

**Beth Israel Lahey Health, Inc.**  
**Analysis of the Reasonableness of Assumptions Used For and the**  
**Feasibility of Projected Financials associated with the acquisition of a second computed**  
**tomography (“CT”) scanner at Anna Jaques Hospital**

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

# **Anna Jaques Hospital**

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July 12, 2023

Mr. Sean Ahern  
Chief Operating Officer  
Anna Jaques Hospital  
25 Highland Avenue  
Newburyport, MA 01950

Dear Mr. Ahern:

We have performed an analysis of the financial projections prepared by Beth Israel Lahey Health, Inc. (“BILH” or the “Applicant”) detailing the projected operations of the addition of a second computed tomography (“CT”) scanner at Anna Jaques Hospital (“AJH” or the “Hospital”), located at 25 Highland Avenue in Newburyport, Massachusetts, as well as capital needs associated with this service (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 Anna Jaques Hospital (“Management”). This report is to be included by Anna Jaques Hospital 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 related to the addition of a second CT scanner at AJH.

We determined that the projections were not likely to result in a scenario where there are insufficient funds available for the capital needs and ongoing operating costs required to support the addition of a second CT scanner. Excluding the lease costs for the CT scanner, it is not anticipated that AJH will require any additional 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, AJH and the Project, as well as the overall description and rationale of the patient need and logic surrounding the addition of a second CT scanner at AJH.

### **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 relevant information (see section IV of this report). We have gained an understanding through our review of the information provided by Management, including actual results of the one existing CT scanner located at AJH, 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 CT scan volume performed for the one existing CT scanner presently at Anna Jaques Hospital for the fiscal years ended September 30, 2020, 2021 and 2022.
- Projected CT scan volume performed at Anna Jaques Hospital after the implementation of the second CT scanner for the fiscal years ending September 30, 2024, 2025, 2026, 2027 and 2028.
- Beth Israel Lahey Health, Inc. and Affiliates audited consolidated financial statements as of and for the years ended September 30, 2022 and September 30, 2021.
- Historical expenses of the one existing CT scanner at Anna Jaques Hospital for the fiscal year ended September 30, 2022.
- The Medicare OPPS Addendum B Report with the corresponding Outpatient CT Schedule with reimbursement amounts by HCPCS code for January 2022.
- 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.
- Construction contractor budget proposal of project costs.
- Lease contract for the new CT scanner.

#### **IV. Primary Sources of Information Utilized (continued)**

- Maintenance contract for new CT scanner.
- DON Application Instructions dated March 2017.
- DON Narrative draft provided June 13, 2023.
- DON Application Form.
- Total project costs of the Applicant are made up of the following:

Category	Total
Construction	\$1,100,000
CT scanner (lease)	881,205
Architecture and engineering fees	119,291
Total project costs	<u>\$2,100,496</u>

#### **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 services upon the addition of a second CT scanner at AJH by the Applicant.

##### **Revenues**

We have reviewed and analyzed the net operating revenues in the historical and projected financial information. Based on discussions with Management and review of the information provided, the volume disclosed in the table below is based on historical trends and internal growth assumptions. The strategic growth assumptions were developed by Management and other leaders at the Hospital using healthcare analytics and market trends. For the year ending September 30, 2024, volume is equal to the scans that make up the 2% increase in volume from fiscal year 2022, plus an allocation of 3,747 scans previously performed by the one CT scanner currently at AJH. CT scans increased approximately 5% from fiscal year 2021 to fiscal year 2022. Additional increases in treatments performed are anticipated to be 10% in the year ending September 30, 2025 and 7% in the fiscal year ending September 30, 2026, respectively. There are no volume growth assumptions for fiscal years ending September 30, 2027 and 2028, respectively.

Based on discussions with Management and review of the information provided, the net revenue information disclosed in the table below is based on the Medicare OPPS Addendum B Report and the corresponding Outpatient CT Schedule Report and historical average reimbursements for all other insurance providers. The average reimbursement rate based on the payor mix and procedure type is \$249.65 per scan for the year ending September 30, 2024. Management anticipates annual reimbursement rate increases of 2% for fiscal years ending September 30, 2025, 2026, 2027 and 2028.

## V. Review of the Projections (continued)

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

Category	Projected/ pro-forma with second CT scanner 2024	Projected/ pro-forma with second CT scanner 2025	Projected/ pro-forma with second CT scanner 2026	Projected/ pro-forma with second CT scanner 2027	Projected/ pro-forma with second CT scanner 2028
Volume - Total scans	4,017	4,400	4,700	4,700	4,700
Revenues - Net revenues	\$1,002,834	\$ 1,144,347	\$ 1,246,073	\$ 1,270,995	\$ 1,296,414
Revenues - Net revenues per scan	\$ 250	\$ 260	\$ 265	\$ 270	\$ 276

We analyzed the projected/pro-forma revenue for fiscal years ending September 30, 2024, 2025, 2026, 2027 and 2028 in relation to the historical results of the one existing CT scanner at AJH in order to assess the reasonableness of the projected/pro-forma statements. The revenue projected by Management is reasonable and conservative based primarily upon historical volume of operations and other factors. Based on our analysis, the pro-forma operating revenues are reasonable.

### Expenses

We analyzed each of the categorized expenses for reasonableness and feasibility as it relates to the projected expenses.

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

Expenses	Projected/ pro-forma with second CT scanner 2024	Projected/ pro-forma with second CT scanner 2025	Projected/ pro-forma with second CT scanner 2026	Projected/ pro-forma with second CT scanner 2027	Projected/ pro-forma with second CT scanner 2028
Salaries and wages (1)	\$ 193,565	\$ 201,679	\$ 205,922	\$ 210,166	\$ 214,366
Fringe benefits (2)	54,198	56,470	57,658	58,846	60,023
Other expenses (3)	51,500	57,274	62,145	63,387	64,654
Equipment lease (4)	176,241	176,241	176,241	176,241	176,241
Maintenance (5)	-	99,000	99,000	99,000	99,000
CHI payment (6)	26,256	26,256	26,256	26,256	-
Depreciation (7)	89,874	89,874	89,874	84,770	84,770
Total Expenses	<u>\$ 591,634</u>	<u>\$ 706,794</u>	<u>\$ 717,096</u>	<u>\$ 718,666</u>	<u>\$ 699,054</u>

- (1) Salaries and wages for the year ending September 30, 2023 includes 2 full-time equivalents ("FTE") to operate the second CT scanner at an average salary of approximately \$96,800 per FTE. Management does not anticipate there will be a need to increase the number of FTE's to manage the additional volume in fiscal years ending September 30, 2025 and 2026, and volume is expected to remain consistent for fiscal years ending September 30, 2026, 2027, and 2028. Management assumes a 2% 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 28% of salaries and wages, which is conservative in comparison to the fiscal year 2022 historical fringe benefits of approximately 23%. These expenses include health insurance, FICA, tuition reimbursement and other employee benefit costs.

## V. Review of the Projections (continued)

- (3) Other expenses include supplies, miscellaneous equipment, and purchased services. These costs are based on 24% of historical fiscal year 2022's actual costs. The percentage is based on the number of scans projected to be performed with the second CT scanner in fiscal year ending September 30, 2024 when compared to the number of scans performed in fiscal year 2022. Management anticipates other expenses to increase 12% and 9% in fiscal years ending September 30, 2025 and 2026 related to increase in the volume of scans to be performed. Fiscal years ending September 30, 2027 and 2028 are anticipated to increase 2%.
- (4) Equipment lease relates to the proposed lease agreement for the second CT scanner with Siemens Financial Services, Inc. The lease is a 60-month lease, with monthly payments of \$14,686.75. The total cost of the lease is \$881,205. At the end of the lease period, AJH will purchase the machine for \$1.
- (5) Maintenance is projected to be \$99,000 per year based on the maintenance proposal from Crothall Healthcare, beginning in the fiscal year ending September 30, 2025.
- (6) The Applicant is required to pay a 5% fee to the Commonwealth of Massachusetts based on the total projected capital costs of \$2,100,496, which results in a community health initiative ("CHI") payment of approximately \$105,000, which will be payable over the first four years of the proforma.
- (7) Costs of approximately \$1,100,000 for the estimated constructions costs relating to the new CT scanner. Depreciation will range from 3-25 years beginning in fiscal year ending September 30, 2024.

We analyzed the projected/pro forma expenses for years ending September 30, 2024, 2025, 2026, 2027, and 2028 in relation to the existing CT scanner at the Hospital for fiscal year 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.

### Net Income

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

Category	Projected/ pro-forma with second CT scanner 2024	Projected/ pro-forma with second CT scanner 2025	Projected/ pro-forma with second CT scanner 2026	Projected/ pro-forma with second CT scanner 2027	Projected/ pro-forma with second CT scanner 2028
Total revenue, net	\$1,002,834	\$1,144,347	\$1,246,073	\$1,270,995	\$1,296,414
Total expenses	(591,634)	(706,794)	(717,096)	(718,666)	(699,054)
Total net income	\$ 411,200	\$ 437,553	\$ 528,977	\$ 552,329	\$ 597,360

## V. Review of the Projections (continued)

### Cash Flows and Capital Expenditures

#### Cash Flows

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

Category	Projected/ pro-forma with second CT scanner 2024	Projected/ pro-forma with second CT scanner 2025	Projected/ pro-forma with second CT scanner 2026	Projected/ pro-forma with second CT scanner 2027	Projected/ pro-forma with second CT scanner 2028
Net income	\$ 411,200	\$ 437,553	\$ 528,977	\$ 552,329	\$ 597,360
Depreciation	89,874	89,874	89,874	84,770	84,770
Cash, beginning of year (1)	-	501,074	1,028,501	1,647,352	2,284,451
Cash, end of year	\$ 501,074	\$ 1,028,501	\$ 1,647,352	\$ 2,284,451	\$ 2,966,581

- (1) Management expects there will be no cash available at the beginning of fiscal year ending September 30, 2024. Excluding the lease costs for the second CT scanner, there is no expected financing for the project. The total capital expenditures for the project excluding the lease, of approximately \$1,219,300 will be funded by available capital funds of the Applicant.

Based upon our discussions with management and our review of the information provided, the capital needs and ongoing operating costs required to support the addition of a second CT scanner are not likely to result in a scenario where there is negative cash flow. The Applicant has the financial resources to fund the initial capital requirements

## VI. Feasibility

We analyzed the projected operations, including CT scan volume, revenue and expenses for AJH prepared by Management. In performing our analysis, we considered multiple sources of information including historical and projected financial information for AJH. 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 Project and its projected operating revenue, expenses and cash flow are reasonable and based upon feasible financial assumptions. Therefore, the addition of a second CT scanner at AJH and the capital needs associated with this service is financially feasible and within the financial capability of BILH.

*Myra Beothus Kalicka, P.C.*