

APPENDIX 3

FACTOR 4 CPA REPORT

Beth Israel Lahey Health, Inc.

**Analysis of the Reasonableness of Assumptions Used For and
Feasibility of Projected Financial Information associated with the renovation and expansion of the Emergency
Department at Beth Israel Deaconess Hospital – Plymouth, Inc.**

For Years Ending September 30, 2029 through September 30, 2033

BETH ISRAEL LAHEY HEALTH, INC.

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MeyersBrothersKalicka
CERTIFIED PUBLIC ACCOUNTANTS

July 23, 2024

Ms. Sheilah Rangaviz
Chief Financial Officer
Beth Israel Deaconess Hospital – Plymouth, Inc.
275 Sandwich Street
Plymouth, MA 02360

Dear Ms. Rangaviz:

We have performed an analysis of the financial projections prepared by Beth Israel Lahey Health, Inc. (the “Applicant” or “BILH”) detailing the projected operations of the renovation and expansion of the Emergency Department (“ED”) at Beth Israel Deaconess Hospital - Plymouth, Inc. (“BID Plymouth”), a hospital located at 275 Sandwich Street, Plymouth, MA (the “Project”). This report details our analysis and findings with regards to the reasonableness of assumptions used in the preparation and feasibility of the projected financial information of the Project as prepared by the management of BID Plymouth (“Management”). This report is to be included by the Applicant in its Determination of Need (“DON”) application, (see Factor 4(a) of the DON) and should not be distributed or relied upon for any other purpose.

I. Executive Summary

The scope of our analysis was limited to the five-year financial projections for the fiscal years ending September 30, 2029 through September 30, 2033 (the “Projections”) prepared by Management, and the related supporting documentation provided by Management. The purpose is to assess the reasonableness of assumptions used in the preparation and feasibility of the projections with regards to the renovation and expansion of the ED at BID Plymouth.

The renovation and expansion of the ED is projected to have positive overall cash flows (see section V of this report). We determined that the projections were not likely to result in a scenario where there are insufficient funds available for the ongoing operating costs required for the renovation and expansion of the ED. It is not anticipated that the Applicant will require any financing associated with this Project. It is our conclusion that the projections are financially feasible and within the financial capability of the Applicant as detailed below.

II. Relevant Background Information

Refer to Factor 1 of the DON application for a description of the scope of the Applicant, as well as the overall description and rationale for the renovation and expansion of the ED at BID Plymouth.

III. Scope of Report

The scope of this report is limited to an analysis of the five-year financial projections prepared by Management and the supporting documentation in order to assess the reasonableness of assumptions used in the preparation and feasibility of the projections with regards to the Project. Our analysis of the projections and conclusions contained within this report are based upon our detailed review of all relevant information (see section IV of this report). We gained an understanding through our review of the information provided by Management, as well as a review of the DON application.

Reasonableness is defined within the context of this report as supportable and proper, given the underlying information. Feasibility is defined as based on the assumptions used, the plan is not likely to result in insufficient funds available for capital and ongoing operating costs necessary to support the proposed project without negative impacts or consequences to the Applicant's existing patient panel.

This report is based upon historical and prospective financial information provided to us by Management. If Meyers Brothers Kalicka, P.C. had audited the underlying data, matters may have come to our attention that would have resulted in our using amounts that differ from those provided. Accordingly, we do not express an opinion or any other assurances on the underlying data presented or relied upon in this report. We do not provide assurance on the achievability of the results forecasted by Management because events and circumstances frequently do not occur as expected, and the achievement of the forecasted results is dependent on the actions, plans, and assumptions of Management. We reserve the right to update our analysis, if we are provided with additional information.

IV. Primary Sources of Information Utilized

In formulating our opinions and conclusions contained in this report, we obtained and reviewed various documents supplied by Management. The documents and information we reviewed and relied on are noted below and/or referenced in this report:

- Historical ED volume for the existing ED at BID Plymouth for the fiscal years ended September 30, 2021, 2022, and 2023.
- Historical revenue and expenses for the existing ED at BID Plymouth for the fiscal years ended September 30, 2022 and 2023.
- Historical revenue and expenses for the existing ED at BID Plymouth for the six months ended March 31, 2024, including annualized amounts.
- Beth Israel Lahey Health, Inc. and Affiliates audited consolidated financial statements as of and for the years ended September 30, 2022 and September 30, 2023.
- Projected ED volume for the fiscal years ending September 30, 2029, 2030, 2031, 2032, and 2033.
- Projected revenue and expenses for the Project for the fiscal years ending September 30, 2029, 2030, 2031, 2032, and 2033.
- Projected statements of cash flows from operations for the Project for the fiscal years ending September 30, 2029, 2030, 2031, 2032, and 2033.
- BID Plymouth fiscal year 2025 ED budget.
- Capital project budget for anticipated capital project costs.

IV. Primary Sources of Information Utilized

- Consigli construction contractor budget proposal of project costs.
- DON Application Instructions dated July 2023.
- DON Narrative draft provided May 7, 2024.
- DON Application Form.
- Total project costs of the Applicant are comprised of the following:

	New Construction	Renovation	Total
Land	\$ 75,000	\$ -	\$ 75,000
Construction costs	15,661,220	19,317,200	34,978,420
Design and construction contingency	2,864,459	2,864,459	5,728,918
Architectural costs	1,533,250	1,533,250	3,066,500
Planning and development costs	100,000	100,000	200,000
Fixed medical equipment	2,669,466	2,469,467	5,138,933
Other costs	524,660	524,660	1,049,320
Total project costs	\$ 23,428,055	\$ 26,809,036	\$ 50,237,091

V. Review of the Projections

This section of the report summarizes our review of the reasonableness of the assumptions used and feasibility of the projections. The tables that follow summarize the projected results of the renovation and expansion of the ED at BID Plymouth.

Revenues

We have reviewed and analyzed the net operating revenues in the historical and projected financial information. For the purposes of this pro forma, volume is based on total emergency department cases. The volume disclosed in the table below represents total ED cases projected for the fiscal years ending September 30, 2029 through September 30, 2033. For the fiscal year ended September 30, 2023, there were 43,609 emergency department cases. Annualized cases for the year ending September 30, 2024 are anticipated to increase approximately 1.4% to 44,220 total cases. Based on management’s budget for the year ending September 30, 2025, management is anticipating an increase in total cases of 3.91%. For the years ending September 30, 2026 through September 30, 2033, management anticipates an increase in ED cases of 2% annually.

Based on discussions with management, net revenue is based on the BID Plymouth outpatient average of Commercial (23%), Medicare (52%), and Medicaid/other (25%) reimbursement rates. For the year ended September 30, 2023, the average reimbursement rate for the ED was \$926 per case. Management has projected annual increases of 2.0% to 3.5% in net revenue per case for the fiscal years ending September 30, 2025 through September 30, 2033.

V. Review of the Projections (continued)

The table below provides a summary of some of the key information for the projected incremental volume and revenues by year for the ED (fiscal year September):

Category	Projected/ pro-forma 2029	Projected/ pro-forma 2030	Projected/ pro-forma 2031	Projected/ pro-forma 2032	Projected/ pro-forma 2033
ED cases	49,738	50,733	51,747	52,782	53,838
Revenue per outpatient cases, net	\$ 1,068	\$ 1,106	\$ 1,144	\$ 1,184	\$ 1,226
Total revenue, net	\$ 53,120,184	\$ 56,110,698	\$ 59,198,568	\$ 62,493,888	\$ 66,005,388

We analyzed the projected/pro-forma incremental net revenue for the fiscal years ending September 30, 2029 through September 30, 2033 in relation to historical case volume of the ED to assess the reasonableness of the projected/pro-forma statements. Based on our analysis, the revenue projected by management is a reasonable estimation and conservative based primarily upon the historical case volume.

Expenses

We analyzed each of the categorized expenses for reasonableness and feasibility as it relates to the projected revenue. The table below provides a summary of some of the key information for the projected expenses by year for the renovation and expansion of the ED (fiscal year September):

Expenses	Projected/ pro-forma 2029	Projected/ pro-forma 2030	Projected/ pro-forma 2031	Projected/ pro-forma 2032	Projected/ pro-forma 2033
Salaries and wages (1)	\$ 14,405,793	\$ 15,281,665	\$ 16,210,791	\$ 17,196,407	\$ 18,241,948
Fringe Benefits (2)	3,563,192	3,836,532	4,130,840	4,447,725	4,788,919
Supplies (3)	2,113,428	2,192,585	2,274,816	2,360,242	2,448,990
Physician Expenses (4)	175,679	182,776	190,160	197,843	205,835
Psychology Services (5)	2,015,753	2,097,189	2,181,916	2,270,065	2,361,776
Fees (6)	418,642	418,642	-	-	-
Depreciation (7)	1,758,998	1,758,998	1,798,558	1,798,558	1,798,558
Total Expenses	\$ 24,451,485	\$ 25,768,389	\$ 26,747,521	\$ 28,231,280	\$ 29,806,467

- (1) Salaries and wages for the year ending September 30, 2029 are based on an estimate of 107 FTEs, of which 62 FTEs are registered nurses, 24 FTEs are emergency department technicians, 10 FTEs are emergency department coordinators, with the balance of 11 FTEs consisting of directors, managers, and additional support staff. The average wage per employee for the year ending September 30, 2029 is projected to be approximately \$134,000. Projected salaries and wages are based on actual figures for the year ended September 30, 2023, which included 87 FTEs with an average salary of \$104,000.

Management assumed FTEs will increase approximately 5.5% annually for the years ending September 30, 2024 and 2025, and 2% annually for the years ending September 30, 2026 through September 30, 2033 in relation to the increase in ED case volume. In addition to the increase in FTEs, management also assumes an approximate 4% cost of living adjustment annually.

- (2) Management has estimated the projected fringe benefits at approximately 25% to 26% of salaries and wages for the years ending September 30, 2029 through September 30, 2033. Managements projection is based historical fringe benefits for the years ended September 30, 2022 and September 30, 2023 of approximately 23% of total wages, plus an anticipated increase in benefit costs of 1.5% for the years ending September 30, 2025 through September 30, 2033. These expenses include health insurance, dental insurance, disability, pension, workers compensation, FICA, and other fringe benefits received through employment.

V. Review of the Projections (continued)

- (3) Supplies include medical, cleaning, housekeeping, pharmaceutical, equipment leases, small equipment purchases, and miscellaneous other items needed to operate the ED. The majority of supply expenses are related to intravenous solutions (12% of total supply expenses) and surgical supplies (58% of total supply expenses). Management’s projection is based on historical supply expenses of approximately \$36 per case for the year ended September 30, 2023, plus projected inflation of costs of approximately 3% to 4% annually for the years ending September 30, 2025 through September 30, 2033.
- (4) Physician expenses include costs associated with the use of Harvard Medical Faculty Physicians (“HMFP”) in the ED. Management provided support for annual fees of \$147,000 for the year ending September 30, 2024. Management anticipates an increase in annual fees of approximately 2% for the year ending September 30, 2025, and then annual increases of approximately 4% for the years ending September 30, 2026 through September 30, 2033.
- (5) Psychology service expenses are intercompany fees charged by Beth Israel Lahey Health for psychology services provided to ED patients. Fees are charged on a per case basis, with management using annualized 2024 services provided of approximately 2,500 cases, with an average rate per case of \$695 as a baseline. Management did not project an increase in the cost per case for the year ending September 30, 2025 budget, but management has projected an annual cost per case increase of approximately 4% for the years ending September 30, 2026 through the year ending September 30, 2033.
- (6) The applicant is required to pay a 5% fee to the Commonwealth of Massachusetts based on the total projected project costs of \$50,237,091, which results in a community health initiative (“CHI”) payment of approximately \$2,512,000, which will be paid over a six-year period, with the final two payments occurring during the projected years ending September 30, 2029 and 2030.
- (7) Estimated renovation costs of \$50,237,091, plus a 5% fee to the Commonwealth of Massachusetts based on the total projected project costs, which results in a community health initiative (“CHI”) payment of approximately \$2,512,000, will be capitalized and will be depreciated over 30 years, beginning in the year ending September 30, 2029. The depreciation related to the Project will be in addition to approximately \$85,000 of projected depreciation for assets already in service.

The above expenses exclude an allocation of fixed and variable indirect costs in the range of \$340 to \$400 per case for the years ending September 30, 2029 through September 30, 2033.

We analyzed the projected/pro-forma expenses for the fiscal years ending September 30, 2029 through September 30, 2033 to assess the reasonableness of the pro-forma statements. Based on our analysis, the pro-forma total expenses projected by Management are a reasonable estimation and conservative.

Net Income

The table below provides a summary of the net income by year (fiscal year September) for the renovation and expansion of the ED:

Category	Projected/ pro-forma 2029	Projected/ pro-forma 2030	Projected/ pro-forma 2031	Projected/ pro-forma 2032	Projected/ pro-forma 2033
Total revenue, net	\$ 53,120,184	\$ 56,110,698	\$ 59,198,568	\$ 62,493,888	\$ 66,005,388
Total expenses	24,451,485	25,768,389	26,747,521	28,231,280	29,806,467
Net income	\$ 28,668,699	\$ 30,342,309	\$ 32,451,047	\$ 34,262,608	\$ 36,198,921
Net income per case	\$ 576	\$ 598	\$ 627	\$ 649	\$ 672

Cash Flows

The table below provides a summary of cash flow by year (fiscal year September) for the renovation and expansion of the ED:

<u>Category</u>	Projected/ pro-forma 2029	Projected/ pro-forma 2030	Projected/ pro-forma 2031	Projected/ pro-forma 2032	Projected/ pro-forma 2033
Net income	\$ 28,668,699	\$ 30,342,309	\$ 32,451,047	\$ 34,262,608	\$ 36,198,921
Depreciation	1,758,998	1,758,998	1,758,998	1,758,998	1,758,998
Cash, beginning of year (1)	-	30,427,697	62,529,004	96,739,049	132,760,655
Cash, end of year	\$ 30,427,697	\$ 62,529,004	\$ 96,739,049	\$ 132,760,655	\$ 170,718,574

- (1) Management expects there will be no cash available at the beginning of the year ending September 30, 2029. There is no expected financing for the project. The total capital expenditures for the project of approximately \$50,237,000 will be funded by available capital funds of the Applicant.

Based upon our discussion with Management and our review of the information provided, the capital needs and ongoing operating costs required for the renovation and expansion of the ED at BID Plymouth are not likely to result in a scenario where there is negative cash flow over the five year projected period. The Applicant has the resources to fund the capital needs and ongoing operating costs of the ED.

VI. Feasibility

We analyzed the projected operations, including volume of treatments, revenue and expenses for BID Plymouth. In performing our analysis, we considered multiple sources of information including historical and projected financial information. It is important to note that the projections do not account for any anticipated changes in accounting and regulatory standards. These standards, which may have a material impact on individual future years, are not anticipated to have a material impact on the aggregate projections.

We determined that the projections were not likely to result in insufficient funds available for ongoing operating costs necessary to support the Project. Based upon our review of the projections and relevant supporting documentation, we determined the renovation and expansion of the ED at BID Plymouth is financially feasible and within the financial capability of the Applicant.

Myra Brothers Kalicka, P.C.

Holyoke, Massachusetts
July 23, 2024