

## **APPENDIX 3**

### **FACTOR 4 FINANCIAL FEASIBILITY REPORT**

**Beth Israel Lahey Health, Inc.**

**Analysis of the Reasonableness of Assumptions Used For and  
Feasibility of Projected Financial Information associated with the reactivation of one existing dormant linear  
accelerator at Beth Israel Deaconess Hospital – Plymouth, Inc.**

**For Years Ending September 30, 2024 through September 30, 2028**

# BETH ISRAEL LAHEY HEALTH, INC.

## TABLE OF CONTENTS

	<u>Page</u>
I. Executive Summary	1
II. Relevant Background Information	1
III. Scope of Report	2
IV. Primary Sources of Information Utilized	2 - 3
V. Review of the Projections	3 - 5
VI. Feasibility	5



MeyersBrothersKalicka  
CERTIFIED PUBLIC ACCOUNTANTS

September 28, 2023

Mr. Jim Jenkins  
Chief Financial Officer  
Beth Israel Deaconess Hospital – Plymouth, Inc.  
275 Sandwich Street  
Plymouth, MA 02360

Dear Mr. Jenkins:

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 reactivation of one existing dormant linear accelerator at Beth Israel Deaconess Hospital - Plymouth, Inc. (“BID Plymouth”), a hospital located at 275 Sandwich St, 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, 2024 through September 30, 2028 (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 reactivation of one existing dormant linear accelerator at BID Plymouth.

Except for the fiscal year ending September 30, 2024, the Project 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 to support the use of the linear accelerator. 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 reactivation of one existing dormant linear accelerator 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 have 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 obtained from Management. The documents and information we reviewed and relied on are noted below and/or referenced in this report:

- Historical 3D, IMRT, and SBRT volume for the one linear accelerator currently in service at BID Plymouth for the fiscal years ended September 30, 2021 and 2022.
- Historical revenue and expenses for the one linear accelerator currently in service at BID Plymouth for the fiscal years ended September 30, 2021 and 2022.
- Beth Israel Lahey Health, Inc. and Affiliates audited consolidated financial statements as of and for the years ended September 30, 2021 and September 30, 2022.
- Projected 3D, IMRT, and SBRT volume for the fiscal years ending September 30, 2024, 2025, 2026, 2027, and 2028.
- Projected revenue and expenses for the Project for the fiscal years ending September 30, 2024, 2025, 2026, 2027, and 2028.
- Projected statements of cash flows from operations for the Project for the fiscal years ending September 30, 2024, 2025, 2026, 2027, and 2028.
- Proposed service agreement for the linear accelerator between Varian Medical Systems and Beth Israel Deaconess – Plymouth, Inc. for the first three years of operations.
- Total project costs of the Applicant are comprised of estimated renovation costs of \$34,500.

**IV. Primary Sources of Information Utilized**

- DON Application Instructions dated March 2017.
- DON Narrative draft provided September 20, 2023.
- DON Application Form.

**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 reactivation of one existing dormant linear accelerator 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 broken out between conformal radiation therapy (“3D”), intensity modulated radiation therapy (“IMRT”), and stereotactic body radiation therapy (“SBRT”) as the charges per treatment vary. Based on discussions with management, net revenue is based on the average of Commercial (24%), Medicare (9%), and Medicaid/other (67%) reimbursement rates. Management has projected a 3% increase annually in net revenue per treatment type for the fiscal years ending September 30, 2024 through September 30, 2028.

The volume disclosed in the table below represents total new starts and treatments projected to be performed using the reactivated linear accelerator for the fiscal years ending September 30, 2024 through September 30, 2028. Management assumes any increase in 3D, IMRT, or SBRT volume over the current volume as of the fiscal year ended September 30, 2022 will be performed using the reactivated linear accelerator. Based on discussions with Management and review of the information provided, 3D new starts require an average of 12 treatments, IMRT new starts require an average of 30 treatments, and SBRT new starts require an average of 4 treatments. Annual growth for 3D and IMRT is estimated to be 2% for the fiscal years ending September 30, 2024 through September 30, 2028. Annual growth for SBRT treatments is estimated to be 43% for the year ending September 30, 2024, 23% for the year ending September 30, 2025, 12% for the year ending September 30, 2026, and 5% for fiscal years ending September 30, 2027 and 2028.

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

Category	Fiscal year ended September 30, 2022 (actual)	Projected/ pro-forma 2024	Projected/ pro-forma 2025	Projected/ pro-forma 2026	Projected/ pro-forma 2027	Projected/ pro-forma 2028
Volume – New starts – 3D	213	5	10	15	20	25
Volume – New starts – IMRT	177	5	9	13	17	20
Volume – New starts – SBRT	46	20	35	45	50	55
Total new starts	436	30	54	73	87	100
Volume - # of treatments – 3D	2,531	59	119	178	237	297
Volume - # of treatments – IMRT	5,255	149	267	386	505	594
Volume - # of treatments - SBRT	159	69	121	156	173	190
Total treatments	7,945	277	507	720	915	1,081
Total revenue, net	- \$	239,505 \$	442,569 \$	625,089 \$	784,673 \$	932,241 \$
Net revenue per new start	- \$	7,983 \$	8,196 \$	8,563 \$	9,019 \$	9,322 \$

Per review of historical reimbursement rates for the year ended September 30, 2022, the average reimbursement for 3D, IMRT, and SBRT is approximately \$4,562, \$18,141, and \$5,951 per new start, respectively. The above net revenue per new start is a blended rate based on type and number of treatments performed.

**V. Review of the Projections (continued)**

We analyzed the projected/pro-forma incremental net revenue for the reactivated linear accelerator for the fiscal years ending September 30, 2024 through September 30, 2028 to assess the reasonableness of the pro-forma statements. Based on our analysis, the pro-forma net revenue projected by Management is a reasonable estimation and conservative.

**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 reactivated linear accelerator (fiscal year September):

Expenses	Projected/ pro-forma 2024	Projected/ pro-forma 2025	Projected/ pro-forma 2026	Projected/ pro-forma 2027	Projected/ pro-forma 2028
Salaries and wages (1)	\$ 49,282	\$ 50,760	\$ 52,283	\$ 53,852	\$ 55,467
Fringe Benefits (2)	12,321	12,690	13,071	13,463	13,867
Maintenance (3)	155,380	155,380	155,380	160,041	160,041
Fees (4)	156,815	159,744	164,535	169,472	174,556
Depreciation (5)	3,672	3,672	3,672	3,672	3,672
Total Expenses	<u>\$ 377,470</u>	<u>\$ 382,246</u>	<u>\$ 388,941</u>	<u>\$ 400,500</u>	<u>\$ 407,603</u>

- (1) Salaries and wages in the fiscal year ending September 30, 2024 are for a part time radiation therapist. As the linear accelerator will be operating at less than half capacity for the fiscal years ending September 30, 2024 through September 30, 2028, Management has estimated 0.5 full-time equivalents for this position, with an average salary of approximately \$98,000. Management assumes a 3% cost of living adjustment every year.
- (2) Management has estimated the projected fringe benefits at approximately 25% of salaries and wages, which is consistent with 2021 and 2022 historical fringe benefits. These expenses include health insurance, FICA, tuition reimbursement and other employee benefit costs.
- (3) Maintenance includes a three-year service agreement with a third-party service provider (Varian Medical Systems) that covers equipment inspections, safety upgrades, parts necessary to repair the equipment, and technical support. Management will renew the service agreement for an additional three years during the fiscal year ending September 30, 2027 and has estimated a 3% increase for inflation.
- (4) Fees include costs associated with charges for physicist and dosimetrist services, registration fees, and the CHI payment due to the Commonwealth of Massachusetts. The Applicant receives contracted physicist and dosimetrist services from a third party to assist with treatments being performed. The fees included in the pro-forma are based on historical contract rates of approximately \$155,000 for the services of both positions. Management has estimated a 3% increase every year for inflation. The Applicant is required to pay a \$90 annual fee to the Commonwealth of Massachusetts to register the linear accelerator. Management has estimated a 3% increase every year for inflation. Fees also include the required 5% fee to the Commonwealth of Massachusetts based on total project capital costs of \$34,500 which have been included in the year ending September 30, 2024.
- (5) Estimated renovation costs of \$34,500 will be depreciated over 5 to 15 years, beginning in the year ending September 30, 2024.

We analyzed the projected/pro-forma expenses for the fiscal years ending September 30, 2024 through September 30, 2028 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.

**V. Review of the Projections (continued)**

**Net Income**

The table below provides a summary of the net income (loss) by year (fiscal year September) for the reactivated linear accelerator:

Category	Projected/ pro-forma 2024	Projected/ pro-forma 2025	Projected/ pro-forma 2026	Projected/ pro-forma 2027	Projected/ pro-forma 2028
Total revenue, net	\$ 239,505	\$ 442,569	\$ 625,089	\$ 784,673	\$ 932,241
Total expenses	377,470	382,246	388,941	400,500	407,603
Net income (loss)	\$ (137,965)	\$ 60,323	\$ 236,148	\$ 384,173	\$ 524,638

**Cash Flows**

The table below provides a summary of cash flow by year (fiscal year September) for the reactivated linear accelerator:

Category	Projected/ pro-forma 2024	Projected/ pro-forma 2025	Projected/ pro-forma 2026	Projected/ pro-forma 2027	Projected/ pro-forma 2028
Net income (loss)	\$ (137,965)	\$ 60,323	\$ 236,148	\$ 384,173	\$ 524,638
Depreciation	3,672	3,672	3,672	3,672	3,672
Cash, beginning of year (1)	-	(134,293)	(70,298)	169,522	557,367
Cash, end of year	\$ (134,293)	\$ (70,298)	\$ 169,522	\$ 557,367	\$ 1,085,677

(1) Management projects a net loss of \$137,965 for the fiscal year ending September 30, 2024. Based upon our discussion with Management, any cash deficit will be funded by the Applicant. The Applicant has the financial resources to cover this cash shortfall. The total capital expenditures for the project of \$34,500 will be funded by available capital funds of the Applicant, as well.

Based upon our discussion with Management and our review of the information provided, the capital needs and ongoing operating costs required to reactivate one existing dormant linear accelerator 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 linear accelerator.

**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 reactivation of one existing dormant linear accelerator at BID Plymouth is financially feasible and within the financial capability of the Applicant.

*Mary Beth Hall Kalicka, P.C.*