Vernon Advent Christian Home

Resubmission of the Financial Assumptions associated

with Certificate of Need Application

RE: Docket No. GMCB-001-22con, Replacement of Vernon Green Skilled Nursing

June 12, 2023

ADMINISTRATIVE DOCUMENTS

Verification Under Oath

STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

In re: Vernon Green Nursing Home)
Vernon, VT
Owned and Operated by) Docket No. GMCB-001-22con
Vernon Advent Christian Home, Inc)
Vernon, VT

Verification Under Oath to file with Certificate of Need Application, correspondence and additional information subsequent to filing an Application.

M. Bradford Ellis, being duly sworn, states on oath as follows:

1. My name is M. Bradford Ellis. I am the Executive Director of Vernon Advent Christian Home, Inc. I have reviewed the **resubmission of the Financial Assumptions associated with the pending Certificate of Need Application.**

2. Based on my personal knowledge and after diligent inquiry, I attest that the information contained in the **resubmission of the Financial Assumptions associated with the pending Certificate of Need Application** is true, accurate and complete, does not contain any untrue statement of a material fact, and does not omit to state a material fact.

3. My personal knowledge of the truth, accuracy and completeness of the information contained in the **resubmission of the Financial Assumptions associated with the pending Certificate of Need Application** is based upon either my actual knowledge of the subject information or upon information reasonably believed by me to be true and reliable and provided to me by the individuals identified below in paragraph 4. Each of these individuals has also certified that the information they have provided is true, accurate and complete, does not contain any untrue statement of a material fact and does not omit to state a material fact.

4. The following individuals have provided information or documents to me in connection with the **resubmission of the Financial Assumptions associated with the pending Certificate of Need Application** and each individual has certified, based either upon his or her actual knowledge of the subject information or, where specifically identified in such certification, based on information reasonably believed by the individual to be reliable, that the information or documents provided are true, accurate and complete, do not contain any untrue statement of a material fact, and do not omit to state a material fact:

    (a) M. Bradford Ellis, Executive Director, Vernon Advent Christian Home, Inc. Vernon, VT - Q002 responses and assisted with Financials
    (b) Joseph McCarron, Proprietor, Capital Care Associates, Manchester NH – Q002 responses and Financial Tables
    (c) Lisa Trundy-Whitten, Certified Public Accountant, Berry Dunn, Portland, ME – Financial Feasibility Consultants

5. In the event that the information contained in the **resubmission of the Financial Assumptions associated with the pending Certificate of Need Application** becomes untrue, inaccurate or incomplete in any material respect, I acknowledge my obligation to notify the Green Mountain Care Board and to supplement the **resubmission of the Financial Assumptions associated with the pending Certificate of Need Application** as soon as I know, or reasonably should know, that the information or document has become untrue, inaccurate or incomplete in any material respect.

M. Bradford Ellis

M. Bradford Ellis
Executive Director
Vernon Advent Christian Home, Inc.

On 06/12/23, M. Bradford Ellis appeared before me and swore to the truth, accuracy and completeness of the foregoing.

Carrieann Desmarais

Notary public
My commission expires
[seal]

CARRIEANN DESMARAIS
Notary Public, State of Vermont
My Commission Number: 157.0014468
My Commission Expires: Jan. 31, 2025

DELIVERED ELECTRONICALLY

June 12, 2023

Donna Jerry
Senior Health Policy Analyst
Green Mountain Care Board
144 State Street
Montpelier, VT 05633-3601

**RE: Docket No. GMCB-001-22con, Replacement of Vernon Green Skilled Nursing
Resubmission of Financial Assumptions**

Dear Donna,

Per your request, please see the accompanying resubmission of the Financial Assumptions associated with our pending Certificate of Need Application.

In connection with our recent responses to your second round of questions, we inadvertently omitted this content given there were minimal changes to the previously submitted Financial Assumptions and we believed that our responses adequately denoted such changes. For your ease of review and efficiency, we have undertaken to resubmit the Financial Assumptions herewith in their entirety and denoted all changes in bold font.

We apologize for any inconvenience to you and trust this submission is more responsive to your needs and requirements.

Sincerely,

Brad Ellis

M. Bradford Ellis
Executive Director

FINANCIAL TABLE SUMMARIES WITH ASSUMPTIONS

Amendments denoted in Bold Format

Vernon Green House Project

Financial Table Summaries with Assumptions

The following financial information is provided to allow for evaluating the Project. For each of the required and accompanying Financial Tables, a Summary Financial table is presented below, together with narration of the detail Assumptions underlying the preparation of the Financial Tables.

General Commentary

The financial forecast was developed from a detailed financial model prepared by the Green House Project consulting resource team and adopts the experience history of other similar Green House Projects. In addition, financial projections were informed by the current and historic financial and operating history of the Vernon Green Nursing Home (the existing facility). Varied assumptions were employed to reflect the transition from existing operations to the model of operations represented by the Green House Project.

The financial forecast illustrates that the existing Vernon Green Nursing Home, without the Project, is not financially viable and results is escalating and untenable operating performance. By contrast, the Vernon Homes Green House Project replacement facility forecasts financial stability and improving operating profitability to support and sustain continuing operations.

Financial Position

The financial position of Vernon Homes is vastly strengthened and improved as a result of the Project. The current financial position of Vernon Homes reflects no debt obligations associated with the existing Vernon Green Nursing Home property, excepting the emerging VEDA program financing associated with the new campus wide Wastewater Treatment Project. Nonetheless, operating cash and liquidity conditions are constrained and deteriorating absent operating performance improvements required to sustain continuing operations. The existing facility is nearly fully depreciated and represents a distressed operating environment that compromises cost effective and efficient operations as well as the delivery of optimal levels of quality resident care. Moreover, existing conditions impose hardship in recruiting and retaining prospective residents as well as quality staff resources.

Results of Operations

The Project represents the ideal repositioning and redirection of operations to achieve revenue improvement and operating cost efficiencies. The Green House Project operating model is a proven prototype responsive to challenges confronting all long-term care providers and ideally responds to exhibiting trends in the industry – and particularly for rural healthcare service provides like Vernon Homes.

Revenue Realization

Several factors contribute to the forecasted levels of revenue improvement. Among these are the following:

- *Utilization - Overall resident occupancy and payer mix are projected to improve as a result of the new Project, the improved environmental conditions and restored market appeal.*

- *Medicaid Rate Support - While Medicaid program services revenue is projected to be sustained at* ***approximately forty-two percent (42%),*** *representing 53% occupancy, Medicaid rate support recognizing the full capital costs of the Project contributes to supportive and increased Medicaid revenue. The projected Medicaid rate increase assumes that the reimbursement of operating costs is consistent with historic levels while the rate increase is ascribed solely to the Project capital costs.*

- *Other Rate Support - Resident payer mix for Private, Medicare & Managed Care revenue is projected to improve and results from the improved market appeal of the new Project and its enhanced program services revenue.* ***Upon Project completion, Private Pay rate structures are assumed at five percent (5%) above the projected Medicaid rate while other payers (Medicare and Managed Care) are based on historical levels indexed for inflation.***

- *Program Services Revenue - Program services associated with Short-stay and Rehabilitative Services will be supported by a dedicated Green House Home. Private, Medicare & Managed Care revenue associated with this program is projected to increase.*

Expense Management

The Project gives rise to a new operating environment represented by the replacement facility. Above all, the new environmental conditions are projected to heighten appeal to both existing and new prospective employees. Virtually all existing employees are being transferred to the new Project. Operating expenses are projected to be consistent with historic levels although more concentrated on direct care given the attributes of the Green House Project operating model. Primary among the areas where cost efficiencies are projected to be realized include the Labor and Property Management cost centers.

- *Labor Management – The Green House Project operating model represents a transformative and progressive model of care. Traditional nursing home operations represented by departmental structures are replaced by five (5) distinct Green House Homes of twelve (12) single resident units each where universal workers are represented in multidisciplinary roles. The Green House Project model of care results in a reduction in costs represented by traditional department heads, breeds more resident centric staffing patterns, and achieves overall labor cost efficiencies of care. Labor staffing challenges being confronted by Vernon Homes, as with the industry generally, have contributed to escalating and sustaining dependency on nursing agencies or contract services to fill staffing vacancies. These circumstances give rise to escalated operating expenses represented by the premium costs being incurred. The Project financial projections assume a tapering down and containment of agency utilization over the forecast period.*

- *Property Management – The Project represents a replacement facility for the existing aged Vernon Green Nursing Home. The Project will be represented by new and efficient systems (HVAC; Mechanical, Electrical & Plumbing) that will allow for maximum efficiency of associated operating costs as well as the property management and maintenance costs attendant to them.*

- Other Operating Expenses - The Project financial projections reflect overall operating cost containment consistent with historic levels with the exception of those associated with the replacement facility. Property insurance expenses are expected to increase $100,000 annually and are reflective of the new property value supported by premium estimates provided by the Vernon Homes insurance agency. Similarly, capital costs associated with depreciation and interest expenses increase as a result of the new property cost basis and capital structure.

Profitability

To sustain continuing operations and allow for reinvestment in operating resources and property interests, all healthcare providers require a meaningful level of operating profitability.

- *Operating Margins (Without Project) – While the existing project operations are exhibiting operating loss conditions, the financial forecast without the Project reflects worsening operations that are unsustainable and would likely lead to the closure of the Vernon Green Nursing Home. The forecasted NOI (net operating income) / EBIDA (earnings before interest, depreciation, and amortization), absent the Project is negative and escalating.*

- *Operating Margins (With Project) – Forecasted operations of the new project achieve net operating income sufficient to support the new capital costs and a level of profitability and positive cash flow to allow for supporting continuing operations. The forecasted financial performance of the new project is supported by the financial performance achieved by other like-kind Green House Projects. The forecast NOI / EBIDA is positive and escalating to a level approaching over twenty percent (20%) of operating revenue* ***(before Depreciation & Interest expenses)****.*

- *Capital Resources - Operating profitability is required to support all capital costs (debt service obligations), reinvest in continuing operations (principally surrounding labor management), and to support reserve funding needs for future property management needs and operating contingencies. The Financial Tables exhibit the stark difference in financial performance outcomes associated with and without the Project.*

Assumptions to the Financial Tables

Financial Table 1, Project Cost

All Project Costs have been developed in active collaboration with the Project Team and are supported by a detailed line-item Project Budget. Site Development and Construction Cost estimates are reflective of prevailing market pricing and supported by recent experience history of the Project Architect, Construction Management and Engineering Services members of the Project Team. The Construction Management services provider was engaged following a formalized Request for Proposal process and after considering competing applications. All Project Cost estimates have been developed in consideration of current circumstances of price escalation and supply chain challenges surrounding materials selections and delivery. Intensive value engineering activities to manage the scope and pricing of Project Costs are continuing.

The following schedule of Summary Project Costs has been amended.

Summary Project Costs					
Square Footage	*55,740*	Costs	*Percent*	*PSF*	*Per Unit*
Site Development Costs		3,766,105	*11%*	*68*	*62,768*
New Construction Costs		22,664,693	*64%*	*407*	*377,745*
Construction Contingency		2,384,861	*7%*	*43*	*39,748*
Total Construction Costs		**28,815,659**	***81%***	***517***	***480,261***
Architectural & Engineering Costs		1,466,334	*4%*	*26*	*24,439*
Permitting & Other Project Costs		1,439,673	*4%*	*26*	*23,995*
Equipment Furniture & Fixtures		1,381,200	*4%*	*25*	*23,020*
Financing Costs & Debt Reserves		2,588,115	*7%*	*46*	*43,135*
Total Related Project Costs		**6,875,322**	***19%***	***123***	***114,589***
Total Project Costs		**35,690,981**	***100%***	***640***	***594,850***

- ***Project Contingency Reserves* – The Project Budget includes a Construction Contingency approximating $2.4M and representing approximately ten percent (10%) of the total Project Construction Budget. One-half, or five percent (5%), of the Construction Contingency will be available to the Construction Manager and one-half, or five percent (5%), will be directly controlled by the Project Owner.**

- ***Related Project Costs* – The Project soft costs representing Architectural, Engineering and Permitting costs approximate $2.9M and result from complexities of site development matters coupled with the intensities surrounding permitting and approval processes in the State of Vermont – most notably involving the Vermont ACT 250 process.**

- ***Equipment Furniture & Fixtures* - The Equipment, Furniture & Fixtures budget of $1.38M is supported by a detailed line-item budget developed in collaboration with the Green House Project resource team and was developed in consultation with the Applicant by the Project Architect. This budget includes $181,200 for household appliances that are carried in the Construction costs. In addition, the budget provision includes $200,000 that is being carried as a contingency reserve beyond the detailed budget previously provided by the Applicant. Current market pricing quotes were utilized to develop this budget.**

- ***Financing Costs & Funded Interest* – The provision for Debt Financing Expenses is represented by funded interest during the period of construction development and reflects the increase resulting from escalated interest costs and the increased Project Budget. The interest cost assumption for capitalized interest is nine percent (9%). The construction development period is assumed to be eighteen (18) months. Consulting, Legal and Professional cost increases generally reflect time & billing estimates and have been amended given the protracted process of pre-development activities.**

Financial Table 2, Financing Arrangement

Vernon Homes undertook extensive efforts to source a suitable capital plan for the Project. No conventional commercial financing outlets are available given that Vernon Homes cannot currently meet or otherwise support commercial underwriting criteria. The proposed capital plan of permanent financing through the USDA Rural Facilities Financing Program ("RD Program") is ideally suited to Vernon Home's circumstances and meets the eligibility requirements of the RD Program.

Vernon Homes Green House Project **Financing Arrangement**	Costs	Percent
Sources of Funds:		
USDA Rural Development Program Loan	33,690,981	94%
Owner Sponsor Grant Funding	1,000,000	3%
Owner Sponsor Loan Funding	1,000,000	3%
Total Sources of Funds	35,690,981	100%
Uses of Funds:		
Total Project Costs	35,690,981	100%
Total Uses of Funds	35,690,981	100%

- *Permanent Financing – The RD Program allows for full (up to 100%) financing of the Project at a low and fixed interest cost over a term of up to forty (40) years. While the definitive capital structure will be established during final underwriting of the RD Program, the financial projections assume a fixed interest cost of three and one-half percent (3.75%) over a thirty-five (35) year amortization period with interest only during the initial twenty-four months of Project operations.*

- *Construction Financing – While the RD Program represents permanent financing for the Project, construction financing will be required to fund construction development of the Project. Given the permanent financing commitment through the RD Program, Vernon Home's commercial bank relation is positioned and planned to provide the construction financing. The financial projections assume a* ***nine percent (9%)*** *interest only cost during the Project development period. The Project development period is projected for a duration of eighteen (18) months.*

- *Sponsor Funding – During the pre-development period of the Project, Vernon Continuing Care Homes, Inc. ("VCCH"), an affiliate of Vernon Homes, has committed capital of $2M to support the Project. Of this amount, one million ($1M) is structured as a grant for the Project while one million ($1M) is structured as an interest free loan to Vernon Homes. This funding is being utilized to support pre-development and qualified Project costs being incurred by Vernon Homes to advance the Project. The loan amount will be repaid to VCCH from proceeds of the construction financing* ***allowing for*** *the recovery of qualified Project costs.*

Financial Table 3A, 3B, and 3C, Income Statement

The Summary Financial Tables herein reflect the most recent 2021 audited financial information. The financial projections were informed by the most recent audit report though were largely developed using, as a baseline, the actual interim financial statements as of June 2022 and annualized.

The following schedule of Summary Statement of Operations has been amended.

Vernon Homes Green House Project **Summary Statements of Operations**	Audited 2021	Projected Year 1	Year 2	Year 3
Operating Revenue	5,327,845	11,373,968	11,759,079	12,157,303
Operating Expenses	6,144,810	9,031,408	9,230,347	9,442,585
Net Operating Income (EBIDA)	(816,965)	2,342,560	2,528,732	2,714,718
EBIDA %	-15%	21%	22%	22%
Other Income and Relief Funding	632,945	212,429	212,802	213,186
Depreciation & Interest	(168,287)	(2,501,787)	(2,427,101)	(2,378,463)
Net Income (Loss)	(352,307)	53,202	314,433	549,441

Projected Year 1 reflects the first full year of new Project operations.

Operating Revenue Assumptions

- *<u>Revenue Realization</u> – For 2021, revenue realization remained suppressed by the COVID 19 Pandemic circumstances and, as a result of restored resident occupancy, is more normalized and equates to an annualized revenue level of approximately **$6.7M** for 2022. The projected operating revenue for Year 1 of the Project **(2026)** represents a material increase in operating revenue of approximating **$4.7M (over 2022)**. This overall revenue increase is largely ascribed to the new short-stay Medicare revenue projection (approximating **$3.2M**) and the increased Medicaid revenue projection associated with the capital cost reimbursement for the Project (approximately **$1.2M**). **The balance of the projected revenue increase is associated with Private and Managed Care Revenue representing private insurance.***
- *<u>Utilization</u> – Resident Census is forecast based on 90% total occupancy. Long-term care beds are forecast at 92% occupancy, and short-term rehabilitation beds are forecast at 83% occupancy. Total payor mix is forecast to be 53% Medicaid, 23% Medicare, 1% managed care and 23% private.*
- *<u>Private Revenue</u> - Private Pay rates are forecast at **$484** per day for FY 2026 (proposed year 1) and will increase by 4.6% annually for 2027 and 2028. Private rate inflation represents CPI for Nursing Home and Adult Care Service from the period September 2021-2022. **Commencing with operations of the Project, Private rates structures are assumed to yield a premium over Medicaid rates by five percent (5%).***
- *<u>Medicare Revenue</u> - Medicare Rates are based on June 2022 actuals and forecast to increase by 3% annually during 2025 to 2027, representing the average Medicare market basket increase projected for 2023 and 2024.*

- *Medicaid Revenue - Vernon Green's Medicaid rate as of 7/1/2022 was $289.48. It is assumed that the Medicaid rate will increase by approximately **$132** due to the additional capital costs of the Project. The rates calculated for CON are projected to increase annually by 4%, which represents the current CPI index for Medical Services -Nursing Homes.*

- *Other Operating Revenue - Other operating revenue includes meals revenue, cable and television fees, transportation fees and contributions. Contributions have been forecast at $200,000 annually given anticipated fundraising of Vernon Homes that will be dedicated to leveraging the heightened new market appeal and brand identity of Vernon Homes stemming from the Green House Project.*

- *Provision for Bad Debts - Bad debt of up to 2% is related to self-pay only as generally bad debt is related to private pay and Medicaid residents' cost of care portion.*

Operating Expense Assumptions

- *Payroll & Related - Salaries and wages are forecast based on 2022 wage rates inflated through 2025 applied to the Green House model FTEs by department. Employee Benefits are forecast at 19% of wages and salaries, based on FY 2022 actual costs. In keeping with the Green House Project model of operations, universal workers will provide basic residential care as well as laundry, housekeeping, and dietary services as related to the direct care of the residents. The facility will continue to contract with outside services to provide deep cleaning and laundry for heavy duty work and common areas. Universal workers have been allocated to laundry, housekeeping and dietary based on time studies performed at other Green House projects. Staffing patterns are based on hours needed to cover 90% of average occupancy annually for the short-term rehab and long-term care beds over the projected period. The facility will have a licensed nurse (RN or LPN) on-site for a minimum of 8 hours per day, 7 days per week. The Green House Model assumes for each of the four 12 bed long-term care units there will be 3 universal workers on duty during the day, 2 in the evening and 1 overnight. Medicaid cost reporting and rate setting will require time studies to support universal worker direct and indirect hours conforming to existing rate setting / cost center determinations. There is no physician FTE as the Medical Director is a contracted physician. Traveling physicians are not applicable as they are not typically utilized at skilled nursing facilities.*

- *Ancillary Services - Medicare ancillary costs are included in resident services and are forecast based on utilization. Medicare utilization is expected to increase in 2025 with the addition of the 12 dedicated short-term rehab beds to be utilized primarily by Medicare residents.*

- *Nursing Agency - Contract nursing services are included in nursing services expense. As of June 30, 2022, contract nursing services were forecast to be approximately $600,000 annually. The old project assumes these nursing contract services continue at the same level and are inflated annually by 8% in 2023, 5% in 2024, 4% in 2025 and 3% annually for the remaining projected period. Forecast nursing agency utilization for the Project is projected to diminish as a result of heightened recruiting appeal of the Green House Project and its model of operations to prospective employees. The Project contracted nursing services are inflated using the same percentage as the old project, yet utilization is forecast to decrease by 50% through the periods of 2025 to 2027.*

- *<u>Contract Services</u> – Contract Service agreements are currently in place for Dietary Services as well as for Housekeeping and Laundry Services. These contract agreements will be modified given the universal worker implications of the Green House Project. Housekeeping and laundry services are forecast at approximately $75,000 and are projected to increase 2% annually based on the terms of the existing services contract. Dietary cost is forecast at fixed rate of $100,000 annually and a variable fee per week for food and supplies not to exceed $8.24 per resident day. Food and supply expenses are forecast at $8.24 per resident day.*

- *<u>Supplies Expense</u> - Other medical and general supplies are forecast based on June 30, 2022 and are projected to increase by annual inflation rates as follows: 8% in 2023, 5% in 2024, 4% in 2025, 3% for the remaining projected period.*

- *<u>Property Insurance</u> - Property Insurance expenses are included in administrative and general and are forecast based on a premium estimate provided by the existing and anticipated insurance carrier.*

- *<u>Property Management</u> - Plant expenses include utilities, repair, maintenance, and vehicle operating expenses. Estimates are informed by historical expense levels and have been tailored to the size and systems represented by the Project.*

- *<u>Provider Taxes</u> - Vermont Medicaid Provider tax is forecast based upon the existing and continuing assessment level applied to the Project where licensed bed capacity remains the same.*

- *<u>Interest Costs</u> - Interest expense is based on the actual terms of financing associated with the existing Vermont Economic Development Authority ("VEDA") program financing and estimates anticipated from the USDA Rural Facilities Financing Program ("RD Program") representing the Financing Arrangement for the Project. The VEDA program financing is associated with the new replacement wastewater treatment project for the Vernon Homes campus that is currently under construction. This credit facility is assumed to be refinanced through the RD Program permanent capitalization of the Project.*

- *<u>Depreciation Expense</u> – Depreciation expense is forecast based on the expected useful lives of existing assets and, beginning in 2026, the expected useful lives of the Project assets. Depreciation periods range generally from ten (10) years for furnishings and minor equipment to a maximum of thirty-five (35) years for the new building assets.*

Financial Table 4A, 4B, and 4C, Balance Sheet

Cash & Liquidity conditions for the forecast period are dramatically improved and strengthened as a result of the Project. The projected profitability and attendant improvements in operating cash flow allow for normalization of working capital conditions.

The following schedule of Summary Statements of Financial Position has been amended.

Vernon Homes Green House Project	Audited		Projected	
Summary Statements of Financial Position	2021	Year 1	Year 2	Year 3
ASSETS				
Current Assets	1,058,211	2,623,087	3,091,408	3,742,129
Property, Plant & Equipment - net	3,440,048	35,887,643	34,585,737	33,316,911
Other Assets	685,047	1,727,311	2,642,472	3,358,087
Total Assets	5,183,306	40,238,041	40,319,617	40,417,127
LIABILITES & NET ASSETS				
Current Liabilities	1,801,706	1,362,313	1,609,466	1,655,891
Long Term Debt	43,701	35,392,198	34,908,157	34,405,649
Other Liabilities	97,286	134,380	138,412	142,564
Total Liabilities	1,942,693	36,888,891	36,656,035	36,204,104
Net Assets	3,240,613	3,349,150	3,663,582	4,213,023
Total Liabilities & Net Assets	**5,183,306**	**40,238,041**	**40,319,617**	**40,417,127**

Projected Year 1 reflects the first full year of new Project operations.

Note: Audited 2021 reflects consolidated Vernon Homes (VACH) Financial Position

- *Current Accounts – Current Assets are primarily represented by Operating Cash, Operating Reserves, Resident Accounts Receivable and Other Current Assets. Operating cash and reserve levels have been developed from the Statements of Cash Flows associated with the operating projections. Current Liabilities are largely represented by Accounts Payable and Accrued Expenses. All working capital account assumptions have been developed from historical financial information and informed by industry standards associated with generally recognized Key Financial Factors. Cash is forecast based on cash flows from operating activities, noncapital financing activities, capital, and related financing activities. Accounts receivable are forecast at approximately 48 days based on the 2021 audited results. Prepaid expenses are forecast based on the 2021 audited results and are projected to increase at the same rate as non-salary expenses, 10% in 2022, 8% in 2023, 5% in 2025, 4% in 2026 and 3% annually for the remaining forecast period. Accounts payable are forecast at approximately 33 days in accounts payable based on the normalized December 31, 2021 audit results.*

- *Accrued expenses - represent accrued payroll and related liabilities and are forecast based on December 31, 2021 audit results. Accrued payroll is forecast to increase at the same rate of inflation as salary and wage expenses.*

- *Property – Property, Plant & Equipment - is projected on a cost basis and represents capitalization of the new Project costs. Estimated useful lives range from ten (10) to thirty-five (35) years for equipment and building assets where depreciation is being forecast on a straight-line basis. The residual assets associated with the existing Vernon Green Nursing Home will be largely abandoned and only minimal minor moveable equipment and furnishings are suitable for transfer to the new Project. The financial projections assume demolition of the existing Vernon Green Nursing Home when it is vacated, and the net book value of all related asset interests constitutes a projected loss on abandonment of property. This loss is minimal and approximately $50,000 given existing assets are projected to be nearly fully depreciated.*

- *Investment & Operating Reserve Assets – Investments and operating reserves are forecast to increase 3% annually over the project period and are funded from the increase in Net Assets over the forecast period. An operating reserve account will be established in 2027 and will be funded at a level of $500,000 during both 2027 and 2028.*

- *Long-Term Debt - The forecast balance sheets reflect the capitalization of the Project as contemplated by the Financing Arrangement. Construction financing is drawn over the construction development period of the Project through 2025 while permanent financing is assumed to be in place in 2026. The permanent financing assumes interest only for 24 months followed by a 35-year amortization period at a fixed interest cost of three and one-half percent (3.5%). USDA requires a debt service reserve account to be funded equal to 10% on an annual basis. The forecast assumes the debt service reserve account will be fully funded by the end of fiscal year 2029. Long-Term Debt also includes an allocation of the debt represented by the Wastewater Treatment Project in the approximate amount of $1.6M that is assumed to be refinanced with the permanent financing of the Project. Vernon Homes received a non-jurisdictional determination from the Green Mountain Care Board during 2022 for the Wastewater Treatment Project.*

- *Due to / From Affiliates - Vernon Homes operations are represented by a centralized cash management structure and a concentrated operating cash account. Intercompany accounts represent historical activities associated with the centralized cash management system. The current levels of Due to / From Affiliates are maintained at levels of the 2021 audit for the forecast period* ***and reduced by $200,000 annually for the forecast period.***

- *Other Liabilities - Other Liabilities are minimal and represent the historical amounts of Grant Fund Annuity obligations of Vernon Homes that are forecasted on a level basis throughout the projection period.*

- *Net Assets – The Net Asset increase over the projected period is reflective of forecasted operations yielding Excess Revenue over Expenditures. Net Asset growth associated with contributions and fundraising activities are only minimally increased over the forecast period where modest increases are anticipated to stem from community appeal and support of the new Project.*

- *<u>Key Financial Factor Commentary</u> – In connection with developing the financial projections, assumptions were informed by industry standard Key Financial Factors represented by the skilled nursing sector – and in particular, those represented by like-kind Green House Projects. As evidenced by the Select Key Financial Factors below, the Project contributes to the restored financial and operating stability of Vernon Homes.*

The following schedule of Select Key Financial Factors has been amended.

Vernon Homes Green House Project **Select Key Financial Factors**	Audited 2021	Projected Year 1	 Year 2	 Year 3
Cash & Liquidity:				
Days Cash on Hand	14	20	39	57
AR Days	43	48	50	51
AP Days	84	35	35	35
Working Capital Dollars	(743,495)	1,260,774	1,481,942	2,086,238
Working Capital Ratio	0.59	1.93	1.92	2.26
Capitalization:				
Long Term Debt Per Bed	-	589,870	581,803	573,427
Net Assets Per Bed	27,232	55,819	61,060	70,217
Debt Service Coverage Ratio	NA	2.26	1.97	1.84

Financial Table 5A, 5B, and 5C, Revenue Source Projections

The material increases in projected revenue realization are associated with Medicare revenue from the Short-Stay Rehabilitative Green House Home represented by the Project (approximating **$3.2M**). Secondarily, increased Medicaid Revenue is associated with the step-up of capital reimbursement (approximating up to **$1.2M**). Other revenue increase is projected to be realized from Private sources and Managed Care contracts associated with the new unit program. Also, higher levels of resident occupancy are assumed at 92% and 83% for the long-term care and short-term care houses, respectively.

The following schedule of Revenue Source Projections has been amended.

Vernon Homes Green House Project	Audited		Projected	
Revenue Source Projections	2021	Year 1	Year 2	Year 3
Revenue Realization:				
Private Revenue	1,317,039	2,177,101	2,242,414	2,309,686
Medicare Revenue	742,635	4,168,327	4,320,481	4,480,339
Medicaid Revenue	3,263,027	4,818,901	4,977,925	5,142,196
Managed Care & Other Revenue	5,143	236,700	245,861	253,236
Total Operating Revenue	5,327,845	11,401,029	11,786,681	12,185,457
Revenue Payer Mix				
Private Revenue	25%	19%	19%	19%
Medicare Revenue	14%	37%	37%	37%
Medicaid Revenue	61%	42%	42%	42%
Managed Care & Other	0%	2%	2%	2%
Total Operating Revenue	100%	100%	100%	100%
Per Diem Rate Realization				
Private Revenue	355	484	499	514
Medicare Revenue	588	1,142	1,184	1,227
Medicaid Revenue	304	462	477	493
Managed Care & Other	-	1,470	1,527	1,573
Total Operating Revenue	332	578	598	618

- *<u>Revenue Payer Mix</u> – The Revenue Payer Mix is reflective of the total revenue contribution levels by payer source and is influenced by the disparity of the revenue per diem rates by payer class. For example, for the projected Project Year 1, Medicaid revenue contribution is projected at 42% while representing a projected 53% of the resident occupancy. Medicaid occupancy is projected to be sustained and consistent with historic utilization representing 29 residents for the forecast period. The changing Revenue Payer Mix contrasted with the historical data results from the revenue growth projections and is ideally evaluated in consideration of the associated occupancy / Average Daily Census (ADC) factors.*

- *<u>Per Diem Rate Realization</u> – Private pay rate structures are projected to increase and be more aligned with prevailing market levels. The new Project is assumed to justify private rates being better aligned with area market rates.* ***Private Pay rate structures are assumed at five percent (5%) above the projected Medicaid rate.*** *Medicare rates are projected to be consistent with current levels though indexed for inflation factors during the forecast period. The Medicare rate increases include Medicare Part B reimbursement for related services associated with the short-stay program / ancillary services. The Medicaid rates projection assumes that the full capital cost* *of the Project is recognized by rate setting.* ***The Medicaid rate increase associated with the capital cost component equates to $132 per day.*** *The operating cost component of the projected Medicaid rate is assumed to be increased for inflation factors only. The Managed Care & Other rate structures are assumed to be consistent with the Medicare rates given that these contracted rates are assumed for the short-stay program residents.*

Financial Table 6A, 6B, and 6C, Utilization Projections

The licensed bed capacity of the Project remains the same as the existing Vernon Green Nursing Home at 60 licensed beds and represents a total and unaltered Available Resident Days capacity of 21,900 per year. Only the new and dedicated Short-Stay and Rehabilitative Green House Project Home will be introduced by specialty program designation of the existing bed capacity. While current occupancy during 2022 has favorably improved to levels ranging between 85% to 90%, this level is not viewed as sustainable given existing conditions and is assumed to be temporary and declining absent the Project. Historically, the existing facility is exhibiting a trended decrease in overall resident occupancy – dropping as low as 63%. The operating projections for the existing facility (Old Project) are assumed to be at a sustained level of not more than **80%** occupancy. The new Project occupancy assumption (With Project) is assumed to be sustained at a 90% blended level.

Vernon Green Project **Utilization Projections**	Audited 2021	Projected Year 1	Year 2	Year 3
Available Resident Days	21,900	21,900	21,900	21,900
Resident Days:				
Private Days	3,709	4,497	4,497	4,497
Medicare Days	1,262	4,614	4,614	4,614
Medicaid Days	10,743	10,439	10,439	10,439
Managed Care & Other Days	317	161	161	161
Total Resident Days	16,031	19,710	19,710	19,710
Total Facility Occupancy	73%	90%	90%	90%
Resident Mix:				
Private Days	23%	23%	23%	23%
Medicare Days	8%	23%	23%	23%
Medicaid Days	67%	53%	53%	53%
Managed Care & Other Days	2%	1%	1%	1%
Total Resident Days	100%	100%	100%	100%
Average Daily Census (ADC)				
Private Days	10	12	12	12
Medicare Days	3	13	13	13
Medicaid Days	29	29	29	29
Managed Care & Other Days	1	0	0	0
Total Average Daily Census	44	54	54	54

- *Resident Mix – The facility utilization represented by resident mix is assumed to be consistent with the historical mix with the exception of Medicare utilization given the new short-stay program which is projected to increase from 8% to 23%, or the equivalent of increasing to 13 residents.*

➢ *Average Daily Census (ADC) – The resident ADC for private occupants is projected to increase by two individuals and is sustained for the forecast period. Medicare residents are projected to increase by 10 residents – largely represented by the 12-bed short stay house. The Medicaid ADC is projected to be sustained at 29 residents – consistent with current and historic levels.*

Financial Table 7A, 7B, and 7C, Staffing Projections

The FTE employee complement for the Project is projected to represent 63 FTEs and reflects an overall decrease of nearly 9 FTEs. This results largely from the elimination of the traditional department head structure of existing operations and the universal worker model being represented by the Green House Project model. For illustrative and comparative purposes, the universal workers exhibited in the above FTE staffing projections were allocated to the historical and conventional department cost centers based upon time studies available from other like-kind Green House Projects. The projected operations assume approximately 54 employees of the total workforce representing universal workers. In addition to breeding efficiencies of containing indirect payroll costs, the Green House Project operating model fosters more resident centric direct care given the displacement of the historical and traditional department head payroll expenses.

Vernon Green House Project	Audited	Projected		
Staffing Projections	2021	Year 1	Year 2	Year 3
FTE Complement				
Nursing Services	40.75	37.20	37.20	37.20
Property & Related	1.57	1.00	1.00	1.00
Administrative & General	4.60	8.20	8.20	8.20
Dietary Services	12.36	8.40	8.40	8.40
Housekeeping	4.21	5.00	5.00	5.00
Laundry	2.66	2.20	2.20	2.20
Resident Services	5.40	1.00	1.00	1.00
Total FTEs	71.55	63.00	63.00	63.00