

**STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD**

In re: Application of Southwestern Vermont)
Medical Center, Modernization) GMCB-019-19con
Of Emergency Department)
And Hospital Front Entrance)
_____)

**ORDER APPROVING MATERIAL CHANGE FOR INCREASE IN TOTAL PROJECT
COST EXCEEDING 10%**

Introduction

In this Decision and Order, we review Southwestern Vermont Medical Center’s request to amend their Certificate of Need issued on December 14, 2020, for the modernization of its emergency department and front entrance to increase the total project cost by an additional \$1,900,000, from \$31,000,000 that was approved by the Board in the first request for a material change to \$32,900,000 in SVMC’s second request for a material change. Because the increase in the total project cost exceeds 10%, the change constitutes a material change which the Board is required to review. For the reasons set forth below, we approve the second material change request and amend the certificate of need (CON) to reflect the change in total project cost.

Jurisdiction

The Board has jurisdiction over this matter pursuant to 18 V.S.A. § 9444 (b)(1).

Findings of Fact

1. On December 14, 2020, the Board issued a CON allowing Southwestern Vermont Medical Center (SVMC) to spend \$25,801,975 to renovate 7,700 square feet of ED space and add 6,700 square feet to the ED footprint. The new construction will extend into the current traffic route to the ED and hospital main entrance, requiring the campus traffic flow to be re-routed and the parking layout to be changed accordingly. The project includes demolition of the Lodge Building built in 1925; creation of a new main entrance and lobby; relocation of outpatient registration, phlebotomy, and the imaging department’s waiting room; and minor upgrades to the café and laboratory. The project also includes the creation of a mental health crisis area within the ED which will be located in a portion of the newly constructed space. Equipment to support telemedicine communication will also be purchased and installed in many of the ED treatment rooms. CON (Dec. 14, 2020).

2. On April 5, 2022, the Board received a request from SVMC to increase the cost of the project from \$25,801,975 to \$31,000,000 and to extend the project completion date to April 2024 to accommodate adjustments to the design in response to the COVID-19 pandemic. The budget increase is due to inflation of costs for construction materials and labor, changes in design based

on best practices learned from the COVID-19 pandemic, and a longer project timeline. To improve patient and staff safety, the project has been redesigned to include negative air pressure and frequent air exchanges throughout the ED, as well as an enclosed connector between the respiratory evaluation center and the ED. Of the \$5,198,025 increase in total project cost, \$2,500,000 of the requested increase is due to construction inflation and contractor expenses as a result of the COVID-19 pandemic. To mitigate rising construction costs, SVMC has engaged a professional firm, Skanska USA Inc., which is projected to add \$700,000 to the project but save more than \$1,000,000 in costs by adjusting the project design. Due to the project being delayed by the pandemic, additional costs have been incurred for architectural, engineering, and permitting fees. The original project is funded by fundraising, equity contribution, and debt financing, and the increase in the project cost will be funded mostly by debt financing and some fundraising. SVMC Request for Amendment (Apr. 5, 2022).

3. On July 10, 2024, SVMC submitted a request for a second material change, as the cost of the project has increased by \$1,900,000, from \$31,000,000 to \$32,900,000 and requested a change in the project timeline. In an email dated July 31, 2024, SVMC specifically requested that the timeline for project completion be extended from April 2024 to November 30, 2024.

4. The additional increase in project cost is due to increases in construction and construction contingency costs; site costs; construction manager and architectural and engineering fees; and a significant change in debt financing costs. SVMC is now proposing to finance the project with significantly more debt financing, \$16,468,711, up from \$9,100,000 reflected in the first request for a material change, and less from fundraising, \$9,531,289 instead of \$15,000,000 requested in the first material change, with SVMC's equity contribution of \$6,900,000 remaining the same. The \$9,531,289 in fundraising has been successfully raised and received.

5. The prior financing plan intended to use restricted and unrestricted donations of \$15,000,000. In that plan, \$5,00,000 from fundraising was to be used to quickly pay down a portion of the debt. However, the interest rate of the current debt is 2.68%, notably low relative to the current bond market environment. Given that the current interest rate is very favorable, SVMC now plans to finance a higher proportion of the project through debt financing, with debt financing expenses increasing from \$669,133 to \$1,091,342.

6. A public notice of SVMC's second request for a material change was posted on July 17, 2024. Review of the SVMC's requested second material change to the original project was closed on October 21, 2024, and a public notice was issued on that same date.

Conclusion

Based on the above, we approve SVMC's request to increase the total project cost from \$31,000,000 to \$32,900,000. The change in the total project cost does not result in the cost of the project being unreasonable. 18 V.S.A. § 9437(2) (project cost must be reasonable because it is sustainable by the applicant, will not cause undue increase in costs of care, and less expensive

alternatives are unavailable, unsatisfactory, or not feasible or appropriate). Other CON criteria are not materially impacted by SVMC’s material change request.

With the exception of the change in the total cost of the project, the Certificate of Need and Statement of Decision and Order issued on December 14, 2020, remain in full force and effect.

SO ORDERED.

Dated: November 1, 2024 at Montpelier, Vermont.

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s/ Owen Foster, Chair)
_____)
s/ Jessica Holmes)
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s/ Robin Lunge)
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s/ Dave Murman)
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s/ Thom Walsh)
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GREEN MOUNTAIN
CARE BOARD OF
VERMONT

Filed: November 1, 2024
Attest: Jean Stetter, Administrative Services Director