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Delivered by Electronic and U.S. Mail

March 19, 2024

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

Re: Docket No. GMCB 002-24-con, Certificate of Need Application for the Purchase of the Fanny Allen Campus in Colchester by the University of Vermont Medical Center Inc.

Dear Donna:

Below please find UVM Medical Center's responses to the Green Mountain Care Board's Requests for Additional Information, Q.001, dated February 16, 2024, regarding the above-referenced project.

1. Please complete and submit the standard balance sheet tables (4A, 4B, 4C), to include all current debt in Table A and the $150 million bond to be secured and associated costs in Tables B and C. The Board understands that the $150 million bond will cover this and two other projects.

Response: See Tables 4A, 4B, and 4C, attached.

2. Revise and extend the Incremental Pro Forma and Cash Flow tables to cover the 15-year period.

Response: See revised documents, attached.

3. In Table 1, *Project Costs*, under Debt Financing Expenses, you report $150,000. Please explain in detail how you arrived at a total of $150,000. If Table 1 does not reflect all debt financing expenses, please revise and resubmit.

Response: Bond issuance fees can vary depending on bond structure, terms, and issuance amount. The applicant's financial consultant, Kaufman Hall & Associates, advised the applicant that approximately 1%, or $150,000, of the total bond issuance amount is a reasonable estimation of debt financing expenses for the project.

4. On pages 3 and 7-8 of the application it is stated that a total savings of $6.1 million is expected over 15 years, assuming a 5% interest rate and a 3% annual inflation rate. Explain whether the 3% annual inflation is based on historical experience. If not, please explain and specify the projected savings over the 15-year period if the inflation rate is more than the 3% assumed.

<u>Response</u>: The 3% interest rate is based on historical experience. The current lease agreement allows for the base, per-square-foot lease cost to increase annually by a multiplier equal to the most recently published National Consumer Price Index (CPI). Since the start of the current ten-year lease term, the average of these increases is 3.3%. We believe that using a 3% inflation factor is a reasonable, conservative approach to projecting future lease costs for this property.

5. Identify the entity from which you will secure the $150 million tax-exempt bond and the basis for the 5% interest rate you expect. Explain in detail the process and timetable for securing the $150 million tax-exempt bond. Explain whether UVMMC has identified a potential underwriter and provide the commitment letter from underwriter, if available.

<u>Response</u>: We currently anticipate using bond funding for the project by issuing a series of tax-exempt bonds totaling approximately $150 million. The bonds will fund portions of three separate projects, all of which have either been approved or are pending a CON decision by the GMCB: the Fanny Allen campus purchase; 350 Tilley Drive; and the outpatient surgery center. As a practical matter, we cannot market those bonds until we receive CON approval for all of the projects to be financed. As a result, we currently anticipate that we will market the bonds for the CON-approved projects after the Board issues its CON decision on the Fanny Allen and outpatient surgery center projects. We will not issue bonds for any capital project which does not receive CON approval. Accordingly, we have not yet chosen a bond underwriter, and we will not know the identity of the bond purchasers until the bonds have been marketed.

The 5% interest rate was selected as the most reasonable planning assumption based on discussions with our financial advisors and their assessment of market conditions.

6. Explain in detail UVMMC's contingency plan if UVMMC does not receive the $150 million tax-exempt bond.

<u>Response</u>: The $150M represents a series of tax-exempt bonds, and is not a single tax-exempt bond, as the question suggests. Based on discussions with our financial advisors, UVMMC does not foresee any non-extraordinary scenario in which we will be unable to market the bonds, or any portion of them. However, given this project's importance to our patients— the Fanny Allen campus maintains access to essential services and will produce savings over the long term—the applicant would use cash or other debt sources to fund the project in the highly unlikely event that tax-exempt bond funding sufficient to finance the purchase is unavailable.

7. UVMMC is using $2,717,040 in equity to finance this project. Given UVMMC's current equity commitments for all existing projects, specify the current number (specify date) for

Days Cash on Hand and what the Days Cash on Hand will be when the equity contribution associated with this additional project is added.

Response: An equity contribution of $2.717M made towards the purchase of the Fanny Allen campus in September 2024 would reduce UVMMC's days cash by approximately 0.5 days, bringing the organization from a projected cash position of 126.9 days to 126.4 days. For UVMMC, one day's cash in September 2024 is projected to be $5.53M.

8. Explain in detail how UVMMC currently addresses, and will continue to address, Statutory Criterion 9.

Response: If a patient receiving services on the Fanny Allen campus expresses a need for mental health services and is not in an acute crisis, providers would refer them back to their primary care physician. The primary care offices of the UVM Health Network have mental health professionals collaborating with their medical homes. The primary care provider, working with their mental health care colleagues, would be in the best position to assess the short and long-term needs and next steps for an individual seeking mental health services.

For patients in acute crisis, providers would follow our suicide risk assessment protocol which may include contacting 911 to facilitate an assessment of the patient to determine appropriate care given the patient's presentation. If a patient is at the UVM Medical Center Urgent Care and requires crisis management, they would be transferred to the Main Campus.

9. Identify the square footage of the Convent Building and explain in detail UVMMC's plan in the short and long-term for the building, including any demolition plans.

Response: The Convent Building, including basement and sunrooms, is 16,689 square feet.

UVM Medical Center has made no plans to renovate or to demolish the Convent Building. There are also currently no specific plans for occupying the building.

10. Explain the short and long-term plan for occupancy and use of the 36,155 square foot Medical Office Building, including any demolition plans.

Response: UVM Medical Center currently owns four (4) suites in the Medical Office Building, totaling 11,778 square feet. UVM Medical Center also leases six (6) suites that are included in the Purchase and Sale Agreement, totaling 8,059 square feet. The owned and leased suites are occupied by Pelvic Medicine and Reconstructive Surgery; Drivers Rehabilitation; Outpatient Pharmacy; Laboratory Services; Work Enhancement Rehab Center; Memory Center; Pulmonary Research; and Urology. These practices are expected to continue operations in their current locations after the purchase is complete.

There are five (5) other suites in the Medical Office Building that account for 9,479 square feet. These suites are independently owned by RTG, LLC; Champlain Valley Hematology Oncology; Dr. Nepveu; and the Vermont Center for Dental Implants & Maxillofacial Surgery. UVM Medical Center has made no plans to purchase the suites it does not currently own.

The remaining 6,839 square feet are considered common areas of the Medical Office Building Unit Owners Association, and include common stairwells and hallways, restrooms, elevators, and mechanical spaces. The Unit Owners Association has not indicated any plans for demolishing or renovating the building aside from “break/fix” of the common infrastructure elements of the property.

Thank you for your attention to this application.

Sincerely,

Judith Henkin, Esq.,
on behalf of the UVM Medical Center Inc.

cc: Stephen Leffler, M.D.
Eric Miller, Senior Vice President and General Counsel, UVM Health Network

University of Vermont Medical Center
Fanny Allen Purchase
TABLE 1
PROJECT COSTS

Construction Costs		
1. New Construction	$	-
2. Renovation	$	-
3. Site Work	$	-
4. Fixed Equipment	$	-
5. Design/Bidding Contingency	$	-
6. Construction Contingency	$	-
7. Construction Manager Fee	$	-
8. Other (please specify)	$	-
Subtotal	$	-
Related Project Costs		
1. Major Moveable Equipment	$	-
2. Furnishings, Fixtures & Other Equip.	$	-
3. Architectural/Engineering Fees	$	-
4. Land Acquisition	$	-
5. Purchase of Buildings	$	17,300,000
6. Administrative Expenses & Permits	$	-
7. Debt Financing Expenses (see below)	$	150,000
8. Debt Service Reserve Fund	$	-
9. Working Capital	$	-
10. Other (Transfer Tax, Recording Fees, Title Insurance)	$	267,040
Subtotal	$	17,717,040
Total Project Costs	**$**	**17,717,040**

** Land and Buildings Combined*

26.21

Debt Financing Expenses		
1. Capital Interest	$	-
2. Bond Discount or Placement Fee	$	-
3. Misc. Financing Fees & Exp. (issuance costs)	$	150,000
4. Other	$	-
Subtotal	$	150,000
Less Interest Earnings on Funds		
1. Debt Service Reserve Funds	$	-
2. Capitalized Interest Account	$	-
3. Construction Fund	$	-
4. Other	$	-
Subtotal	$	-
Total Debt Financing Expenses	**$**	**150,000**

feeds to line 7 above

University of Vermont Medical Center
Fanny Allen Purchase
TABLE 2
DEBT FINANCING ARRANGEMENT, SOURCES & USES OF FUNDS

Sources of Funds

1. Financing Instrument	Bond		
a. Interest Rate	5.0%	(estimated)	
b. Loan Period	Aug 2024	To: Jul 2039	
c. Amount Financed	(net proceeds from financing)		$ 15,000,000
2. Equity Contribution			2,717,040
3. Other Sources			
a. Working Capital			-
b. Fundraising			-
c. Grants			-
d. Other			-
Total Required Funds			**$ 17,717,040**

Uses of Funds

Project Costs (feeds from Table 1)	
1. New Construction	$ -
2. Renovation	-
3. Site Work	-
4. Fixed Equipment	-
5. Design/Bidding Contingency	-
6. Construction Contingency	-
7. Construction Manager Fee	-
8. Major Moveable Equipment	-
9. Furnishings, Fixtures & Other Equip.	-
10. Architectural/Engineering Fees	-
11. Land Acquisition	-
12. Purchase of Buildings	17,300,000
13. Administrative Expenses & Permits	-
14. Debt Financing Expenses	150,000
15. Debt Service Reserve Fund	-
16. Working Capital	-
17. Other (Transfer Tax, Recording Fees, Title Insurance)	267,040
Total Uses of Funds	**$ 17,717,040**

Total sources should equal total uses of funds.

Incremental Pro-Forma: Fanny Allen Purchase

	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Y11	Y12	Y13	Y14	Y15	*15 Yr. Total*
Incremental Volume																
# Cases[1]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	*0*
Incremental Net Revenue																
Net Revenue[2]	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	*$ -*
Total Revenue																
Incremental Expenses																
Salaries/Wages	$ -	$ -	$ -	$ -	$ -											*$ -*
Physicians	$ -	$ -	$ -	$ -	$ -											*$ -*
Staff	$ -	$ -	$ -	$ -	$ -											*$ -*
Benefits	$ -	$ -	$ -	$ -	$ -											*$ -*
Depreciation & Amortization	$ 660,075	$ 660,075	$ 660,075	$ 660,075	$ 660,075	$ 576,667	$ 576,667	$ 576,667	$ 576,667	$ 576,667	$ 576,667	$ 576,667	$ 576,667	$ 576,667	$ 576,667	*$ 9,067,040*
Lease of Fanny Allen Property	$ (1,717,457)	$ (1,768,981)	$ (1,822,050)	$ (1,876,712)	$ (1,933,013)	$ (1,991,003)	$ (2,050,733)	$ (2,112,255)	$ (2,175,623)	$ (2,240,892)	$ (2,308,119)	$ (2,377,362)	$ (2,448,683)	$ (2,522,144)	$ (2,597,808)	*$ (31,942,835)*
Carrying Costs for Convent Bldg	$ 22,822	$ 23,392	$ 23,977	$ 24,576	$ 25,191	$ 25,821	$ 26,466	$ 27,128	$ 27,806	$ 28,501	$ 29,214	$ 29,944	$ 30,693	$ 31,460	$ 32,246	*$ 409,235*
Interest Expense (15 Yr. Int only yrs 1-9)	$ 750,000	$ 750,000	$ 750,000	$ 750,000	$ 750,000	$ 750,000	$ 750,000	$ 750,000	$ 750,000	$ 750,000	$ 625,000	$ 500,000	$ 375,000	$ 250,000	$ 125,000	*$ 9,375,000*
Total Expenses	$ (284,561)	$ (335,514)	$ (387,999)	$ (442,061)	$ (497,748)	$ (638,516)	$ (697,601)	$ (758,461)	$ (821,151)	$ (885,724)	$ (1,077,238)	$ (1,270,752)	$ (1,466,324)	$ (1,664,017)	$ (1,863,895)	*$ (13,091,560)*
Incremental Contribution Margin																
Total Incremental Contribution Margin	$ 284,561	$ 335,514	$ 387,999	$ 442,061	$ 497,748	$ 638,516	$ 697,601	$ 758,461	$ 821,151	$ 885,724	$ 1,077,238	$ 1,270,752	$ 1,466,324	$ 1,664,017	$ 1,863,895	*$ 13,091,560*

[1] No change at all related to services provided (I.e. volumes) at this campus related to it's purchase.

[2] $10K is received annually in land lease revenue from the owners of the Medical Office Building, who pay collectively through their Co-Op.
UVMMC currently owns approximately 80% of this MOB, therefore only 20% of the annual $10K revnue is incremental cash flow

Incremental Cash Flow and Net Present Value (NPV): Fanny Allen Purchase

	Est. FY25															
	Y1	**Y2**	**Y3**	**Y4**	**Y5**	**Y6**	**Y7**	**Y8**	**Y9**	**Y10**	**Y11**	**Y12**	**Y13**	**Y14**	**Y15**	**15 Yr TOTAL**
Contribution Margin	$ 284,561	$ 335,514	$ 387,999	$ 442,061	$ 497,748	$ 638,516	$ 697,601	$ 758,461	$ 821,151	$ 885,724	$ 1,077,238	$ 1,270,752	$ 1,466,324	$ 1,664,017	$ 1,863,895	**$ 13,091,560**
Depreciation	$ 660,075	$ 660,075	$ 660,075	$ 660,075	$ 660,075	$ 576,667	$ 576,667	$ 576,667	$ 576,667	$ 576,667	$ 576,667	$ 576,667	$ 576,667	$ 576,667	$ 576,667	**$ 9,067,040**
Principle Payments	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (2,500,000)	$ (2,500,000)	$ (2,500,000)	$ (2,500,000)	$ (2,500,000)	$ (2,500,000)	**$ (15,000,000)**
Capital Expense	$ (17,717,040)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ (17,717,040)**
Debt	$ 15,000,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ 15,000,000**
Cash Flow (Including up front capital)	**$ (1,772,405)**	**$ 995,589**	**$ 1,048,073**	**$ 1,102,135**	**$ 1,157,822**	**$ 1,215,183**	**$ 1,274,267**	**$ 1,335,128**	**$ 1,397,817**	**$ (1,037,609)**	**$ (846,095)**	**$ (652,582)**	**$ (457,010)**	**$ (259,316)**	**$ (59,439)**	**$ 4,441,560**
Cash Flow (Excluding up front capital)	**$ 944,635**	**$ 995,589**	**$ 1,048,073**	**$ 1,102,135**	**$ 1,157,822**	**$ 1,215,183**	**$ 1,274,267**	**$ 1,335,128**	**$ 1,397,817**	**$ (1,037,609)**	**$ (846,095)**	**$ (652,582)**	**$ (457,010)**	**$ (259,316)**	**$ (59,439)**	**$ 7,158,600**

5 Yr Net Present Value @ 5%	**$6,242,055**

Aggregate Cash Flow (Including up front capital)	$ (1,772,405)	$ (776,816)	$ 271,257	$ 1,373,392	$ 2,531,215	$ 3,746,397	$ 5,020,665	$ 6,355,793	$ 7,753,610	$ 6,716,001	$ 5,869,906	$ 5,217,324	$ 4,760,314	$ 4,500,998	$ 4,441,560