

Beth Israel Lahey Health, Inc.

**Analysis of the Reasonableness of Assumptions Used For and
Feasibility of Projected Financial Information associated with the relocation and expansion of the radiation
oncology department to be operated at the Lahey Hospital & Medical Center**

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

Lahey Hospital & Medical Center

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MeyersBrothersKalicka
CERTIFIED PUBLIC ACCOUNTANTS

June 7, 2023

Michael Connelly
Chief Financial Officer
Lahey Hospital & Medical Center
41 Burlington Mall Road
Burlington, MA 01805

Dear Mr. Connelly:

We have performed an analysis of the financial projections prepared by Beth Israel Lahey Health, Inc. (the “Applicant”) detailing the projected operations of Lahey Hospital & Medical Center (“LMHC” or the “Hospital”). The Applicant is filing a Notice of Determination of Need (“Application”) with the Department of Public Health (“DPH”) for the relocation and expansion of the radiation oncology department (the “Project”) at the Hospital. 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 proposed project as prepared by the management of LMHC (“Management”). This report is to be included by the Applicant in its 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 impact of the radiation oncology expansion.

The relocation and expansion of the radiation oncology department is projected to have positive overall cash flows. 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 radiation oncology department. It is not anticipated that the Applicant will require any additional financing associated with this service. 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 of the relocation and expansion of the radiation oncology department.

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 proposed 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 used and relied on are noted below and/or referenced in this report:

- Historical radiation oncology service volume performed at Lahey Hospital and Medical Center for the years ended December 31, 2021 and 2022.
- Historical revenue related to the radiation oncology service volume performed at Lahey Hospital and Medical Center for the years ended December 31, 2021 and 2022.
- Beth Israel Lahey Health, Inc. and Affiliates audited consolidated financial statements as of and for the years ended September 30, 2023 and September 30, 2022.
- Capital budget for expected costs of the Project by construction phases.
- Projected radiation oncology service volume performed at Lahey Hospital and Medical Center after the relocation and expansion 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.
- Purchase orders of project construction costs.
- Construction contractor budget proposal of project costs.
- DON Application Instructions dated March 2017.

IV. Primary Sources of Information Utilized (continued)

- DON Narrative draft provided May 17, 2023.
- DON Application Form
- Total project costs of the Applicant are made up of the following:

Category	Application	Excluded items*	Total
Pre-construction	\$ 2,407,644	\$ -	\$ 2,407,644
Construction	26,945,333	-	26,945,333
Furnishings and equipment	745,690	7,816,064	8,561,754
Moving and cleaning expense	84,000	-	84,000
Consultants	-	138,000	138,000
Low voltage, IS, and Security	-	361,600	361,600
Contingencies	-	3,442,411	3,442,411
Total project costs	\$ 30,182,667	\$ 11,758,075	\$ 41,940,742

*Items in the total amount of \$11,758,075 excluded from total capital expenditures of \$41,940,742 include movable equipment of \$7,816,064, contingencies of \$3,442,411 and other costs totaling \$499,600 as they are not defined as DON-required equipment.

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 Radiation Oncology Services, following the relocation and expansion of the radiation oncology department by the Applicant.

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 treatment types. Based on discussions with Management and review of the information provided, the volume disclosed in the table below is based on organic and strategic growth assumptions by treatment type. The strategic growth assumptions were developed by the radiation oncology physicians and other clinical leaders at the Hospital using healthcare analytics and market trends. Total increases in treatments performed are anticipated to be approximately 3% in fiscal year ending September 30, 2024, 1% in fiscal year ending September 30, 2025 and less than 1% in the fiscal years ending September 30, 2026, 2027, and 2028.

Based on discussions with Management and review of the information provided, gross charges of \$32,030,479 in the year ending September 30, 2024 are based on a portion of the total projected incremental revenue assumptions. The total projected revenue is calculated based on the volume growth targets. Management determined that approximately 85% of total historical departmental charges related to the radiation oncology department, therefore, the revenue projections are based on 85% of total revenue projected for all hospital revenue centers for fiscal years ending September 30, 2024, 2025, 2026, 2027 and 2028.

V. Review of the Projections (continued)

Based on discussions with Management and review of the information provided, net patient revenue is projected each year by calculating gross charges, as shown in the table below, net of deductions for contractual allowances. These allowances include negotiated fees with the commercial payors along with fees paid by the government payors for these services, which results in an approximate 35% payment on account factor (“PAF”). The projections for the deduction for the fiscal years ending September 30, 2024, 2025, 2026, 2027 and 2028 stay consistent at 65% of gross charges. Net patient revenue and total reductions are consistent with the base year factors of 35% and 65% for fiscal years 2021 and 2022.

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

Category	Projected/ pro-forma with expansion of the radiation oncology department 2024	Projected/ pro-forma with expansion of the radiation oncology department 2025	Projected/ pro-forma with expansion of the radiation oncology department 2026	Projected/ pro-forma with expansion of the radiation oncology department 2027	Projected/ pro-forma with expansion of the radiation oncology department 2028
Volume - Total treatments	9,526	9,644	9,679	9,704	9,731
Revenues - Gross charges	\$ 32,030,479	\$ 35,364,484	\$ 36,144,403	\$ 36,981,289	\$ 37,881,093
Revenues - Gross charges per treatment	\$ 3,362	\$ 3,667	\$ 3,734	\$ 3,811	\$ 3,893
Revenues - Total revenue, net	\$ 11,633,800	\$ 12,871,511	\$ 13,167,952	\$ 13,486,312	\$ 13,828,884
Revenues - Total revenue, net per treatment	\$ 1,221	\$ 1,335	\$ 1,360	\$ 1,390	\$ 1,421

Gross charge per case is expected to increase approximately 4% in the fiscal year ending September 30, 2024 when compared to fiscal year 2022 historical gross charges, 9% in the fiscal year ending September 30, 2025, and 2% each year in the fiscal years ending September 30, 2026, 2027, and 2028. Management expects a 9% increase in fiscal year ending September 30, 2025, as the expansion will include additional treatment rooms, which will allow for new patients to be treated. The 2% increase is expected each year for fiscal years ending September 30, 2026, 2027, and 2028 as a result of the new technology that will require fewer treatments per patient over time.

We analyzed the projected/pro forma revenue for the fiscal years ended September 30, 2024, 2025, 2026, 2027 and 2028 in relation to the existing radiation oncology department at the Hospital for fiscal years 2021 and 2022, in order to assess the reasonableness of the projected/pro forma statements. The gross charges per treatment were \$2,973 and \$3,245 for fiscal years 2021 and 2022, respectively. The revenue projected by Management is a reasonable estimation and conservative based primarily upon historical volume of operations and other treatment factors.

V. Review of the Projections (continued)

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 (fiscal year September):

Category	Projected/ pro-forma with expansion of the radiation oncology department 2024	Projected/ pro-forma with expansion of the radiation oncology department 2025	Projected/ pro-forma with expansion of the radiation oncology department 2026	Projected/ pro-forma with expansion of the radiation oncology department 2027	Projected/ pro-forma with expansion of the radiation oncology department 2028
Expenses - Salaries and wages (1)	\$ 3,728,388	\$ 3,739,862	\$ 3,751,564	\$ 3,763,501	\$ 3,775,677
Expenses - Fringe benefits (2)	1,109,787	1,113,229	1,116,739	1,120,320	1,123,973
Expenses - Supplies (3)	128,774	199,979	221,164	245,109	272,182
Expenses - Other expenses (4)	1,560,225	1,765,357	1,823,394	1,888,244	1,960,760
Expenses - Health safety net (5)	145,780	165,716	180,463	177,161	170,193
Expenses - CHI payment (6)	377,283	377,283	377,283	377,283	-
Expenses - Depreciation (7)	2,701,496	2,701,496	2,701,496	2,701,496	2,701,496
Total Expenses	\$ 9,751,733	\$ 10,062,922	\$ 10,172,103	\$ 10,273,114	\$ 10,004,281

- (1) Salaries and wages in the fiscal year ending September 30, 2024 includes 30 full-time equivalents (“FTEs”), an increase of 4 FTEs from the historical FTEs in 2022, to operate the radiation oncology department with an average annual salary of approximately \$124,000. The relocation and expansion of the radiation oncology department will create a need for one additional radiation technician and one specialist, and two additional registered nurses to manage the additional volume. Management does not anticipate that there will be a need to increase the number of FTEs in fiscal years ending September 30, 2025, 2026, 2027, and 2028, as the new technology will require fewer treatments per patient. Therefore, allowing an increase in new patients, while the number of treatments remain consistent. Management assumes an approximate 2% to 3% cost of living adjustment for fiscal years ending September 30, 2025, 2026, 2027, and 2028.
- (2) Management has estimated the projected fringe benefits at approximately 30% 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) Supplies are calculated each year based on 85% of supplies that are projected for all hospital revenue centers. Supplies are expected to increase approximately 41% in fiscal year ending September 30, 2024 over the 2022 historical supplies expense, 55% in fiscal year ending September 30, 2025, and 11% each year for fiscal years ending September 30, 2026, 2027, and 2028. Management expects a significant increase in required supplies over fiscal years ending September 30, 2024 and 2025 based on the projected increase in new patients and treatment volume because of the expansion. Treatment volume in fiscal years ending September 30, 2026, 2027 and 2028 is expected to remain consistent as the new technology will require fewer treatments per patient over time, resulting supplies to remain consistent as well.
- (4) Other expenses include costs associated with maintenance contracts, purchased services for treatment planning and other costs associated with miscellaneous equipment. The historical expenses for 2022 were approximately \$1,437,000 with approximately \$1,058,000, related to maintenance contracts.

V. Review of the Projections (continued)

Other expenses are projected at \$164 per treatment in fiscal year ending September 30, 2024, an increase of approximately 5% over the 2022 historical other expense costs of \$156 per treatment, a 12% increase in fiscal year ending September 30, 2025, and a 3% increase each year for fiscal years ending September 30, 2026, 2027, and 2028.

- (5) The health safety net expense is the estimated state mandated tax for the projected years. Management has estimated this tax to be approximately 0.5% of gross charges each year.
- (6) The Applicant is required to pay a 5% fee to the Commonwealth of Massachusetts based on the total projected capital costs of \$30,182,667, which results in a community health initiative (“CHI”) payment of approximately \$1,509,000, which will be payable over the first four years of the proforma.
- (7) Costs of approximately \$2,408,000 for pre-construction will be depreciated over 25 years, while the remaining costs of approximately \$39,533,000 for construction will be depreciated over 5 through 25 years, beginning in fiscal year ending September 30, 2024.

We analyzed the projected/pro forma expenses for fiscal years ending September 30, 2024, 2025, 2026, 2027 and 2028 in relation to the existing radiation oncology department at the Hospital for fiscal years 2021 and 2022, in order to assess the reasonableness of the projected/pro forma statements. Based on our analysis, the pro-forma total expenses projected by Management are a reasonable estimation and conservative based primarily upon historical volume of operations and other treatment factors.

Net Income

The table below provides a summary of the net income by year (fiscal year September):

Category	Projected/ pro-forma with expansion of the radiation oncology department 2024	Projected/ pro-forma with expansion of the radiation oncology department 2025	Projected/ pro-forma with expansion of the radiation oncology department 2026	Projected/ pro-forma with expansion of the radiation oncology department 2027	Projected/ pro-forma with expansion of the radiation oncology department 2028
Total revenue, net	\$ 11,633,800	\$ 12,871,511	\$ 13,167,952	\$ 13,486,312	\$ 13,828,884
Total expenses	9,751,733	10,062,922	10,172,103	10,273,114	10,004,281
Net income	\$ 1,882,067	\$ 2,808,589	\$ 2,995,849	\$ 3,213,198	\$ 3,824,603

Cash Flows

The table below provides a summary of cash flow by year (fiscal year September):

Category	Projected/ pro-forma with expansion of the radiation oncology department 2024	Projected/ pro-forma with expansion of the radiation oncology department 2025	Projected/ pro-forma with expansion of the radiation oncology department 2026	Projected/ pro-forma with expansion of the radiation oncology department 2027	Projected/ pro-forma with expansion of the radiation oncology department 2028
Net income	\$ 1,882,067	\$ 2,808,589	\$ 2,995,849	\$ 3,213,198	\$ 3,824,603
Depreciation	2,701,496	2,701,496	2,701,496	2,701,496	2,701,496
Cash, beginning of year	-	4,583,563	10,093,648	15,790,993	21,705,687
Cash, end of year	\$ 4,583,563	\$ 10,093,648	\$ 15,790,993	\$ 21,705,687	\$ 28,231,786

V. Review of the Projections (continued)

Capital Financing

Management expects there will be no cash available at the beginning of the year ending September 30, 2024. There is no expected financing for the project. The total capital expenditures for the project of approximately \$42,000,000 will be funded by available capital funds of the Applicant and philanthropic giving of approximately \$1 million.

Based upon our discussions with Management and our review of the information provided, the capital needs and ongoing operating costs required for the relocation and expansion of the radiation oncology department are not likely to result in a scenario where there is negative cash flow. The Applicant has the resources to fund the initial capital requirements.

VI. Feasibility

We analyzed the projected operations, including volume of treatments, revenue and expenses for Lahey Hospital & Medical Center. 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 radiation oncology department. Based upon our review of the projections and relevant supporting documentation, we determined the relocation and expansion of the radiation oncology department at LHMC and the capital needs associated with the project is financially feasible and within the financial capability of BILH.

Myra Brothers Kalicka, P.C.

Holyoke, Massachusetts
June 7, 2023