

THE
University of Vermont
MEDICAL CENTER

By Electronic Mail & U.S. Mail

October 31, 2022

Ms. Donna Jerry
Senior Health Policy Analyst
Green Mountain Care Board
144 State Street
Montpelier, VT 05602
Donna.Jerry@vermont.gov

Re: Docket No. GMCB-003-22con, Relocation of UVMMC's Existing Outpatient Dermatology and Ophthalmology Practices to 350 Tilley Drive. Project Cost: \$35,426,100.

Dear Ms. Jerry:

The University of Vermont Medical Center Inc. ("UVM Medical Center" or "UVMMC") hereby responds to the Green Mountain Care Board's ("Board") Requests for Additional Information Q.006, dated October 21, 2022, regarding the above-referenced project.

- 1. Please provide an explanation of the overall financial impact of buying the building and land at 350 Tilley Drive, as compared to leasing it, and the impact of each scenario on UVMMC's days' cash on hand, long term debt to capitalization ratio, average age of plant, bond rating, and debt covenants.**

Response: As stated in UVMMC's Certificate of Need ("CON") Application §I(D), UVMMC decided to buy rather than lease 350 Tilley Drive (land and building) based in part on cash flow analyses submitted to the Board as Exhibit 5 to the Application. UVMMC's CON Application states that no debt financing is planned for this project. *See* CON Application at §I(D). A final decision to use equity or financing to fund the proposed project will be made after a CON is approved based on total Network cash levels and a number of other considerations unrelated to this project.¹

If UVMMC purchases 350 Tilley Drive and uses equity to fund the entire project cost, UVMMC's Days Cash on Hand will be reduced by approximately seven (7) days. *See*, Response to the Board's Requests for Additional Information Q.005 (October 5, 2022). If

¹ UVMMC will of course notify the Board of any departure from the plan to fund the project described in the application in compliance with applicable CON conditions and Board rules.

UVMMC purchases 350 Tilley Drive and finances the entire project cost, the project will have no impact on UVMMC’s Days Cash on Hand. *Id.*

The following Table compares the impact to Days Cash on Hand of purchasing versus leasing the property:

Type of Contract	Purchase	Purchase	Lease
Funding	Equity (cash)	Finance through Debt (100%)	Lease
Initial Impact on Days Cash on Hand Related to Capital	Full impact in year 1 – Days Cash on Hand reduced by approximately 7 days	Debt proceeds offset initial impact of purchase – no reduction in Days Cash on Hand	n/a
Ongoing Impact on Days Cash on Hand Related to Capital	No additional impact after year 1	Interest expense is spread over 10-20 years depending on debt structure	Annual lease payments
Equity on Investment	100% (own property)	100% (own property)	0%
Future Return on Investment	Lock cost at current price levels	Lock cost at current price levels	Subject to future years cost inflation factors and future years property cost evaluation if choose to buy at a later date

Regardless of whether UVMMC buys or leases 350 Tilley Drive, and whether the project is funded with equity or financed, there will be no material impact on the University of Vermont Health Network’s long term debt to capitalization ratio, average age of plant, bond rating, or debt covenants.²

2. Currently UVMMC has five projects (relocation of Dermatology/ Ophthalmology practices, expansion of Epic to HHH, purchase of daVinci robotic surgical system, Spectral CT replacement) under CON review, and a Conceptual CON for the Outpatient Surgery Center.

- a. Explain in detail how you are prioritizing these five projects and any other projects you intend to submit through the end of calendar year 2023, and the impact on UVMMC’s ability to fund and implement these projects without an increase in commercial rates and/or change in charges.**

² As was explained during the recent FY2023 budget presentation, covenants are tested at the Network Obligated Group level, not with respect to individual Obligated Group member hospitals. The current members of the Network Obligated Group are UVMMC, The University of Vermont Health Network Inc., Central Vermont Medical Center, Inc., Champlain Valley Physicians Hospital Medical Center, and Elizabethtown Community Hospital.

Response:

The CON criteria and standards require UVMMC to demonstrate that the proposed project is needed, and its cost is reasonable because UVMMC can afford to pay that cost, and the project will not unduly impact the cost of medical care or its affordability for consumers. UVMMC notes, however, that no CON criterion or standard requires UVMMC to demonstrate in this docket that the proposed project is the highest priority use of the hospital's resources relative to other projects the hospital might undertake instead, or that the combined cost of all capital investments UVMMC *might* propose to undertake through the end of calendar year 2023 is reasonable.

UVMMC further notes that capital projects are not usually a factor in the commercial rate request calculations. The recent FY2023 budget presentation included a detailed explanation of what factored into the commercial rate request, and UVMMC will similarly explain all the factors underlying any future rate increase request in the annual budget process context.

With these caveats, UVMMC responds to this question as follows:

Priority

- All four of the pending CON applications are a priority for UVMMC. Please see UVMMC's below response to Q.2(b) with respect to the anticipated timelines for implementation of these projects.
- UVMMC is in the process of planning the Outpatient Surgery Center project as authorized under the Conceptual CON for this project. UVMMC will share the anticipated timeline for implementation of this project, once it is determined, in UVMMC's CON application.
- UVMMC has not completed planning for, and is therefore not prepared to share information about, other CON-eligible capital investments it may propose to make through the end of 2023. Nor has the UVMMC Board of Trustees reviewed any other proposed CON applications for 2023. UVMMC will share information about other proposed capital investments if and when UVMMC files CON applications for other projects.

Impact on Rates and Charges

- As UVMMC previously explained in its Response to the Board's Request for Additional Information Q.004 (September 16, 2022), UVMMC does not anticipate that it will need to increase commercial rates or charges as a result of the proposed project before the Board in this docket.
- The Spectral CT will replace existing equipment, which is at the end of its useful life. This project will have a minimal impact on UVMMC's operating margin,

and will not result in a need to increase rates or charges. *See* CON Application at p.15.

- The daVinci project will have a minimal impact on UVMMC’s operating margin, and will not result in a need to increase rates or charges. *See* CON Application at p.12.
- UVMMC has notified the Board that its plans for expansion of Epic to HHH are temporarily delayed, and UVMMC will submit an amended CON Application in Dkt. No. GMCB-001-17con by June 1, 2023, which will include revised financial information. *See* Letter to Board (October 5, 2022), Dkt. No. GMCB-001-17con. UVMMC will provide information in Dkt. No. GMCB-001-17con regarding the impact of this project as described in the amended CON application on rates and charges in the amended application.
- UVMMC will address the impact of its proposed Outpatient Surgery Center project on rates and charges in its CON application for that project.

b. Complete the following table with best estimates currently available for all projects currently submitted, as well as those expected to be submitted through calendar year 2023. Include a row with an overall summary for the projects in total.

Project Name	Approx. Project Timeline	Total Project Cost	Anticipated Funding Mechanism (e.g. financed, equity)	Estimated impact on days’ cash on hand
Derm/Opth Relocation	UVMMC’s CON Application assumed that a CON, if approved, would be issued by September 2022; and UVMMC would begin fit-up and equipment installation in October 2022, complete construction in	\$35,246,100 <i>See</i> , CON Application at §I(D)	UVMMC’s CON Application states that no debt financing is planned for this project. CON Application at §I(D). A final decision to use equity or financing to fund the project will be made after a CON is approved based on total	If UVMMC purchases 350 Tilley Drive and uses equity to fund the entire project cost, UVMMC’s Days Cash on Hand will be reduced by approximately seven (7) days. <i>See</i> , Response to the Board’s Requests for Additional Information

	July 2023, and relocate the clinics in September 2023. CON Application at §I(C)(7). If a CON is issued, UVMMC intends to begin work on the project as soon as practicable.		Network cash levels and a number of other considerations unrelated to this project.	Q.005 (October 5, 2022). If UVMMC purchases 350 Tilley Drive and finances the entire project cost, the project will have no impact on UVMMC's Days Cash on Hand. <i>Id.</i>
EPIC Expansion	In a letter dated October 5, 2022, UVMMC notified the Board that its plans for this project are temporarily delayed, and UVMMC will submit an amended CON Application by June 1, 2023, which will include revised financial information, and an updated timeline for project implementation. It is our understanding that this application is presently inactive.			
daVinci	Project implementation will commence upon Board approval of a CON. The timeframe for completion will depend in part on when UVMMC receives the equipment (potential shipping delays are anticipated).	\$2,460,000 <i>See</i> CON Application §I(D)	UVMMC will use equity to fund this project. <i>See</i> CON Application, Exhibit 1, Table 2.	Days Cash on Hand will be reduced by less than one day.
Spectral CT	Construction of the mobile pad will commence upon Board approval of a CON unless winter construction is impracticable,	\$3,460,000 <i>See</i> CON Application §I(D)	UVMMC will use equity to fund this project. <i>See</i> CON Application, Exhibit 1, Table 2.	Days Cash on Hand will be reduced by less than one day.

	in which case project implementation will commence in early Spring, 2023.			
Outpatient Surgery Center	UVMMC is currently engaged in project planning as authorized by the Conceptual Development Phase Certificate of Need issued in Docket No. GMCB-015-21con. UVMMC has not made final decisions regarding this project's timeline, cost, or funding mechanism. UVMMC will share this information with the Board in its CON application for this project.			
Other CON Applications that UVMMC May Submit Before 12/31/23	UVMMC has not made final decisions regarding timeline, cost, or funding mechanism with respect to projects other than those for which active CON applications are pending before the Board.			
TOTAL PROJECTS		\$41,166,100		

c. Explain the impact of each of these projects individually and in total on UVMMC's bond rating and debt covenants if these projects are approved for a CON.

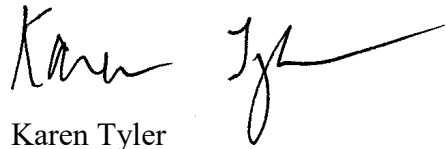
Response: The project before the Board in this docket, the proposed daVinci project (Dkt. No. GMCB-011-22con), and the proposed Spectral CT project (Dkt. No. GMCB-012-22con) will have no material impact on the University of Vermont Health Network's bond rating or debt covenants if any or all of these projects are approved for a CON, regardless of how UVMMC funds these projects.

3. Provide a complete copy of UVMMC's Master Facility Plan in an electronic format.

Response: UVMMC is in the process of updating and reformulating its Master Facility Plan, and it is not available for Board review. In its response to the Board's Requests for Additional Information Q.001, UVMMC explained that the CON Application references a UVM Medical Center Ambulatory Master Facility Plan developed in 2013, which contemplates the relocation of highly ambulatory services including Dermatology and Ophthalmology to make more room on the hospital's main campus for services with a heavy inpatient component, or that support emergent care. While the 2013 Plan is largely outdated and irrelevant to this or UVMMC's other pending applications, the plan to move identified ambulatory services off the main campus has not changed. UVMMC provided the excerpts from the 2013 Plan that it cited in the CON Application in response to the Board's Requests for Additional Information Q.001.

Thank you for your attention to UVM Medical Center's application.

Sincerely,

A handwritten signature in black ink, appearing to read "Karen Tyler", with a long horizontal flourish extending to the right.

Karen Tyler
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