

BMC Health System, Inc.

**Analysis of the Reasonableness of
Assumptions Used For and
Feasibility of Projected Financials of
BMC Health System, Inc.
For the Years Ending September 30, 2024
Through September 30, 2028**

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July 13, 2023

Ms. Terri T. Newsom
Senior Vice President and Chief Financial Officer
Boston Medical Center
715 Albany Street
Boston, MA 02118

RE: Analysis of the Reasonableness of Assumptions and Projections Used to Support the Financial Feasibility and Sustainability of the Proposed New MRI Project

Dear Ms. Newsom:

I have performed an analysis of the financial projections prepared by BMC Health System, Inc. ("BMC") detailing the projected New MRI Unit at Boston Medical Center Corporation d/b/a Boston Medical Center ("the Hospital"), including renovations to accommodate the new unit. This report details my analysis and findings with regards to the reasonableness of assumptions used in the preparation and feasibility of the projected financial information of BMC Health System, Inc. as prepared by the management of BMC ("Management"). This report is to be used by BMC Health System, Inc. in its Determination of Need ("DoN") Application – Factor 4(a) and should not be distributed or relied upon for any other purpose.

I. EXECUTIVE SUMMARY

The scope of my analysis was limited to the five-year consolidated financial projections (the "Projections") prepared by BMC as well as the actual operating results for BMC for the fiscal years ended September 30, 2021 and 2022, and the supporting documentation in order to render an opinion as to the reasonableness of assumptions used in the preparation and feasibility of the Projections with regards to the impact of the capital project involving and ancillary to the purchase of a new MRI unit and related renovations at the Hospital in Boston, MA.

The impact of the proposed capital project at the Hospital, which is the subject of this DoN application, represents a relatively insignificant component of the projected net patient service revenue (approximately 0.31%) and projected total assets (approximately 0.17%) of BMC for Fiscal Year 2025. As such, I determined that the Projections are reasonable and feasible, and not likely to have a negative impact of the Applicant's (BMC) patient panel or result in a liquidation of BMC's assets. A detailed explanation of the basis for my determination of reasonableness and feasibility is contained within this report.

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II. RELEVANT BACKGROUND INFORMATION

BMC Health System, Inc. is a tax-exempt, non-profit Massachusetts corporation that oversees the operation of Boston Medical Center Corporation d/b/a Boston Medical Center, and various other affiliates and associated service entities.

Please refer to the DoN application for a further description of the proposed project and the rationale for the expenditures.

III. SCOPE OF REPORT

The scope of this report is limited to an analysis of the Projections, prior year financials and the supporting documentation in order to render an opinion as to the reasonableness of assumptions used in the preparation and feasibility of the Projections with regards to the impact of the capital project involving and ancillary to BMC Health System, Inc. My analysis of the Projections and conclusions contained within this report are based upon my detailed review of all relevant information (see Section IV which references the sources of information). I have gained an understanding of BMC Health System, Inc. through my review of the information provided as well as a review of the BMC website, annual reports, and 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 BMC Health System, Inc.’s existing patient panel” (per Determination of Need, Factor 4(a)).

This report is based upon historical and prospective financial information provided to me by Management. I have not audited or performed any other form of attestation services on the projected financial information. If I had audited the underlying data, matters may have come to my attention that would have resulted in my using amounts that differ from those provided. Accordingly, I do not express an opinion or any other assurances on the underlying data presented or relied upon in this report. I do not provide assurance on the achievability of the results forecasted by BMC 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. I reserve the right to update my analysis in the event that I am provided with additional information.

IV. PRIMARY SOURCES OF INFORMATION UTILIZED

In formulating my opinions and conclusions contained in this report, I reviewed documents produced by Management. The documents and information upon which I relied are identified below or are otherwise referenced in this report:

1. Six-Year Financial Forecast (Projections), including related assumptions for BMC Health System, Inc. for the fiscal years ending 2023 through 2028, provided June 23, 2023 and updated July 5, 2023;
2. Projected income statements for the Project, including detailed assumptions and supporting documentation for the fiscal years 2025 through 2029, provided June 17, 2023;

3. Schedule of Estimated Total Capital Expenditure, provided May 12, 2023; including related MRI quote, provided June 28, 2023, and construction budget and project schematics, provided July 7, 2023.
4. Presentations to Leadership on proposed MRI project, provided July 6, 2023;
5. Audited Financial Statements of BMC Health System, Inc. including consolidating balance sheets and statements of operations as of and for the years ended September 30, 2022 and 2021 and as of and for the years ended September 30, 2021 and 2020, provided June 9, 2023;
6. Boston Medical Center website – <https://www.bmc.org>;
7. Various news publications and other public information about the hospital;
8. Determination of Need Application Instructions dated March 2017; and
9. Draft Determination of Need Factors 1, 2 and 5 provided July 10, 2023.

V. REVIEW OF THE PROJECTIONS

This section of my report summarizes my review of the reasonableness of the assumptions used and feasibility of the Projections. The Projections are delineated between four categories of revenue and five general categories of operating expenses of BMC Health System, Inc. as well as other nonoperating gains and losses. The following table presents the Key Metrics, as defined below, of BMC which compares the results of the Projections for the fiscal years ending 2024 through 2028 to BMC's historical results for the fiscal years ended 2021 and 2022.

	As Reported		Key Metrics for Projected Periods				
(\$ in thousands)	2021	2022	2024	2025	2026	2027	2028
EBIDA (\$)	214,699	133,727	166,118	173,146	212,638	249,992	263,734
EBIDA Margin (%)	4.8%	2.8%	2.3%	2.3%	2.6%	2.9%	2.9%
Operating Margin (%)	2.0%	0.1%	0.3%	0.3%	0.7%	1.1%	1.2%
Total Margin (%)	3.4%	-2.3%	1.3%	1.2%	1.7%	2.1%	2.3%
Unrestricted Cash Days on Hand	155.2	146.2	99.9	101.7	101.5	106.2	110.9
Unrestricted Cash to Debt (%)	300.0%	312.5%	243.9%	262.0%	310.9%	350.4%	414.4%
Debt Service Coverage (ratio)	8.7	0.6	5.3	5.5	2.4	8.0	3.8
Debt to Capitalization (%)	23.0%	24.3%	27.6%	26.3%	22.8%	21.2%	18.4%
Total Assets (\$)	3,912,529	3,897,617	4,465,889	4,544,396	4,624,491	4,882,220	5,106,168
Total Net Assets (\$)	2,052,943	1,885,142	2,120,127	2,240,113	2,424,768	2,637,799	2,875,892

The Key Metrics fall into three primary categories: profitability, liquidity, and solvency. Profitability metrics, such as EBIDA, EBIDA Margin, Operating Margin, Total Margin, and Debt Service Coverage Ratio are used to assist in the evaluation of management performance in how efficiently resources are utilized. Liquidity metrics, such as Unrestricted Cash Days on Hand and Unrestricted Cash to Debt, measure the quality and adequacy of assets to meet current obligations as they come due. Solvency metrics, such as Debt to Capitalization, Total Assets and Total Net Assets, measure the company's ability to service debt obligations. Additionally, certain metrics can be applicable in multiple categories

The following table shows how each of the Key Metrics is calculated.

Key Metric	Definition
EBIDA (\$)	(Earnings before interest, depreciation and amortization expenses) - Operating income (loss) + interest expense + depreciation expense + amortization expense
EBIDA Margin (%)	EBIDA expressed as a % of total operating revenue. EBIDA / total operating revenue
Operating Margin (%)	Income (loss) from operations / total operating revenue
Total Margin (%)	Excess (deficiency) of revenue over expenses / total operating revenue
Debt Service Coverage (ratio)	(Excess (deficiency) of revenue over expenses + depreciation expense + amortization expense + interest expense) / (Principal payments + interest expense)
Unrestricted Cash Days on Hand	(Cash and equivalents + short-term investments + board-designated investments + long-term investments) / ((Total operating expenses - depreciation & amortization) / YTD days)
Unrestricted Cash to Debt (%)	(Cash and equivalents + short-term investments + board-designated investments + long-term investments) / (Current portion of long-term debt + long-term debt)
Debt to Capitalization (%)	(Current portion of long-term debt + long-term debt) / (Current portion of long-term debt + long-term debt + unrestricted net assets)
Total Assets (\$)	Total assets of the organization
Total Net Assets (\$)	Total net assets of the organization (includes net assets without donor restrictions and net assets with donor restrictions)

1. Revenues

The only revenue category on which the proposed capital project would have an impact is net patient service revenue (“NPSR”). Therefore, I have analyzed net patient service revenue identified by BMC Health System, Inc. in both their historical and projected financial information. Based upon my analysis of the projected results from Fiscal Year 2024 through Fiscal Year 2028, the incremental revenue from the proposed capital project represents approximately 0.31% (about 3 tenths of 1%) of BMC’s NPSR in FY 2025, and approximately 0.29% (about 3 tenths of 1%) of BMC’s NPSR in FY 2028. The first year in which incremental revenue is present for the proposed capital project is FY 2025.

It is my opinion that the revenue growth projected by Management reflects a reasonable estimation based primarily on historical operations.

2. Operating Expenses

I analyzed each of the categorized operating expenses for reasonableness and feasibility as it relates to the projected revenue items. I reviewed the actual operating results for the years ended 2021 and 2022 in order to determine the impact of the proposed MRI capital project at BMC and in order to determine the reasonableness of the Projections for the fiscal years 2024 through 2028. I compared the projected expenses for BMC to actual operating expenses for the years ended September 30, 2022 and 2021. Based upon my analysis of the projected results from Fiscal Year 2024 through Fiscal Year 2028, the proposed capital project would represent approximately 0.04% (about 4 one hundredths of 1%) of BMC’s operating

expenses in FY 2025, and approximately 0.04% (about 4 one hundredths of 1%) BMC's operating expenses in FY 2028. The first year in which operating expenses are present for the proposed capital project is FY 2025.

It is my opinion that the growth in operating expenses projected by Management reflects a reasonable estimation based primarily on historical operations.

3. Nonoperating Gains/Expenses and Other Changes in Net Assets

The final categories of BMC Health System, Inc. Projections are various nonoperating gains/expenses. The items in these categories relate to investment account activity (realized and unrealized) and pension plan funded status. Because these items are unpredictable, nonrecurring, or dependent upon market fluctuations, I analyzed the nonoperating activity in aggregate by comparing them to historical data. Based upon my analysis, there were no nonoperating expenses projected for the proposed capital project at the Hospital. Accordingly, it is my opinion that the pro-forma nonoperating gains/expenses and other changes in net assets are reasonable.

4. Capital Expenditures and Cash Flows

I reviewed historical capital expenditures and cash flows in order to determine whether BMC anticipated reinvesting sufficient funds for technological upgrades and property, plant and equipment and whether the cash flows would be able to support that reinvestment.

Based upon my discussions with Management and my review of the information provided, I considered the current and projected capital projects and loan financing obligations included within the Projections and the impact of those projected expenditures on BMC's cash flows. Based upon my analysis, it is my opinion that the pro-forma capital expenditures and resulting impact on BMC Health System, Inc.'s cash flows are reasonable.

VI. FEASIBILITY

I analyzed the Projections and Key Metrics for BMC Health System, Inc. In performing my analysis, I considered multiple sources of information. It is important to note that the Projections do not account for any anticipated changes in accounting 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.

Since the impact of the proposed capital project at the Hospital which is the subject of this DoN application, represents a relatively insignificant portion of the projected net patient service revenue (approximately 0.31%) and projected total assets (approximately 0.17%) of BMC Health System, Inc. for Fiscal Year 2025, I determined that the Projections are not likely to result in insufficient funds available for capital and ongoing operating costs necessary to support the proposed project. Based upon my review of the Projections and relevant supporting documentation, I determined the project and continued operating surplus are reasonable and are based upon feasible financial assumptions. Therefore, the proposed new MRI unit and related renovations at the Hospital are financially feasible and within the financial capability of BMC Health System, Inc.

Respectively submitted,



Bernard L. Donohue, III, CPA