Vermont Permanency Initiative, Inc.

Organizational History, Evolution & Financial Capacity

April 2, 2018

Vermont Permanency Initiative, Inc. (VPI) was established in 2013 following a request made by the State of Vermont Department of Children & Families ("DCF") for support. More specifically, in the fall of 2012, the Bennington School was at risk of closure, and DCF approached Jeff Caron, President of Mount Prospect Academy, Inc. ("MPA"), a New Hampshire corporation, about the possibility of purchasing and operating the school. DCF was familiar with MPA because it served Vermont students in its residential treatment programs in New Hampshire.

Background

MPA and VPI are members of a nonprofit alliance with Becket Academy, Inc., a Maine corporation ("Becket") called the Becket Family of Services ("BFOS"). See **Appendix A** (a brief history of Becket Family of Services) and **Appendix B** (an organizational chart describing the structure of the Becket Family of Services strategic alliance). MPA was formed in 2003 after the State of New Hampshire sought the support of Becket in its effort to rescue a bankrupt program in Plymouth, NH. That program was aligned with the Becket mission of serving hard to place adolescents, and Becket established MPA to operate this program. MPA was initially a subsidiary of Becket and shared a common Board and leadership team.

As Becket operations in Maine and Massachusetts expanded, and Becket sought to establish a program called the Oliverian School (which is now independent), its Board of Trustees determined that it could not provide the necessary oversight and support to all of its programs. So, in 2007, an independent self-perpetuating Board of Trustees was appointed to govern MPA, which had grown considerably since 2003 to over 100 students but was also trying to address a changing fiscal landscape with a declining census. Jeffrey Caron, a long-time employee and administrator at MPA, was appointed President of MPA at this time.

Although the governance and day-to-day operational leadership changed for MPA in 2007, many existing systems and business arrangements did not change. MPA's newly established leadership team continued to receive back office, policy development, benefit management and HR related supports from Becket, and the two organizations continued with shared purchasing arrangements in areas such as accounting, health insurance, benefits, property & casualty, technology services, etc. See **Appendix C** (Business Office organizational chart). In addition, the programs began to market themselves in a collaborative way under the name "Becket Family of Services."

Formation of VPI

As noted above, in late fall, 2012, the State of Vermont approached Mr. Caron for support in its effort to keep the former Bennington School open. After initial due diligence and consideration by its Board and leadership, MPA determined that the program was aligned with its mission and would allow the organization to serve female students and be a better partner with Vermont DCF. Given timing considerations (the sale needed to close in less than 60 days), MPA approached Becket for support, since VPI's capitalization needs were significant and could not be achieved through traditional means such as bank loans, because of the afore-mentioned timing considerations and also the fact that VPI had no operational history. Becket agreed to support VPI's initial working capital needs through a below-market rate (3%) loan with the understanding that VPI and MPA would collaborate on future needs, since Becket was undertaking other projects in NH and Massachusetts going forward.

In less than 60 days, MPA developed and implemented a state-approved plan to operate the former Bennington School. On January 1, 2013, ownership of the Bennington School was transferred to the newly formed Vermont nonprofit corporation (Vermont Permanency Initiative, Inc.) seeded with working capital and other needed startup funds from Becket. Jeffrey Caron was appointed President, with the understanding that MPA would oversee the governance and management of VPI going forward (at least until it matured and could reach a point where it could operate more independently). In many ways, this plan mirrored that of MPA's original formation by Becket and its own evolution. An initial interim rate for the new VPI program, which continued to operate under the name Bennington School, was agreed upon with the Vermont Division of Rate Setting based on the limited cost data available relative to the operation of the Bennington School by its former owners.

Because of the limited time frame and general inability to conduct full due diligence, the basic operational model and facilities of the former Bennington School were necessarily "inherited" with the exception of its administrative team. Long-time employees Ralph Bennett and Lee Gallagher were asked to assume the Program Director (responsible for day-to-day operations) and Clinical Director roles, under Mr. Caron's oversight. Both Mr. Bennett and Ms. Gallagher remain with the company and have played key roles in helping achieve a high quality program serving an increasingly at risk, highly traumatized population of young women.

The VPI team was challenged initially, as one would expect, by priorities such as transitioning and supporting a concerned group of employees who had been living for several months with the fear of losing jobs and changing administration, as well as significant deferred maintenance issues associated with the neglect of a prior administration.

An Evolving VPI

Initial efforts to borrow monies to support program improvement were stymied by the lack of financial data, the reputational issues associated with the name "Bennington School," and most critically by the unexpected promulgation of new Vermont rate setting regulations that have severely limited the ability of management and finance teams to project needed debt service coverage ratios to support bank lending. This led to greater economic reliance by VPI on Becket and MPA, and significant additional investment by each of them in the program. While a maturing VPI is currently close to developing its first direct banking relationship, this relationship will still be dependent on a guarantee from MPA. This loan will enable the Vermont School for Girls to further renovate those portions of the main campus that still are in need due to the afore-mentioned neglect by the former owners of the school.

Given the interdependence of MPA and VPI, the two organizations continue to operate with a common Board of Trustees. This does not mean VPI has been idle in its efforts to achieve financial dependence. Consistent with the successful approaches implemented by Becket and MPA in their own development, VPI has focused on quality of care and on developing a range of cost centers within the VPI umbrella capable of supporting each other during periods of relative strength and weakness. See **Appendix D** (VPI organizational chart), which reflects the steps specified below toward increased efficiency and financial stability:

1. The quality of care at the former Bennington School was improved allowing for census stability through increased out of state referrals;
2. As part of this quality of care strategy, the boy's dorm in Bennington was moved to Newbury, Vermont to better focus treatment for girls in the area of trauma;
3. As part of this move, a near defunct Connecticut River Academy was added to VPI to create a unified "resed" model for the boys moving to Newbury;
4. To better identify the improved services and program differentiation, the Bennington School was renamed the Vermont School for Girls;
5. Vermont Support & Stabilization was established to support families statewide under a new contract with the State of Vermont;

Most recently, the Vermont School for Girls was split into two separately licensed programs, the Vermont School for Girls (serving mostly Vermont residents pursuant to a Vermont DCF contract) and the New England School for Girls (serving mostly students residing out of state with a primary contract with the State of New Hampshire). By dividing the programs, VPI was able to negotiate independently with out-of-state agencies who otherwise would have been required under their regulatory frameworks to charge the rate Vermont had established, even though the acuity of the out-of-state residents is generally higher.

Financial Capacity

We recognize and understand that the Board of Education wishes to confirm that VPI, which operates Vermont School for Girls, has the "financial capacity" required to meet its stated objectives, as stated in the law. We hope that the above narrative provides a helpful explanation of how the various cost centers within VPI are interdependent on one another. While individual programs are reviewed operationally and with reference to cost center specific financial data, the common MPA and VPI Board of Trustees makes decisions based on adherence to mission and ability to project an overall bottom line. Like many human service companies, mission based and shared cost reasons often result in a cost center that loses money being maintained. Hospital systems represent an excellent example. Nursing homes, which typically lose significant amounts of monies on Medicaid recipients, and state university systems which rely heavily on higher out of state tuition to offset low in-state tuition, are other examples. Using economies of scale associated with multiple revenue streams, these institutions continue to support cost centers or populations that in isolation would not support a viable business model, but are important to their broader institutional mission.

Through February of this fiscal year, the VPI South cost center (the Vermont School for Girls and the New England School for Girls) is showing a loss of $106,000. Based on current trends, however, management is projecting a small profit by year end, since census remains strong and recent monthly trends are positive. We have reason to believe that these trends will continue through the end of the fiscal year. We are also aware, based on historical precedent, that second half of the fiscal year performance is typically stronger than the July 1 – December 31 performance. It should be noted that the Vermont School for Girls is not like many schools that are regulated by AOE and the Board of Education. Although a freestanding school, it is also part of a larger agency serving a very unique population. We believe the financial integrity of any individual cost center in our organization must often be analyzed as "part of the whole."

Also, as it considers the Vermont School for Girls application, the Board of Education should be aware that the Vermont School for Girls operates under a Vermont reimbursement system modeled after the nursing home reimbursement system. Unlike most nursing homes, the Vermont School for Girls typically has no private pay students and, thus, is operating, by way of analogy, as if it were a nursing home with 100% Medicaid patients.

Finally, the Board of Education will wish to understand and consider the history of the Vermont School for Girls. Just a few years ago VPI came into existence as a newly formed entity that initially inherited what was an essentially bankrupt Bennington School, with facilities that had been neglected for over twenty years, as well as a school in Bradford (Connecticut River Academy) that was in the process of closure with a projected student body of 4 students. Both of these programs were in a state of absolute crisis. The decision to move forward with these projects was not based on projected financial gain or similar factors, but rather on mission and our sense that we could be successful in serving high need youth in these locations. In the case of our Vermont programs, much of our decision-making rested on our understanding that other providers in Vermont were struggling to serve this population. Although we have made considerable progress based upon the strategies described above, the various cost centers in VPI have not achieved financial independence from each other, or from MPA and Becket. This requires our audits to be consolidated under accounting standards and also creates collective strength. The sum is much greater than the parts.

Clearly, the progress made by VPI in moving forward two programs in crisis is impressive. However, as noted above, VPI has had significant capitalization needs, especially in Bennington, where neglected maintenance has resulted in most buildings requiring substantial renovation in the short term. Although it has received some purchase money financing, VPI has been reliant on Becket and MPA to date for support in this area. Given its improved operating results, however, VPI now is ready to close on its first substantial loan that will allow it to finish the renovation work needed at VPI South (and achieve some interest rate savings over purchase money loans). This reflects continued progress towards a strategic vision of a more independent VPI.

We are submitting consolidated audits for the past three years. See **Appendix E**. These audits demonstrate the collective strength of the alliance known as the Becket Family of Services and our financial capacity to support the Vermont School for Girls.

Further, the Board of Education should be aware that specific company level performance is shown at the back of the audit in consolidated statements which reflect the following with respect to VPI:

	FY 2015	FY 2016	FY 2017	% Change
Revenue	13,354,841	15,486,236	17,797,916	33%
Operating Expenses	12,708,445	15,105,250	17,329,446	36%
Gain (Loss) on Disposal Equip.	-	7,531	2,341	
Non-operating revenue (expense)	-	-	-	
Forgiveness of Intercomp. Debt	(375,361)			
Change in Net Assets – Profit	271,035	388,508	470,811	
% of Revenue	2.0%	2.5%	2.6%	

These same consolidating statements also show the overall solvency of the Company based on the following VPI specific information:

	FY 2015	FY 2016	FY 2017	% Change
Assets	4,714,940	6,413,983	8,067,921	71%
Liabilities	4,081,417	5,391,952	6,575,079	61%
Net	633,523	1,022,031	1,492,842	135%