

Attachment 3
Certification from Independent Certified Public Accountant

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

UMass Memorial Heath Care, Inc.

For the Years Ending September 30, 2024
Through September 30, 2029

February 8, 2024

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UMass Memorial Healthcare, Inc.
Milford Regional Medical Center, Inc.
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306 Belmont Street
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RE: Analysis of the Reasonableness of Assumptions and Projections Used to Support the Financial Feasibility and Sustainability of the Proposed Project

Dear Mr. Bierschied :

Enclosed is a copy of our report on the reasonableness of assumptions used for and feasibility of the financial projections for UMass Memorial Healthcare, Inc. Please contact me to discuss this report once you have had an opportunity to review.

Sincerely,

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

Dear Mr. Bierschied:

We have performed an analysis related to the reasonableness and feasibility of the financial projections (the “Projections”) of UMass Memorial Healthcare, Inc. (“UMass Memorial Healthcare”, “UMMHC” or “the Applicant”), related to the proposed integration and corporation affiliation between Milford Regional Medical Center, Inc. (“Milford” or “MRMC”) and UMHHC, whereby MRMC shall become a local community health system within the UMMHC system (the “Proposed Project”). This report details our analysis and findings regarding the reasonableness of assumptions used in the preparation of the Projections and feasibility of the projected financial results prepared by the management of UMMHC and Milford (“Management”). This report is to be used by UMMHC 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 UMMHC and MRMC six-year financial projections for the Applicant for the fiscal years ending September 30, 2024

through 2029 prepared by Management 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.¹

The Projections exhibit a cumulative operating EBIDA surplus of approximately 4.7 percent of cumulative projected revenue for UMMHC and MRMC for the six years from FY 2024 through 2029. Based upon our review of the relevant documents and analysis of the Projections, we determined the anticipated operating EBIDA 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 UMMHC'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 is a Massachusetts nonprofit corporation that owns and operates an integrated health care system comprised of a network of hospitals, including one academic teaching hospital and three community hospitals, as well as other health care providers that serve the residents of Central Massachusetts. UMMHC is the sole corporate member of UMass Memorial Community Hospitals, Inc. ("UMMCH") and certain other affiliates.

Milford is a Massachusetts nonprofit corporation that owns and operates an integrated health system comprised of the following three affiliates: (1) Milford Regional Physician Group, Inc.

¹ The Projections represent the combined pro forma financial projections of UMass Memorial Healthcare, Inc. and Milford Regional Medical Center, Inc. for the years ending September 30, 2024 through September 30, 2029.

² Portions of this section of the report were adapted directly from the Project Description section of the Draft UMMHC DON Narrative as of February 2, 2024, provided by the Applicant.

("MRPG"), which operates as a primary care and multi-specialty community medical practice in the MRMC service area; (2) Milford Regional Healthcare Foundation, Inc., a Massachusetts nonprofit and Chapter 501 (c)(3) tax exempt organization established to conduct fundraising activities to support MRMC; and (3) MRHC Management Services, Inc. a Massachusetts nonprofit organization which does not currently conduct any business activities.

On January 12, 2024 MRMC and UMMHC entered into an Affiliation Agreement, pursuant to which UMMHC will become the sole corporate member of MRMC. MRMC and UMMHC believe that the proposed corporate affiliation, which builds on the longstanding relationship between the parties, will allow the parties to further their common nonprofit missions of promoting the health of the communities they serve, and will enhance MRMC's ability to maintain its status as a high quality, financially secure community hospital, which will allow it to continue to meet and better respond to the health care needs of patients and the communities in its service area.

The Proposed Project will also permit MRMC to have greater access to capital for service, equipment and physical plant improvements that will result in continued and better access to community-based high-quality care for patients in the MRMC service area. For example, the Proposed Project will enable MRMC to obtain more advanced health information technology that will enhance and expand the use of health data for accountable care and other value-based and population health managed care contracts to support improved performance in accountable care and other value-based and population health contracts which are increasingly common and designed to encourage efficient and cost effective care.

In addition, MRMC and UMMHC believe the Proposed Project will strengthen MRMC's ability to recruit and retain physicians and other licensed professionals in the MRMC service area, which

will enhance access to primary and specialty care and support the existence of high quality and cost-effective care in the MRMC service area, an area with limited public transportation. The Proposed Project will also allow UMMHC to expand its physician and community hospital network to ensure that patients continue to have access to high quality, cost-effective health care services in the most appropriate clinical setting. UMass Memorial Medical Center regularly operates at capacity and often has no room for additional patients, so it is a key priority of UMMHC to keep hospital-based care local for patients who can be served by a community hospital. UMMHC's strategy is to support clinical care in its community hospitals in order to keep care accessible and affordable. The greater alignment with MRMC is intended to allow patients in the MRMC service area to remain in that service area. Although MRMC currently relies on UMMHC for specialists, the Proposed Project will further align specialist coverage between the two systems. Since it is difficult for an independent community hospital to effectively attract and maintain specialists, MRMC's access to UMMHC's broader network of specialist coverage is expected to support the recruitment of additional health care providers and enhance patient access to care in South Worcester County. Retaining and enhancing patient access to local specialty care allows patients to avoid travelling outside of the MRMC service area for specialty care, which is typically provided at a more expensive tertiary level of care.

Importantly, the Proposed Project advances UMMHC's strategic priority of health equity and fully integrates MRMC into UMMHC's health equity work. The Proposed Project includes community investment funding for social determinants of health in the MRMC service area. In the most recent 2021 MRMC Community Health Needs Assessment, MRMC identified homelessness, food insecurity, health care access and outcomes, behavioral health and substance use as focused priorities.

Finally, the Proposed Project will allow MRMC to remain financially viable. The Proposed Project will allow MRMC, as an affiliate of UMMHC, to support and improve access to high quality care in the MRMC service area with no expected material impact on costs to the overall health care system in the Commonwealth. MRMC has experienced increased operating losses in recent years, and it is projected that such losses will continue if MRMC continues to operate as an independent community hospital. As with all other independent community health systems/hospitals in Massachusetts, MRMC'S future long-term viability as a stand-alone community hospital is threatened and will be increasingly difficult to sustain. The Proposed Project will strengthen MRMC'S financial viability through financial support, operational efficiencies, and greater clinical alignment.

In sum, the Proposed Project, will add measurable public health value for the patients and communities served by both UMMHC and MRMC and will bolster the ability of MRMC to continue to provide high-quality, low-cost health care to the residents of South Worcester County.

III. SCOPE OF REPORT

The scope of this report is limited to an analysis of the six-year Projections for the fiscal years ending September 30, 2024 through 2029, prepared by Management, 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. 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 Projects are 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 January 4, 2024 and is still representative of Management's expectations as of the drafting of this report. BDO has not audited or performed any other form of attestation services on the projected financial information related to the operations of UMMHC (or MRMC).

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 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 that 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 UMMHC & MRMC individually and on a combined basis for the periods ending September 30, 2024 through September 30, 2029;

2. Proposed fiscal year 2023 and 2024 UMMHC Budget Presentation to the UMMHC Finance Committee on September 26, 2023, which also includes discussions regarding fiscal year 2023 performance;
3. Draft DON Narrative report as of February 2, 2024;
4. Audited Financial Statements for both UMass Memorial Healthcare, Inc. and Milford Regional Medical Center, Inc. for Fiscal Years Ended September 30, 2021 through 2023;
5. Milford Savings Summary for FY 2025 prepared by Huron Consulting Group;
6. Definitive Healthcare data;
7. Data obtained from Integra Information, A Division of Microbilt Corporation as of August 4, 2023; and,
8. IBISWorld Industry Report, Hospitals in the US, dated November 2023.

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 the performance of UMMHC after the affiliation to market information from Integra Reports (“Integra”), IBISWorld, and Definitive Healthcare to assess the reasonableness of the Projections.

Projected Key Financial Metrics and Ratios

UMMH & MRMC Combined	2024	2025	2026	2027	2028	2029
Profitability: Operating Margin (%)	-0.3%	-0.1%	0.0%	0.2%	0.2%	0.2%
Profitability: Excess Margin (%)	0.7%	0.9%	1.0%	1.2%	1.1%	1.2%
Profitability: Debt Service Coverage Ratio (x)	1.82x	3.19x	3.27x	3.54x	4.43x	4.67x
Liquidity: Days Available Cash and Investments on Hand (#)	120	113	113	117	121	127

UMMH & MRMC Combined	2024	2025	2026	2027	2028	2029
Liquidity: Operating Cash Flow (%)	2.6%	3.6%	3.8%	4.0%	4.1%	4.1%
Solvency: Ratio of Long-Term Debt to Total Capitalization (%)	32.7%	30.3%	27.6%	25.2%	23.0%	20.9%
Solvency: Ratio of Cash Flow to Long Term Debt (%)	12.3%	18.3%	20.5%	23.0%	24.7%	26.8%
Solvency: Unrestricted Net Assets (\$ in million)	\$1,753	\$1,881	\$2,015	\$2,156	\$2,295	\$2,437
Solvency: Total Net Assets (\$ in million)	\$1,867	\$1,997	\$2,133	\$2,276	\$2,417	\$2,561

Historical Data and Industry Data Key Financial Metrics and Ratios

UMMH	2021	2022	2023	Integra - General Medical and Surgical Hospitals	IBIS - Hospitals in the US (3-year)	Definitive Healthcare
Profitability: Operating Margin (%)	2.0%	-1.1%	3.9%	1.6%	21.0%	-10.7%
Profitability: Excess Margin (%)	6.6%	-4.7%	5.7%	0.2%	NA	-3.7%
Profitability: Debt Service Coverage Ratio (x)	3.96x	-.03x	6.52x	1.4x	3.8x	NA
Liquidity: Days Available Cash and Investments on Hand (#)	187	135	149	NA	NA	NA
Liquidity: Operating Cash Flow (%)	4.7%	3.1%	8.7%	3.6%	25.9%	NA
Solvency: Ratio of Long-Term Debt to Total Capitalization (%)	31.2%	39.4%	33.0%	43.3%	NA	NA
Solvency: Ratio of Cash Flow to Long Term Debt (%)	22.3%	12.7%	40.7%	13.1%	NA	NA
Solvency: Unrestricted Net Assets (\$ in million)	\$1,337	\$1,239	\$1,544	NA	NA	NA
Solvency: Total Net Assets (\$ in million)	\$1,458	\$1,340	\$1,650	NA	NA	NA

Footnote:

- Industry data ratios based on each data source's respective definitions and may differ from the ratio definitions listed below.
- Net income margin from Integra 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.

Ratio Definitions for Key Financial Metrics and Ratios

Ratio	Definitions
Profitability: Operating Margin (%)	Operating Profit (Loss) Divided by Total Operating Revenue
Profitability: Excess Margin (%)	Excess of Revenue Divided by (Total Operating Revenue + Total Nonoperating Gains)
Profitability: Debt Service Coverage Ratio (x)	(Excess of Revenue + Depreciation and Amortization + Interest) Divided by (Interest + Scheduled Debt Repayment)
Liquidity: Days Available Cash and Investments on Hand (#)	(Cash and Cash Equivalents) Multiplied by 365 Divided by (Total Operating Expenses Less Depreciation and Amortization)
Liquidity: Operating Cash Flow (%)	(Operating Profit (Loss) + Depreciation and Amortization + Changes in working capital) Divided by Total Operating Revenue
Solvency: Ratio of Long-Term Debt to Total Capitalization (%)	(Long Term Debt + Long Term Lease Obligations) Divided by Total Capitalization (Long Term Debt + Long Term Lease Obligations + Total Net Assets)
Solvency: Ratio of Cash Flow to Long Term Debt (%)	(Operating Profit (Loss) + Depreciation and Amortization + changes in working capital) Divided by (Long Term Debt + Long Term Lease Obligations)
Solvency: Unrestricted Net Assets (\$ in million)	Total Unrestricted Net Assets
Solvency: Total Net Assets (\$ in million)	Total Net Assets

1. Revenue

We analyzed the projected revenue within the Projections. Revenue for the Applicant includes patient service revenue and other operating revenue. We note that the cumulative patient service revenue comprises 93.3 percent of the cumulative total operating revenue from FY 2024 through FY 2029.

Projected patient service revenue for UMMHC is expected to grow by 12.9 percent in FY 2024 when compared to FY 2023. We note that patient service revenue growth for FY 2025 and FY 2026 was projected to be 3.3 percent and 0.2 percent, respectively. For the remainder of the Projection Period (FY 2027 through FY 2029), Management projected nominal patient service revenue growth. Total operating revenue in FY 2024 for UMMHC, which represents 90.8 percent of the total combined operating revenue within the Projections, reflects the budget presented to and approved by the UMMHC Finance Committee. Based on the budget presentation and discussions with Management, the projected revenue growth in FY 2024 can be attributed to several factors. UMMHC's new computed tomography ("CT") project is also expected to contribute to this growth. Furthermore, the higher retention of higher acuity patients, coupled

with a strategic combination of volume and charge rate increases between 4.0 percent to 6.0 percent, are also anticipated to contribute positively to the overall revenue growth. Management indicated that revenue growth in the recent and near term also relates to several initiatives that UMMHC has implemented since FY 2018 which will enable the Applicant to operate more efficiently. One such initiative is UMMHC's ambulatory transformation which has helped the Applicant more efficiently utilize its existing clinical network and staff. Another example is UMMHC's implementation of a new comprehensive electronic health record ("EHR") system in FYs 2018 and 2019. As a result of UMMHC's various operating improvement initiatives, the Applicant expects to be able to allocate patients with low acuity cases more efficiently and enable senior physicians to focus more on providing care to an expanded patient group with higher acuity levels. As a result, accepting higher level acuity cases will help increase UMMHC's volume and value per unit metrics.

Projected patient service revenue for MRMC was expected to grow by 3.1 percent in FY 2024 and 0.5 percent in FY 2025. We note that patient service revenue growth for the remainder of the Projection Period (FY 2026 through FY 2029), Management projected nominal patient service revenue growth.

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 the UMMHC service area. The combined total operating revenue growth for UMMHC and MRMC anticipated for FY 2024 is slightly above the two-year compounded annual growth rate ("CAGR") and also slightly above the range of annual

revenue growth rates for the Applicant between FY 2021 and FY 2023 as indicated in the table below.

	Annual Growth Range (2021 - 2023)	CAGR (2021 - 2023)	2024 Growth	Annual Growth Range (2025- 2029)
Revenue Projection	7.9% - 11.4%	9.7%	11.8%	0.0% - 2.9%

Based upon the foregoing, it is our opinion that the revenue growth projected by Management reflects a reasonable estimation of future revenue of UMMHC. We note that the assumed nominal revenue growth beyond FY 2025 is based solely on Management's consideration of changes in volume only, not the impact of inflation or price increases beyond FY 2025.

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 salaries and wages, employee benefits, professional fees, purchased services, pharmacy, medical supplies, non-medical supplies, utilities, insurance, rental leases, other direct expenses, system allocation expenses, depreciation and amortization, and interest expenses. Total combined expenses within the Projections are projected to grow by 16.6 percent and 2.7 percent in FY 2024 and FY 2025, respectively, which is in-line with projected revenue growth. Thereafter, starting in FY 2026, Management held operating expenses relatively flat, assuming nominal growth for FY 2026 through FY 2029, except for interest expense which is projected based on UMMHC's projected level of debt and current terms, depreciation and amortization, and other direct expenses. Management indicated that the main factors driving the growth in operating expenses

in the earlier years of the projections are related to increase in salaries and benefits due to a competitive labor market and an increase in pharmaceutical costs.

The following table indicates the range of growth in FY 2024 through FY 2029 is above the two-year CAGR and slightly above the annual revenue growth rate between FY 2021 and FY 2023. The main drivers of the change in expense growth are operational improvement plans and transformation initiatives which collectively, are expected to enable UMMHC to operate more efficiently and cut down on administrative costs. This includes an expected reduction in consulting and other professional services expenses, a decrease in contractor rates, a focus to replace travel nurses with full time employees, and lower IT costs resulting from UMMHC's transition to a new enterprise resource planning ("ERP") system and Harrington to UMMHC's electronic medical record ("EMR") system.

	Annual Growth Range (2021 - 2023)	CAGR (2021 - 2023)	2024 Growth	Annual Growth Range (2025- 2029)
Expense Projection	2.6% - 15.0%	8.6%	16.6%	0.0% - 2.7%

Based upon the foregoing, it is our opinion that the operating expenses within the Projections reflect reasonable estimation of future expenses of the Applicant. We note that the projected total expenses for UMMHC as a percentage of total revenue range from 99.8 percent to 100.3 percent from FY 2024 to FY 2029. We further note that this level of total expenses is consistent with the combined historical total expenses as a percentage of total revenue which ranged from 96.1 percent to 101.1 percent from FY 2021 to FY 2023.

3. Capital Expenditures

Management indicated there is no significant investment or growth capital expenditures in the Projections, except the plan to transition MRMC to EPIC and workday which is expected to require a total capital expenditure of approximately \$55.0 million from FY 2025 to FY 2026. Our understanding is the forecasted capital expenditures budget was approved by UMMHC's finance committee and that the Company plans to fund the capital expenditure through their current operations and unrestricted fundings. For FY 2027 through FY 2029, the capital expenditures were projected to be consistent with the forecasted depreciation and amortization. Based upon the foregoing, it is our opinion that the capital expenditures projected by Management reflect reasonable estimation of future capital outlay of UMMHC.

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 EBIDA surplus of approximately 4.7 percent of cumulative projected operating revenue for the six years from FY 2024 through FY 2029. Based upon our review of the relevant documents and analysis of the Projections, we determined the anticipated EBIDA 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 UMMHC.

Respectively submitted,

BDO USA P.C.