24.0	24.0	24.0
Associate Mental Health Spec	N/A	5.0	5.0	5.0
Senior Mental Health Spec	N/A	2.0	2.0	2.0
<b>Total Clinical FTEs</b>		<b>49.0</b>	<b>49.0</b>	<b>49.0</b>
<b>Total FTEs</b>		<b>63.0</b>	<b>63.0</b>	<b>63.0</b>