



October 9, 2020

Vermont Department of Mental Health  
Attn: Karen Godnick Barber, General Counsel  
280 State Drive, NOB 2 North  
Waterbury, VT 05671-2010

RE: Certificate of Approval Application Follow-Up Questions/Responses

Dear Ms. Barber:

Thank you for the review of Howard Center's Certificate of Approval application for the 180-184 Pearl Street Property. Following please find the questions as posed with associated responses.

**Criterion One**

1. There are no identified plans for renovation per your application. Given that the property currently houses a salon and nine residential apartment units, there are no current or future modifications indicated as part of the repurposing of the property for alternative use? Please elaborate on the proposed co-location of services identified in the COA application. Please describe if additional service capacities of Act 1 or Bridge Program are planned through this acquisition. We have no plans to modify the building or its current use at this time. Howard Center will assume all current leases and plans to operate "as is" for the foreseeable future. As owner of the building, we recognize we will have opportunities for program development and/or changes in use, however there have been no such discussions and/or decisions to that end beyond recognizing there is the potential to do so. Our application refers to this potential mentioning the possibility of co-location of services which could include an office for OP therapy, an expansion of Act 1 or Bridge programs physical footprint, or many other possibilities including the building use remaining exactly as is in which case the sole benefit of purchasing the property would be securing the long term location for Act 1/Bridge and controlling costs.
2. Please identify current salon and apartment lease/rental agreements. All units are currently leases as follows (note units are not numbered sequentially in the building):

| Unit # | Term Start | Term End  | Monthly Amount |
|--------|------------|-----------|----------------|
| 1      | 9/1/2020   | 8/28/2021 | \$ 1,150       |

|              |           |           |    |       |
|--------------|-----------|-----------|----|-------|
| 2            | 5/1/2020  | 4/8/2021  | \$ | 1,275 |
| 3            | 5/1/2020  | 4/29/2021 | \$ | 1,150 |
| 7            | 6/1/2020  | 5/9/2021  | \$ | 800   |
| 8            | 5/1/2020  | 4/29/2021 | \$ | 1,205 |
| 11           | 5/1/2020  | 4/29/2021 | \$ | 1,125 |
| 12           | 7/1/2020  | 6/28/2021 | \$ | 1,050 |
| 15           | 6/1/2020  | 5/28/2021 | \$ | 1,025 |
| 16           | 6/1/2020  | 5/29/2021 | \$ | 1,025 |
| Salon        | 4/1/2020  | 3/31/2021 | \$ | 1,300 |
| Act 1/Bridge | 4/29/2020 | 4/28/2021 | \$ | 5,062 |

3. Please outline the current residential occupancy and impact on future use for existing tenants. As stated previously, Howard Center does not have any immediate plans to alter the occupancy construct. If a decision is made to convert current space to a program milieu for Howard Center clients, sufficient notification will be provided to existing tenants as required by lease at minimum.
4. Please outline how future residential use will be “in alignment with DAIL and DMH future vision and ten-year plan”. In response, please address physical accessibility and intentional community inclusion (i.e., will planned use be exclusive for client-use or mixed-use tenancy?). Additionally, if residential services and supports are to be provided, are they subject to any existing licensing standards? If and when a decision is made to convert the property into an alternate design for state funded programming, Howard Center will do so in consultation with DMH/DAIL/VDH (as applicable) with the intention that any plans/changes would be in support of and in alignment with the departments’ long-term goals. Client use and mixed use tenancy are both possibilities, among many other possibilities, but as stated previously there are no current plans and/or preconceived notions about whether or not there will be any change of use from current.
5. Please provide a copy of the “Strategic Plan Internal and External Service Integration” Plan and cited objective referenced in the COA application. Please see Attachment A.
6. Please provide a copy the “Strategic Plan Financial Stability” Plan referenced in the COA application. Please see Attachment A.
7. Please provide available Board, Board sub-committee, and Standing committee meeting notes and/or minutes that reflect discussion, review, and approval by the agency’s Board of Directors, Board Finance Committee, and the Substance Use Disorder Standing Committee. Please see Attachment B.

## Criterion Two

8. Please provide a narrative summary of the “Need for the Proposed Project” that outlines current use capacity and planned future enhanced use and capacity that meets unmet community needs. Please incorporate materials referenced in Criterion One as part of the

overall description and justification of the project. The current building is comprised of 9 residential apartments, a beauty salon, and Howard Center’s Act 1 / Bridge program. There is no plan to change the future use at this time. The intent of the purchase is to secure the location for the current programming and control future costs. The rents currently established are sufficient to cover the operating costs and private donations will fund the building purchase. Owning the building gives Howard Center the control over decisions associated with building improvements, and owning vs. leasing is a fiscally more prudent option.

### **Criterion Three**

9. Please identify if the Limited Liability Corporation has already been established at the time of the COA application or timeframe for establishing the LLC. The LLC has not yet been established. The LLC will be formed after all Due Diligence is complete (including inspections, appraisals, and COA approval) and the real estate transaction and property transfer are proximate.
10. Please identify projected FTE staff equivalent time to describe the extent of “limited impact” on Howard Center administrative staff who will manage the LLC with the LLC reimbursing Howard Center for the cost of those services. Operationally, is there a projected cost identified? We estimate the cost to support the LLC at \$8,236 annually to include 12 hours per month of staff time.

### **Criterion Four**

11. Was financing and the impact of cash on hand considered for this purchase? Please explain the considerations. Financing and potential impacts to cash on hand were significant considerations when considering purchase as was the projected financial sustainability of the investment when determining whether to finance or purchase outright. Whether or not the rental income is subject to unrelated business income tax (UBIT) depends on whether or not the purchase is financed. If the property is financed, UBIT applies. If the property is purchased outright with no financing then rental income is not subject to UBIT. The projected UBIT expense over a potential 20-year mortgage term is \$1.3 million. Further, the organization was extremely fortunate to be the recipient of a single \$1 million donation and additional private donations that will fully fund the cash purchase of the property thus negating any impact to state or program funding and operating cash on hand.
12. Financials submitted in the COA application project that cash on hand at the end of June will be improved over prior years. Howard Center has indicated it is necessary to request master agreement exhibit payments to ensure financial stability pending agreement execution. What factors contribute to a more favorable position? The primary factors for the increase in cash position year over year include: (1) a year end gain primarily attributable to savings in Fringe Benefits (specifically Health – as a self-insured organization we saw a drop in medical utilization at the beginning of COVID resulting in direct savings which we anticipate catching up in future periods); and (2) an anomaly that is increased Deferred Revenue due to state and federal COVID relief funds that will be recognized in FY21 as allowable expenses

are incurred and/or ultimately repaid if unused. The reported increase year over year, which do not anticipate to be sustained for reasons outlined above, remains well below best practice days of operating cash on hand for a health care organization.

13. How is CRF funding impacting the FY 20 and 21 revenue projections in the COA? We have assumed COVID related eligible expenses will be offset by state or federal relief funds in FY21 as they were in FY20. As such, the net impact is neutral. The FY20 figures reflect actuals in revenue and expense related to COVID and CRF funds. The FY21 projections do not include COVID projections for revenue or expense as those are dependent on how the pandemic does or does not evolve, which we cannot accurately project, and that ultimately we assume has no impact to the bottom line.
14. Are tenant revenues included in the revenue amount listed in the COA? Yes. That is what is included in the local/other revenue stream on table 3b.
15. Please outline the safeguards that will be put in place to ensure the intended use of state funds from projected “annual surplus of which a reserve amount will be held by the LLC for maintenance and capital investment with any balance being distributed to the member (Howard Center)”. The LLC accounting will be separate and distinct from that of Howard Center, however it will be included in the annual financial audit providing transparency into the financial performance of the LLC. The LLC will have revenue (tenant rent) and expense solely related to building operations and, should it generate a net operating position that exceeds projected operating and capital needs of the building, net revenue (or a portion thereof) could be distributed to Howard Center thus potentially supporting state funded programs.

Sincerely,



Sandra McGuire  
Chief Financial and Operations Officer

cc: Commissioner Sarah Squirrell, DMH  
Commissioner Monica Hutt, DAIL  
Stuart Schurr, DMH  
Frank Reed, DMH