

ATTACHMENT 3

FACTOR 4 INDEPENDENT CPA ANALYSIS



Analysis of the Reasonableness of Assumptions Used For and Feasibility of Projected Financials of:

**Cambridge Health Alliance
For the Years Ending June 30, 2022
Through June 30, 2027**



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October 3, 2022

Andrea Synnott
Associate General Counsel
Cambridge Health Alliance
1493 Cambridge Street
Cambridge, MA 02139

RE: Project Financial Feasibility Services Associated with DPH DON Factor 4

Dear Ms. Synnott:

Enclosed is a copy of our report on the reasonableness of assumptions used for and feasibility of the financial projections for Cambridge Health Alliance. Please contact me to discuss this report once you have had an opportunity to review.

Sincerely,

BDO USA, LLP

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RE: Project Financial Feasibility Services Associated with DPH DON Factor 4

Dear Ms. Synnott:

We have performed an analysis related to the reasonableness and feasibility of the financial projections (the “Projections”) of The Cambridge Public Health Commission d/b/a Cambridge Health Alliance (“CHA” or “the Applicant”), related to the proposed project as detailed further below (the “Proposed Project”). This report details our analysis and findings with regard to the reasonableness of assumptions used in the preparation of the Projections and feasibility of the projected financial results prepared by the management of CHA (“Management”). This report is to be used by CHA in connection with 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 our review was limited to an analysis of the consolidated six-year financial projections for the Applicant for the fiscal years ending June 30, 2022 through 2027 prepared by Management and the supporting documentation to render an opinion as to the reasonableness of assumptions used in the preparation and feasibility of the Projections.

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The Projections exhibit a cumulative operating EBITDA¹ surplus of approximately 1.9 percent of cumulative projected revenue of CHA for the six years from fiscal year (“FY”) 2022 through 2027. Based upon our review of the relevant documents and analysis of the Projections, we determined the anticipated operating EBITDA surplus is a reasonable expectation and based upon feasible financial assumptions. Accordingly, we determined that the Projections are reasonable and feasible, and not likely to have a negative impact on the Applicant’s patient panel or result in a liquidation of CHA’s assets. A detailed explanation of the basis for our determination of reasonableness and feasibility is contained within this report.

II. RELEVANT BACKGROUND INFORMATION²

The Applicant, Cambridge Health Alliance, is a regional integrated healthcare system primarily serving Boston’s metro-north communities. CHA has an extensive network of primary care and ambulatory care centers across its service area, including a care center in Malden (“CHA Malden Care Center”). The Applicant has three hospital campuses, two of which are community level acute care hospitals, the CHA Cambridge Hospital campus (“CHA Cambridge”) and the CHA Everett Hospital campus (“CHA Everett”), and a third which provides inpatient child and adolescent psychiatry services at the CHA Somerville campus (“CHA Somerville”). CHA also operates the Cambridge Public Health Department, serves as a teaching hospital of Harvard Medical School, Harvard School of Public Health, Harvard School

¹ EBITDA (“Earnings before Depreciation, Interest and Tax”)

² Portions of this section of the report were adapted directly from the Project Description section of the CHA Application Form for DON Application as directed by the Applicant.

of Dental Medicine and Tufts University School of Medicine, and provides numerous other healthcare and public health services throughout its service area.

The Proposed Project consists of the establishment of part-time, mobile positron emission tomography (“PET”) / computed tomography (“CT”) diagnostic services three days per week at CHA Malden Care Center (the “PET-CT Services”). The state-of-the-art mobile van for the PET-CT Services will be located adjacent to the CHA Malden Care Center with a parking pad to support the weight of the van and a weather protected covered connector. The total value of the Proposed Project based on the maximum capital expenditure is \$480.0 thousand.

The Proposed Project will be available to the full CHA patient panel and to members of the wider community. Prior to receiving PET-CT Services, physicians will assess patients to determine if they (1) demonstrate the requisite underlying clinical condition/diagnosis and (2) meet clinical protocols that accord with the standard of care. CHA anticipates that the use of PET-CT Services will continue to evolve, expanding to other clinical applications as new isotopes are developed and approved for other clinical applications. By adding PET-CT Services, the Proposed Project will bring state-of-the-art imaging services to a patient population that has historically been underserved despite demonstrating higher levels of chronic and other disease disparities. The Proposed Project will eliminate a barrier to access of timely, convenient and coordinated care for CHA patients who would benefit from these imaging services.

III. SCOPE OF REPORT

The scope of this report is limited to an analysis of the six-year Projections for the fiscal years ending June 30, 2022 through 2027, prepared by Management, and the supporting documentation to render an opinion as to the reasonableness of assumptions used in the preparation and feasibility of the Projections. 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 Proposed Project is not likely to result in a liquidation of the underlying assets or the need for reorganization.

This report is based on prospective financial information provided to us by Management. BDO understands the prospective financial information was developed as of August 31, 2022 and is still representative of Management's expectations as of the drafting of this report.³ BDO has not audited or performed any other form of attestation services on the projected financial information related to the operations of CHA.

If BDO 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 or projections presented or relied upon in this report. We do not provide assurance on the achievability of the results forecasted by the Applicant because events and circumstances frequently do not occur as

³ Prospective financial information includes the year ending June 30, 2022. As of the date of the multi-year projection model was prepared, fiscal year 2022 had ended; however, the model did not yet reflect 2022 actuals. We understand the projected fiscal year 2022 reflects actuals through May 2022 and budget for June 2022.

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 in the event we are provided with additional information.

IV. SOURCES OF INFORMATION UTILIZED

In formulating our conclusions contained in this report, we reviewed documents produced by Management as well as third party industry data sources. The documents and information upon which we relied are identified below or are otherwise referenced in this report:

1. Financial Model for CHA for the periods ending June 30, 2020 through June 30, 2027;
2. May Results Analysis and Fiscal Year 2022 Reprojection Presentation to the CHA Board Finance Committee on June 28, 2022;
3. Fiscal Year 2023 Budget Recommendation Presentation to the CHA Finance Committee on June 28, 2022;
4. Cambridge Health Alliance DON Application # CHA-22061514-RE dated August 31, 2022;
5. A Project Budget for the project titled Malden PET - CT signed by David Farmer, Senior Director of Facilities, dated August 19, 2022;
6. Public Announcement Concerning a Proposed Health Care Project;
7. Projected Return on Investment (“ROI”) for Mobile PET Service Project;
8. Audited Financial Statements for Cambridge Health Alliance for Fiscal Years Ended June 30, 2021 and 2020;



9. Audited Financial Statements for Cambridge Health Alliance for Fiscal Years Ended June 30, 2019 and 2018;
10. Integra Reports, published by MicroBilt Corporation;
11. Definitive Healthcare data;
12. IBISWorld Industry Report, Hospitals in the US, dated July 2022; and
13. Determination of Need Application Instructions dated March 2017.

V. REVIEW OF THE PROJECTIONS

This section of our report summarizes our review of the reasonableness of the assumptions used and feasibility of the Projections.

The following table presents the Key Metrics, as defined below, which compare the forecasted operating results of CHA to historical results for the Applicant and market information from Integra Data, IBISWorld, and Definitive Healthcare to assess the reasonableness of the Projections.

Key Financial Metrics and Ratios Cambridge Health Alliance	Projected					
	2022	2023	2024	2025	2026	2027
Profitability						
Operating Margin (%)	-6.0%	-3.4%	-1.0%	-0.7%	-0.5%	-0.6%
Excess Margin (%)	1.0%	2.6%	-0.1%	0.2%	0.3%	0.3%
Debt Service Coverage Ratio (x)	30.8x	22.4x	11.9x	13.1x	13.9x	15.0x
Liquidity						
Days Available Cash on Hand (#)	107.1	114.1	116.3	119.2	123.1	128.8
Cash Flow Margin (%)	-4.8%	-0.2%	2.3%	2.6%	2.8%	3.3%
Solvency						
Current Ratio (x)	3.0x	3.4x	3.5x	3.8x	3.9x	4.1x
Ratio of Long Term Debt to Total Capitalization (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Ratio of Cash Flow to Long Term Debt (%)	NM	NM	NM	NM	NM	NM
Unrestricted Net Assets (\$ in thousands)	\$ 125,330	\$ 166,342	\$ 179,260	\$ 195,736	\$ 214,594	\$ 234,080
Total Net Assets (\$ in thousands)	\$ 308,728	\$ 332,828	\$ 331,653	\$ 333,044	\$ 335,828	\$ 338,249



Key Financial Metrics and Ratios	Actual				Industry Data (1)		
	2018	2019	2020	2021	Integra Data - General Medical and Surgical Hospitals	IBIS - Hospitals in the US (2)	Definitive Healthcare
Cambridge Health Alliance							
Profitability							
Operating Margin (%)	-0.5%	-1.0%	-6.5%	-4.0%	3.5%	NA	-8.1%
Excess Margin (%)	1.6%	1.2%	-0.5%	6.0%	1.4%	7.6%	6.3% (3)
Debt Service Coverage Ratio (x)	13.4x	66.4x	213.7x	873.1x	1.4x	1.2x	NA
Liquidity							
Days Available Cash on Hand (#)	183.1	117.8	189.5	131.6	NA	NA	24.4
Cash Flow Margin (%)	12.5%	0.5%	10.4%	-15.8%	7.0%	55.7%	NA
Solvency							
Current Ratio (x)	3.6x	2.7x	2.1x	2.6x	2.5x	1.1x	1.2x
Ratio of Long Term Debt to Total Capitalization (%)	0.1%	0.1%	0.0%	0.0%	43.1%	NA	NA
Ratio of Cash Flow to Long Term Debt (%)	26613.5%	2218.5%	105311.6%	NM	25.8%	NA	NA
Unrestricted Net Assets (\$ in thousands)	\$ 97,878	\$ 85,858	\$ 73,893	\$ 131,999	NA	NA	NA
Total Net Assets (\$ in thousands)	\$ 241,764	\$ 249,629	\$ 247,312	\$ 299,182	\$ 1,935,790	NA	NA

Footnotes:

(1) Industry data metrics based on each data source's respective definitions and may differ from the definitions listed below. Further, we note industry metrics only include hospitals and do not reflect health systems, including physician organizations.

(2) Data from IBISWorld Industry Report 62211 - Hospital in the US published July 2022. The ratios used are for 2020, the most recent available data.

(3) Net income margin from IBIS and Definitive Healthcare data treated as an equivalent to excess margin.

The Key Metrics fall into three primary categories: profitability, liquidity, and solvency. Profitability metrics are used in the evaluation of management performance in how efficiently resources are utilized. Liquidity metrics, including common ratios such as “days of available cash and investments on hand”, measure the quality and adequacy of assets to meet current obligations as they come due. Solvency metrics measure the company’s ability to take on and service debt obligations. Additionally, certain metrics can be applicable to multiple categories. The table below shows how each of the Key Metrics is calculated.



Key Financial Metrics and Ratios	
Ratio Definitions	Calculation
Profitability	
Operating Margin (%)	Excess of Revenue over Expenses from Operations Divided by Total Operating Revenue
Excess Margin (%)	Excess of Revenue Over Expenses Divided by (Total Operating Revenue + Net Nonoperating Revenue)
Debt Service Coverage Ratio (x)	(Excess of Revenue Over Expenses + Depreciation and Amortization + Interest) Divided by (Principal Payments and Interest)
Liquidity	
Days Available Cash and Investments on Hand (#)	Cash and Cash Equivalents Divided by [(Total Operating Expenses Less Depreciation and Amortization) Divided by 365 Days]
Operating Cash Flow (%)	Net Cash Provided by Operating Activities Divided by Total Operating Revenue
Solvency	
Current Ratio (x)	Current Assets Divided by Current Liabilities
Ratio of Long Term Debt to Total Capitalization (%)	Long-Term Debt (Noncurrent Note Payable + Noncurrent Capital Lease Obligations) Divided by Total Capitalization (Noncurrent Note Payable + Noncurrent Capital Lease Obligations + Net Position)
Ratio of Cash Flow to Long Term Debt (%)	Net Cash Provided by Operating Activities Divided by Long-Term Debt (Noncurrent Note Payable + Noncurrent Capital Lease Obligations)
Net Assets Without Donor Restrictions (\$ in thousands)	Unrestricted Net Position
Total Net Assets (\$ in thousands)	Total Net Position

1. Revenue

We analyzed the projected revenue included in the Projections. Operating revenue for the Applicant includes net patient revenue, federal and state support, and other operating revenue. Cumulative net patient revenue represents 45.6 percent of total operating revenue from FY 2022 - FY 2027, cumulative federal and state support reflects 33.7 percent, and cumulative other operating revenue reflects 20.8 percent.

Net patient revenue is projected to grow between 2.0 percent and 6.5 percent annually. Projected growth rates fall within historical growth rates of -7.3 percent to 13.7 percent from FY 2018 through FY 2021. Projected growth in FY 2023 reflects volume budgets prepared by CHA's service line leaders. Volume growth is expected in surgical services and OB-GYN, as well as inpatient behavioral health due to the start-up of new Somerville campus units at the beginning of the fiscal year and partial year operation of the converted Cambridge Hospital

units. FY 2023 incorporates negotiated rate updates from commercial payers and published Medicare rates as of the date of preparation of the FY 2023 budget. Beyond FY 2023, growth rates ranging from 2.0 percent to 3.0 percent reflect continued growth in volume from inpatient behavioral health as well as volume growth in other service areas and rate adjustments.

Federal and state support includes items such as public hospital transformation incentives, hospital quality incentives, safety net funds, Delivery System Reform Incentive Payments (“DSRIP”), integrated care incentives, and behavior health incentives. Growth is projected at 6.4 percent in FY 2022, 6.7 percent in FY 2023, and 4.0 percent in FY 2024. Thereafter growth in federal and state support is projected at 0.0 percent. Projected growth for FY 2022 through FY 2024 falls within historical growths rates of 0.2 percent to 21.8 percent from FY 2018 through FY 2021. Projected federal and state support amounts reflect carry over of payments under the existing waiver and the Applicant’s discussions with the Executive Office of Health and Human Services (“EOHHS”) in regard to the various programs and associated funding levels they intend to incorporate into their waiver and program renewal application.

Other operating revenue includes grant revenue, premium revenue, and other specialty program revenue. The Applicant projected growth of 20.0 percent for FY 2022, which reflects 11 months of actual results. Thereafter, growth is projected to decline over the projection period from 5.6 percent in FY 2023 to 3.0 percent in FY 2027. The FY 2023 budget, which reflects growth of 5.6 percent, incorporates grant revenue in place as of the date of the preparation of the budget. Premium revenue growth reflects the increase in enrollment in

CHA’s Program of All-Inclusive Care for the Elderly (“PACE”) program and revenue associated with the Applicant’s participation in the Medicare Primary Care First program. Further, the Applicant anticipates continued growth in its retail pharmacy program. While projected growth for FY 2022 exceeds historical levels, projected growth for fiscal years 2023 through 2027 is within historical growth levels ranging from -9.0 percent to 15.4 percent.

In order to determine the reasonableness of the projected revenue, we reviewed the underlying assumptions upon which Management relied. Based upon our review of the information provided and the discussions noted above, we understand Management relied upon historical operating results and anticipated demographic trends in CHA’s service area. The revenue growth anticipated is within or below the range of historical annual revenue growth rates for the Applicant between FY 2017 and FY 2021 as indicated in the table below.

Growth Rates	2022	2023	2024	2025	2026	2027	CAGR (2017 - 2021)	Annual Growth Range (2018 - 2021)
Total Operating Revenue Projection	6.9%	6.4%	3.5%	2.1%	1.8%	1.5%	6.4%	2.4% - 10.1%

The Proposed Project assumes a ramp-up in PET-CT Services to three days per week. Annual scans are projected to increase from 296 scans in year one to 936 scans in year five. Corresponding revenue for the Proposed Project is expected to increase from \$414.4 thousand in year one to \$1.3 million in year five. The impact of the Proposed Project on the Applicant

is small, with incremental revenue accounting for between 0.0 percent and 0.1 percent of total operating revenue for the Applicant.

Based upon the foregoing, it is our opinion that the revenue growth projected by Management reflects a reasonable estimation of future revenue of CHA.

2. Operating Expenses

We analyzed each of the categorized operating expenses for reasonableness and feasibility related to the Projections. The operating expenses in the analysis include salary and wages, supplies, purchased services, travel and training, other expenses - HSNO, depreciation and amortization. Salary and wages represent approximately 68.5 percent of total operating expenses and purchased services represent approximately 16.1 percent.

Salary and wages are projected to increase 15.6 percent in FY 2022 and 5.6 percent in FY 2023. After FY 2023, salary and wages are projected to increase between 1.0 percent and 2.3 percent annually. The Applicant indicated CHA is increasing headcount in FY 2023 by 185 full time equivalents to be in a position to support projected revenue beyond 2023. No headcount increases or decreases are expected in the rest of the projection period. Wage and benefit increase in 2023 reflect negotiated agreements as well as an additional \$3.6 million adjustment to be more competitive with local market compensation levels.

Purchased services are expected to decrease by 9.0 percent in FY 2022. Thereafter, purchased services are expected to increase between 0.1 percent and 0.5 percent annually. We understand the Applicant undergoes annual reviews of all purchased services for savings and reductions.

The following table shows the projected operating expense growth in comparison to historical annual expense growth rates between FY 2017 and FY 2021. Projected operating expense growth for FY 2022 is within the historical range of growth. Thereafter, expense growth is below historical growth; however, we understand the Company expects expenses to increase at a slower rate as operations normalize and cost savings initiatives are implemented.

Growth Rates	2022	2023	2024	2025	2026	2027	CAGR (2017 - 2021)	Annual Growth Range (2018 - 2021)
Total Operating Expense Projection	9.0%	3.7%	1.1%	1.8%	1.6%	1.6%	7.1%	5.5% - 9.1%

Incremental expenses related to the Proposed Project include salary and wages, supplies, purchased services, rental expense, and other expenses. Total expenses increase from \$641.0 thousand in year one to \$1.2 million in year 5.

Based upon the foregoing, it is our opinion that the operating expenses within the Projections reflect a reasonable estimation of future expenses of the Applicant. We note that the projected total expenses as a percentage of total revenue range from 100.5 to 106.0 percent

from FY 2022 to FY 2027. We further note that this level of total expenses is consistent with the historical total expenses as a percentage of total revenue which ranged from 100.5 percent to 106.5 percent from FY 2017 to FY 2021.

3. Capital Expenditures and Proposed Project Financing

We reviewed the capital expenditures projected related to the Proposed Project. The maximum capital expenditures related to the PET-CT Services are expected to be approximately \$480.0 thousand. The expenditures for the Proposed Project related to the parking pad and weather protected covered connector are included within the Projections in the “Purchases of Capital Assets” line item. The project cost for the Proposed Project was developed by a senior director of facilities, design and construction based upon prior experience.

In addition to capital expenditures, we also reviewed the proposed financing of the project. The Applicant indicated routine capital / cash on hand would be utilized to fund the Proposed Project. As discussed above, maximum capital expenditures are expected to be approximately \$480.0 thousand. The Applicant has a cash and cash equivalents balance exceeding \$240 million throughout the projection period. As such, it appears the Applicant has sufficient capital to fund the Proposed Project without requiring CHA to obtain debt financing.

VI. FEASIBILITY

We analyzed the Projections and Key Metrics for the Proposed Project. In preparing our analysis we considered multiple sources of information including industry metrics, historical results, and Management expectations. 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.

Within the projected financial information, the Projections exhibit a cumulative operating EBITDA surplus of approximately 1.9 percent of cumulative projected operating revenue for the six years from FY 2022 through FY 2027. Based upon our review of the relevant documents and analysis of the Projections, we determined the anticipated EBITDA surplus is a reasonable expectation and based upon feasible financial assumptions. Accordingly, we determined that the Projections are reasonable and feasible, and not likely to have a negative impact on the patient panel or result in a liquidation of assets of CHA.

Respectively submitted,

A handwritten signature in black ink, appearing to read 'Erik Lynch'.

Erik Lynch
Partner, BDO USA LLP