



June 22, 2023

Ms. Donna Jerry
Senior Health Policy Analyst
Green Mountain Care Board
144 State St.
Montpelier VT 05602

Re: Docket No. GMCB-003-23con, Construction of a New Primary Care Practice Building and Demolition of the Stratton House/North Clinic Building, Project Cost: \$19,152,993

Dear Ms. Jerry:

In response to your questions received on May 25, 2023, Grace Cottage Family Health & Hospital provides the following:

1. Explain in more detail the extent to which you explored other options including renovating existing space or a combination of renovation and new construction; the cost associated with each option explored; and reasons why each option explored was not selected.

In 2016, Grace Cottage conducted an extensive feasibility study into the possibility of a major renovation of the Otis House and Stratton House, the two houses in which Grace Cottage Family Health Clinic currently operates.

The estimated cost of the renovation in 2016 was \$5.4 million, and in 2023 dollars would be \$7.7 million. The 2016 feasibility study was high-level only, not a full architectural and engineering plan, so all costs cited in the report were preliminary estimates. It was also not the full cost of the project, as permitting fees and professional services were not included.

Three important factors led to Grace Cottage's decision not to move forward with renovation.

First, the proposed renovation project was accompanied by much uncertainty in terms of the extent of the work necessary and the time it would take to complete it. Grace Cottage Family Health operates in two buildings that are nearly 200 years old, and it was likely that unforeseen issues would be exposed during construction that would need to be remedied immediately, which could potentially have major impacts to the budget and schedule. Renovation would also trigger the need to meet current code requirements and would lead to extensive replacement of windows and doors; walls would need new insulation and the addition of a vapor barrier; the roof would need new insulation; snow loads would need to be reconsidered; storm water would need to be addressed differently; and mechanicals would need to be replaced. And, because this was a high-level feasibility study only, more work was needed to fully determine the extent of the renovation and remediation needed. The initial review of the status of the buildings' beams, joists, rafters, floor supports, and foundations in this preliminary study determined that much of this would need to be replaced. In order to prepare a full schematic design, a level of demolition was needed to better understand the existing conditions. Ceilings, floors, and walls would need to be opened up to examine all of the structural elements. Trying to do this, with the accompanying noise and dust, and with workers and equipment in rooms and hallways, while also taking care of patients in the same or adjoining spaces, would be challenging at best, if not impossible.

Second, the renovation plan would not support the type of collaborative care that Grace Cottage strives to offer. The proposed plan has all clinical operations on one floor, with provider offices, exam rooms, and support staff working side-by-side, but a renovation to remedy current inadequacies and bring the existing buildings up to current code would require that provider and Community Health Team offices be moved to the upper floor, thus creating additional inefficiencies that would hamper collaborative care. Simply adding an addition to the existing buildings would not solve the structural problems of the current buildings, and it would take away space that is required for parking. Site limitations would not allow for a new, street-level, one-story facility, so the cost of this was not calculated. And none of the renovation plans could provide needed space for future growth.

The foremost reason why the renovation plan was abandoned was that it would severely impact patient access to care. Grace Cottage leadership were all in agreement that the clinic must stay operational during any construction. Major renovation would require that portions of the building be closed for a period of time, thus severely disrupting clinical operations. Patient care always comes first, and there is no other place on the Grace Cottage campus where primary care could be provided during a renovation. Grace Cottage was informed that the renovation period could last as long as two years (versus the possibility of creating a new office building in 18 months, enabling clinic services to remain fully operational).

In light of the extensive construction components needed to bring the old buildings up to code, the uncertainties inherent in renovating old buildings, the inability to reliably budget time and cost, and the necessity of multiple phases of renovation that would reduce access to care, Grace Cottage decided that the idea of renovation was not in the best interest of our patients or our organization.

In 2019, when I came to Grace Cottage, I immediately recognized that the current clinic buildings were inadequate, and I engaged E4H Architecture, a separate healthcare architectural firm, to review the 2016 feasibility study. That architect also agreed that renovation would not solve the clinic buildings' problems.

2. The total cost of the project is \$19,152,993 with \$4,152,993 from financing and \$15 million derived from “potential” fundraising and grant writing sources from eight sources listed in Appendix B of your response to Q001. The fundraising goals and dollar amounts received in past years have been \$1.9 million or less. If your fundraising meets projections, explain in detail how soliciting significant donations for this project will impact your ability to fundraise in future years to cover any deficits in annual operating expenses and the impact on potential future rate increase requests if you are not able to cover annual operating expenses through fundraising.

Grace Cottage has a 75-year history of engendering philanthropy from the community we serve. The organization was founded with donated funds and donated buildings, and it has been the recipient of generous contributions ever since. Targeted gifts for large projects have not had a negative impact on our annual giving in the past, and we anticipate that this level of support will continue.

The Association of Fundraising Professionals (AFP) and other respected sources agree that Capital Campaigns have a positive impact on annual giving and Grace Cottage expects that this will be the case with this campaign. According to national consultant and author Amy Eisenstein, Advanced Certified Fundraising Executive (ACFRE), “In our experience with organizations that have been through capital campaigns, annual fundraising tends to increase during those periods rather than decrease.” She explains: “Capital campaigns are designed to raise funds for new investments that will increase the organization’s capacity, or its ability to pursue its mission and grow sustainably. ... Capital campaign donors want to help you build a new facility ... because it will help your organization expand and improve its service.” Eisenstein further explains the difference between an annual fund and a capital campaign: “Many donors

are in the habit of giving annually to your organization. ... They might increase that amount over time, but annual gifts tend to be a quite stable part of your revenue streams. ... Capital campaign asks are different: a one-and-done gift that can help your organization move to the next level makes the impact of their annual giving even greater.” She concludes that, “Capital campaigns are exciting undertakings for everyone involved, donors included. We find that they tend to increase rather than decrease overall giving to an organization by generating energy and urgency in the community.”¹ Based on our experience, we fully expect this to prove true in our fundraising for a new clinic building.

Successful fundraising for restricted and non-restricted purposes is based on relationships. Grace Cottage’s fundraising team, with a combined total of 45 years of experience in fundraising for Grace Cottage, has cultivated close and successful relationships with hundreds of major donors with large philanthropic capacity, including the generous \$5M gift already pledged. To date, the Grace Cottage fundraising team has identified 215 individuals, foundations, and organizations that have significant capacity for large gifts, totaling more than \$20,000,000. As soon as we can assure donors that we have a Certificate of Need in hand, we will meet one-on-one with these donors to request their support. Grace Cottage’s fundraising team knows its donors and knows the capacity is there to make this project successful.

In addition to requests made to these individual donors, Grace Cottage has earmarked several other reliable sources of funding. Grace Cottage has traditionally dedicated the revenue from its annual events to specific projects and equipment needs, ever since the very first Hospital Fair Day in 1950. The proceeds from Hospital Fair Day 2023, and all fundraising events in 2024 and 2025 will go toward the new primary care practice building. (In 2022, Hospital Fair Day and the other annual fundraising events raised a combined total of approximately \$200,000.)

An additional source of income has also been earmarked for this project. For the past eight years, Grace Cottage has directed all bequests and other planned gifts to its Endowment Fund (now totaling more than \$6,500,000). The Hospital Board has passed a motion that for the duration of the campaign for the new clinic, all unrestricted estate or planned gifts will be restricted for this project. Already in 2023, one estate gift for \$90,000 has been received, and we anticipate receipt of at least \$350,000 more from estates that are in process.

As explained above, we anticipate that this Capital Campaign will be successful with no disruption to annual fundraising now, or in future years. We will continue to solicit annual operating donations, and our regular donors know and understand that gifts to capital campaigns are in addition to their usual annual gifts.

3. The \$15 million in fundraising and grant writing for this single project is a large amount relative to the total project cost. In your response to question 4 in the first set of questions, you state that 75% of the budget will be raised prior to starting construction in early 2024. Regarding the \$7,665,000 in individual donations, provide the actual dollars pledged to date (specify date), actual dollars received to date (specify date). Also provide a timeline showing the projected dollars to be received from: 1) fundraising and 2) grant writing month by month for 2023-2024.

Of the \$19,152,993 budgeted for this project, we expect to have \$15M inclusive of loans in hand before construction. We will continue to fundraise for the total needed until the project has been completely funded.

¹ Eisenstein, Amy. “Will a Capital Campaign Cannibalize Your Annual Fundraising?” <https://www.wildapricot.com/blog/capital-campaigns>, 3/16/23

The actual dollars pledged as of 6/7/23 equals \$5,735,750. This represents 1/3 of the amount needed before construction.

The actual dollars received as of 6/7/23 equals \$400,000 – see explanation below.

A loan of approximately \$4M from the USDA represents roughly the second 1/3 of funds needed before construction. Please see more detail about this in Question 6.

The final 1/3 of funds needed before construction will come from donations from individuals, corporations, and foundations.

A campaign pyramid showing projected levels of giving and the number of gifts at each level is included here as Attachment A, “Capital Campaign Pyramid.”

A timeline showing projected dollars to be raised from fundraising, including grants, is provided here as Attachment B, “Fundraising Timeline Table.”

Upon receiving a Certificate of Need, the hospital will then embark upon the fundraising plan as described in the attached timeline (Attachment B).

As noted above, the very experienced fundraising team at Grace Cottage has determined that it would be inappropriate to accept or solicit donations from funders for a project before the Certificate of Need has been granted. It could damage donor trust to make a request and then to have to return those funds if a CON is not granted. It could also be disruptive to donors’ financial planning if they need to make a significant change to their charitable giving plans and/or their tax filings in order to contribute to this capital campaign, and then that contribution is returned. Therefore, although many potential donors have been identified, Grace Cottage is currently accepting binding pledges to the campaign only with the understanding that the pledge will not be converted to a donation until the CON has been granted. The exception is initial payments from the seed pledge of \$5 million; \$400,000 of that pledge has been received and has been used to pay for architectural and engineering services. (It is important to state that the stipulation of that \$5M initial pledge is that it can only be used for construction of a new building; it cannot be used for renovation of the existing facility.)

While we’re very optimistic about our ability to obtain the needed funds, we won’t start construction until 75% of the funds are secured.

4. In a table format, list each of the eight sources of potential funding for the proposed project shown in Appendix B in response to Q001, and the month and year when you expect to receive notice regarding your request for funds, and your contingency plan for covering each if one or more is not successfully met.

Please see Attachment B, “Fundraising Timeline Table,” which identifies in table format the eight sources of potential funding by month (Month 1 begins immediately after issuance of a CON).

Please note that most of the private foundations and charitable trusts on our list are managed by individuals or families and do not require a formal grant application process. With these sources, individual meetings will be scheduled in order to present the project and make requests.

Also, as explained above, requests for grants can only be made after the hospital has received notification from the GMCB that we can proceed with this project.

Additionally, please note that the attached fundraising pyramid (Attachment A, “Capital Campaign Pyramid”) identifies more prospects than needed to reach the goal, and new prospects are being added as

we explore more avenues of funding. Our contingency plan consists of continuing to search for new sources of donations and delaying the start of the project until 75% of the cost has been obtained.

5. Based on the fundraising table in Appendix A in response to Q001, in a table format for each year listed (2008-2022), specify the total amount raised, and of that, the amount used to cover operating expenses and the amount used for projects.

This information is provided in Attachment C, “Funds Raised for Operating & Restricted Uses FY08-22.”

6. You stated that Grace Cottage is working with VT/NH USDA officials to ensure you are eligible to apply for a USDA loan. Provide details regarding when you began discussions with the VT/NH officials, what you have learned to date (specify date), and a timeline for applying for and securing USDA financing for this project, and where you are in that process.

Grace Cottage staff met with USDA officials about Community Facilities project funding (i.e., a USDA loan) on the following occasions:

| <u>Date</u> | <u>Attendees</u> | <u>Topics/Conclusions</u> |
|-------------|---------------------------------|--|
| 1/13/22 | GC leadership, architects, USDA | Intro to project; benefits USDA vs commercial loan; USDA loan application process & requirements, including bid process required for fed funds. Follow-up: public bidding process |
| 1/20/22 | GC leadership, architects, USDA | Discussed project details w/USDA VT/NH architect. |
| 3/2/22 | GC leadership, architects, USDA | Further discussion of loan application elements. |
| 2022: | Subsequent emails, GC to USDA | Check-in on progress; check on loan rates; verify bidding process was followed correctly. Conclusion: continue design, site & engineering work; update budget; decision to wait until 2023 to apply. |
| 5/8/23 | GC CFO, USDA | Discuss loan application requirements & possible timing. |

As of 6/7/23, the USDA is ready to assist in the Community Facilities loan application process. We have begun the final research needed to complete this application and anticipate applying in the next funding cycle, in December 2023.

7. Provide detailed information regarding the “federal appropriation” of \$1,500,000 reflected in the list of potential funding for the proposed project in Appendix B in your response to Q001.

Both the U.S. Senate and the U.S. House of Representatives have a process by which non-profit constituent organizations may submit requests for federal appropriations (i.e., grants), for projects that promote and support economic development, education, health care initiatives, and other worthy investments. Applicant organizations (government and non-profit only) may apply individually to each of their senators and representatives. Grace Cottage filed applications for a \$1.5M appropriation with Senators Sanders and Welch and with Representative Balint. In Vermont, the three legislators confer so that each request is submitted to the federal budget only once, to either the House or Senate Appropriations Committee. This is a highly competitive process, so most requests do not clear this first hurdle. Grace Cottage’s clinic project was accepted and submitted by Rep. Becca Balint to the House

Appropriations Committee. It has since cleared the next hurdle; it has been included in the U.S. Dept. of Agriculture bill, though at a reduced amount of \$1M. As the budget negotiation process continues, it is still possible that this request will be further reduced or removed from the budget, but it is highly encouraging that it remains in the budget at this point. Final determinations on funding are subject to enactment of an FY24 federal appropriations bill.

This grant requires no matching funds. It is completely separate from and does not impact the process of applying directly to the USDA for a Community Facilities loan. Note that it is now included in the campaign pyramid at a projected \$1M.

8. Provide a much more detailed response to each section in Statutory Criteria 2 (a), (b), (b)(i), (b)(ii), & (c).

2(a) The cost of the project is reasonable because:

2.a. The budget for this project is \$19,152,993. Of that amount, Grace Cottage's goal is to raise \$15,000,000 through grants, gifts, and donations (\$5.7 M of which is already pledged).

In response to Question 2, Grace Cottage has demonstrated why it believes it has the organizational capacity to raise the amount necessary to fund this project. Because of this fundraising capacity, the financial impact to the organization's balance sheet and cash flow statements is not the full \$19 million, but rather the amount that Grace Cottage plans to borrow to cover the remaining costs of the project, anticipated at just over \$4 million.

As we described in our answer to Question 6, the hospital is well positioned to obtain a Community Facilities loan from the USDA in the amount of \$4-5 million. Through several meetings and ongoing consultations with USDA officials, we have laid the groundwork and followed the necessary procedure to apply for that loan if it is needed. The USDA allows an institution to establish a 40-year repayment schedule at a fixed interest rate, generally lower than a commercial bank can offer. While the rate has not yet been determined (it will be based on prevailing rates at the time of application), USDA rates tend to be more favorable than commercial loan rates.

Currently, Grace Cottage carries very little other debt. As evidenced by the financial tables, Grace Cottage's financial condition will sustain the relatively small financial burdens (if any)² that are likely to result from completion of the project. Indeed, because the Practice will move into a single building that is more energy-efficient, and will create a more efficient patient flow, Grace Cottage may see no net increase over the current operating costs of the practice.

Grace Cottage has not gone to its local community with a significant capital campaign or major gift campaign since 1997, when Grace Cottage raised funds to build a new hospital building. Thus, the recent track-record for fundraising demonstrates wise donor acquisition and stewardship, recruitment, and management. Grace Cottage's Senior Director of Development, Marketing & Community Relations has more than 25 years of fundraising and relationship building experience and is well connected with the community. Individual and institutional donors have been cultivated carefully and respectfully over the years so that we will be ready to ask them to make significant contributions to this project.

2(b) The project will not result in an undue increase in the costs of medical care or an undue impact on the affordability of medical care for consumers.

² If fundraising exceeds expectations, a smaller loan or no loan might be possible.

2.b. The project will not result in an undue increase in the costs of medical care or an undue impact on the affordability of medical care for consumers, because the upgrade of the physical facilities will not change the manner by which Grace Cottage gets reimbursed for primary and mental health care services. Contracts with commercial insurers for primary care are not cost-based contracts; reimbursement is based on fee schedules defined by the insurers. Grace Cottage does not have a mechanism to pass increased debt service costs on to consumers.

2.b.(i) The financial implications of the project on hospitals and other clinical settings, including the impact on their services, expenditures, and charges; and

(i) This project will have little to no financial implications for the surrounding hospitals. As stated in Section I.F. of our original application (p.8), the demand for the Practice's primary care and outpatient mental health services continues to grow. Grace Cottage's most recent Community Health Needs Assessment (attached to our original application as Appendix D) demonstrates that significant gaps in access to primary care and outpatient mental health and addiction services continue to be experienced in the communities we serve. Rather than taking business away from other facilities, Grace Cottage is ensuring greater access to patients in this relatively remote region of Windham County, serving patients who would otherwise have to travel significant distances for services. As the closest medical facility for many area residents, Grace Cottage provides vital healthcare services to the community. There's a great need for primary care services in Windham County.

It is unlikely that nearby hospitals' services, expenditures, or charges will change as a result of this new primary care practice building.

It is also important to restate that we do not anticipate that the project will negatively impact Grace Cottage's expenditures. Although the Practice does intend to create space for growth, this will allow for only modest growth, and Grace Cottage does not plan to immediately increase staffing, beyond one additional primary care provider to meet current projected needs. We are creating space for additional staff because this new medical office building is a long-term investment in Grace Cottage's future. It would be unwise NOT to provide for this modest growth, given the increased demand for services in our region. Also, as noted above, the project is more likely to drive down the facility's primary care and mental health operating costs. The efficiency of the new building is likely to reduce energy expenses, and staff time will be better utilized in a building that provides more efficient space.

2.b.(ii) Whether the impact on services, expenditures, and charges is outweighed by the benefit of the project to the public;

(ii) As previously described, Grace Cottage does not believe that there will be any negative impact on the services provided by Grace Cottage. The new medical office building will enable Grace Cottage to deliver care in a more efficient, more private, and more environmentally friendly manner. This will benefit all communities that Grace Cottage serves.

Grace Cottage also does not anticipate that this project will negatively impact other hospitals and clinical services. To the extent that this project expands access to primary care in the region, it may, in fact, positively impact other hospitals and clinical settings by decreasing wait times at those facilities and therefore, patient satisfaction.

Grace Cottage does not anticipate that the new facility will affect charges or rates at all. Even if Grace Cottage's expenses were to increase slightly because of the increased operating cost

of carrying debt, or because significant delays lead to a more expensive project (with higher prices for labor and materials), the increased expenditures would still be outweighed by the benefit of the project to both Grace Cottage patients and the public at large, since the project will increase access to integrated primary and mental health care and increased privacy, safety, and comfort of patients and staff.

Grace Cottage actively participates in various population health programs as part of its recognition as a Patient Centered Medical Home and its participation in the Vermont Blueprint for Health Initiative. The dual goals of all population health programs are to improve quality of life and reduce the overall cost of healthcare. Improving the delivery of Grace Cottage's already excellent primary care can drive down costs to the system.

2(c) Less expensive alternatives do not exist, would be unsatisfactory, or are not feasible or appropriate.

2.c. Less expensive alternatives would be unsatisfactory, as explained in Question 1.

The options are few. Continuing to operate in the old buildings would mean a continuance of care delivery that is less efficient, less effective, and less private than it will be in the new building.

Maintenance and energy inefficiencies in the old facilities continue to be a significant drain on financial and human resources. Grace Cottage has outgrown this antiquated facility.

As detailed in Question 1, renovation to the current buildings has been explored, but there is no renovation plan that can adequately solve all of the inadequacies of this old-house facility.

One compelling reason that renovation of the existing buildings is not feasible is that it would greatly impact access to care. Any major renovation would necessitate a series of at least partial shut-down of the buildings, severely restricting the availability of primary care and mental health appointments.

There is no other place on the Grace Cottage property where care could be provided during a renovation. In addition, the \$5M pledge made toward this project would be rescinded, as it explicitly states that it is to be used only for new construction.

The current plan is the only satisfactory solution. Due to the site constraints, setbacks, and operational/occupancy requirements, building configurations are limited to the current design.

Most importantly, the proposed project allows for the existing facility to continue to operate with minimal disruption while the proposed new building is being constructed, thus allowing us to seamlessly provide vital healthcare services to our community.

9. Confirm whether the portion of the existing building you plan to demolish is on the National Register of Historic Places and/or the State Register of Historic Places.

Confirmed; it is not.

We hope that these answers provide the information that you seek. If you have any questions or concerns, please do not hesitate to contact me.

Sincerely,



Douglas DiVello
President and CEO

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