



VERNON HOMES

A COMMUNITY OF CARING. SEASONED WITH GRACE.

A CONTINUUM OF CARE FOR SENIOR LIVING

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DELIVERED ELECTRONICALLY

September 15, 2022

Ms. Donna Jerry
Health Policy Analyst
Green Mountain Care Board
89 Main Street
Montpelier, VT 05620

RE: Vernon Green Nursing Home Replacement Project

Dear Ms. Jerry:

This constitutes our renewed Letter of Intent submission to the Green Mountain Care Board in connection with the proposed capital project being undertaken by Vernon Homes. Since our initial submission in April 2019 and because of extensive pre-development and entitlement work undertaken, considerable modifications were required and have contributed to protracted circumstances. This renewed Letter of Intent updates and reaffirms our Project plans.

Project Overview

Vernon Advent Christian Home, Inc. d/b/a Vernon Green Nursing Home (“Vernon Green”) intends to file a Certificate of Need (“CON”) Application regarding its planned project to replace its existing single-building, sixty (60) bed skilled nursing facility (the “Existing Facility”) with a newly constructed and three-story replacement building situated adjacent to the existing facility (the “Project”). The Project will represent steel frame construction and approximately 55,000 square feet of building space. The design and operation of the building will follow the Green House Project model which, consistent with the goals and recommendations of Vermont’s Health Resource Allocation Plan, replicates a home environment while delivering “person-directed” living for residents. As such, the new building will include five (5) distinct Green House Homes where four (4) will be dedicated to long-term care residents and one (1) will be reserved for short-stay rehabilitative care services. In addition, the building design will accommodate administrative and management needs of the Project.

Existing Conditions

The Existing Facility has reached the end of its useful life and is not suitable for capital repairs or major renovation given its age and deteriorating condition. Although Vernon Green has sustained a high level of quality care and regulatory compliance, the condition of the Existing Facility has begun to hamper cost effective and efficient operations. Moreover, the condition of the Existing Facility is becoming less appealing to prospective residents and families – imposing marketing constraints and challenges associated with maintaining optimal occupancy levels.

Proposed Green House Project

The Green House Project model is a proven replacement model for traditional skilled nursing centers and Vernon Green represents an ideal candidate for the Green House Project model and would represent the first being introduced in the State of Vermont. In order to ensure adherence to the standards of the Green House Project model during development and ongoing operations, Vernon Green has entered into an agreement with the Green House Project organization, which holds the trademark to the Green House brand. A key attribute of the Green House Project model is its proven staffing approach where conventional department staffing is replaced by “universal workers” whose responsibilities are more resident centered, integrated, and interdisciplinary. Vernon Green has already initiated extensive training of its existing personnel to support and embrace this proposed transition. It is anticipated that virtually all key employees will have opportunity for continued employment conforming to the revised roles and responsibilities customized to the Green House Project operating model. The key tenets of the Green House operating philosophy are “Real Home,” “Meaningful Life,” and “Empowered Staff.”

Financial Feasibility

The financial modeling of a replacement Green House Project for Vernon Green continues to evidence its financial feasibility. Following are among the highlights contributing to restored financial stability and improved operating performance as a result of the Project:

Revenue Realization – Given the restored environmental appeal of Vernon Green, occupancy levels are projected to materially improve to a level in the range of 95%. This equates to an incremental increase of up ten (10) or more residents – resulting in an annual revenue improvement exceeding \$1M. It is anticipated that all existing residents of Vernon Green will be transferred to the Green House Project. Medicaid occupancy historically in the range of twenty-five (25) residents is projected to be sustained while the revenue increase is projected to be associated with growing private pay and Medicare utilization. The dedicated Green House for short-stay and rehabilitative services is anticipated to more effectively attract both private pay and Medicare residents.

Expense Management – Expense projections evidence material cost reductions and savings associated with indirect operating costs associated with conventional support cost centers. In addition to savings ascribed to improved and contained property conditions, operating expenses are more directed to and absorbed by resident services personnel. As such, routine operating expenses previously represented by departmental costs are dedicated more directly to resident services. This more resident centered operating model has proven to yield both higher levels of resident satisfaction as well as improved quality care and profitability.

Profitability – The incremental revenue to be achieved by the Green House Project directly contributes to improved net operating income (“NOI”). Vernon Green is currently reporting a marginal or negative NOI that is projected to improve to over \$1M or approximately 15% of operating revenue. This materially improved profitability contributes to financial stability while providing requisite resources for continuing employee investment as well capital reinvestment in continuing operations. While the Project will result in an increase in the capital basis represented by Vernon Green, the capital costs will be mitigated by operating cost efficiencies and other qualitative attributes to be outlined in the Application.

Capital Expenditure – The Project is estimated to represent a total capital expenditure of approximately \$31M and the Project is planned to be fully funded by the USDA Rural Facilities Financing Program. Vernon Homes is ideally qualified for this Program representing long-term and fixed-rate financing currently in the range of up to a 40-year term and approximately 3.5% interest costs. As Vernon Homes progresses through the USDA underwriting process, all indications of qualifying for this capital financing are favorable. The USDA capital commitment will require GMCB CON Approval.

Wastewater Treatment (“WWT”) System

In addition to the Project, Vernon Homes is undertaking a capital initiative to replace its existing and currently failed or deficient septic systems. This newly developed and fully integrated WWT System will serve the full Vernon Homes campus community. We have shared details of this initiative with the GMCB and received a No Jurisdiction Letter directing Vernon Homes to update the Board if there were any material changes to the cost of the WWT / Septic Project. By letter dated August 23, 2022, Vernon Homes notified the Board that the percentage of the cost of the Septic Project allocated to Vernon Green has risen from 53% to 54% based on a revised allocation schedule, and the total allocated cost has risen to \$1,620,000, which amount continues to be less than the jurisdictional threshold of \$1,682,693. See Sec 18 V.S.A. 9434(a)(1).

Project Timeline

Vernon Green is planning to submit its CON Application for this Project in Q4 2022. We are seeking expedited review and approval of the Project such that our final pre-development work, permitting and entitlement work can be completed, and our final USDA financing commitment

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can be secured. Our Project Timeline contemplates completion of all such requirements by the end of 2022. We anticipate commencement of construction development in 2023.

We have appreciated discussions with you regarding the Project and the CON process to date. Further, we appreciate your understanding of the protracted time we have taken to extensively plan and diligently navigate all facets of this pioneering Project to ensure its success. We look forward to hearing from you should any new specifics be required for the CON Application. Please feel free to contact me directly.

Sincerely,



M. Bradford Ellis
Executive Director

CC: Craig T. Miskovich, Esq.
Joseph C. McCarron, Capital Care Associates