

# Attachment 5

Factor 4 Materials



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

Children's Medical Center Corporation  
For the Years Ending September 30, 2021  
Through September 30, 2030



Tel: 617-422-0700  
Fax: 617-422-0909  
www.bdo.com

One International Place  
Boston, MA 02110-1745

June 21, 2021

Donna M. Casey  
Vice President  
Boston Children's Hospital  
300 Longwood Avenue  
BY483  
Boston, MA 02215

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

Dear Ms. Casey:

Enclosed is a copy of our report on the reasonableness of assumptions used for and feasibility of the financial projections for Children's Medical Center Corporation. Please contact me to discuss this report once you have had an opportunity to review.

Sincerely,

**BDO USA, LLP**

## TABLE OF CONTENTS

	Page
I. EXECUTIVE SUMMARY.....	1
II. RELEVANT BACKGROUND INFORMATION .....	2
III. SCOPE OF REPORT .....	4
IV. SOURCES OF INFORMATION UTILIZED .....	5
V. REVIEW OF THE PROJECTIONS .....	7
VI. FEASIBILITY.....	16



Tel: 617-422-0700  
Fax: 617-422-0909  
www.bdo.com

One International Place  
Boston, MA 02110-1745

June 21, 2021

Donna M. Casey  
Vice President  
Boston Children's Hospital  
300 Longwood Avenue  
BY483  
Boston, MA 02215

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

Dear Ms. Casey:

We have performed an analysis related to the reasonableness and feasibility of the financial projections (the "Projections") of Children's Medical Center Corporation ("Children's" or "the Applicant") related to its Determination of Need ("DON") filing related to substantial capital expenditures for ambulatory surgery centers and certain equipment (the "Proposed Projects"), described further below. This report details our analysis and findings with regards to the reasonableness of assumptions used in the preparation of the Projections and feasibility of the projected financial results prepared by the management of Children's ("Management"). This report is to be used by Children's in connection with its DON Application - Factor 4 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 ten-year financial projections for the Applicant for the fiscal years ending 2021 through 2030 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.



The Projections exhibit a cumulative operating EBITDA surplus of approximately 9.8 percent of cumulative projected revenue for Children's for the ten years from fiscal year ("FY") 2021 through FY 2030. 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 Children's assets. A detailed explanation of the basis for our determination of reasonableness and feasibility is contained within this report.

## II. RELEVANT BACKGROUND INFORMATION

Children's, d/b/a Boston Children's Hospital, includes (1) Children's Hospital (the "Hospital"), which engages in pediatric patient care, research, training, and community service, (2) 15 tax-exempt physician foundations (the "Foundations"), which are organized for charitable, scientific, and educational purposes and operate for the benefit of the Children's Hospital and Harvard Medical School, (3) the Physicians' Organization at Children's Hospital (the "PO"), which provides coordination and general oversight of the clinical and medicine practices and related health care services of the Foundations, (4) CHB Properties, Inc., which owns and operates real estate and distributes the net income of such property to Children's, (5) Longwood Research Institute, Inc., which holds real property for the benefit of the Hospital to further its research mission, (6) Boston Children's Health Physicians, a fully integrated health care community that provides pediatric inpatient and outpatient care to patients in New York,



Connecticut, and New Jersey, (7) Blood Research Institute, Inc. and (8) Boston Children's Health International, LLC.

The Applicant proposes to complete a series of substantial capital expenditures related to the following Proposed Projects:

1. Waltham - The Applicant proposes the renovation and equipping of approximately 78,395 gross square feet of space within the Hospital's existing facility at 9 Hope Avenue in Waltham, MA (the "Waltham Facility") and the expansion of clinical areas, including existing infusion, sleep disorders, radiology, and behavioral health services (including the establishment of a medical-psychiatric partial hospitalization program).
2. Needham - Children's proposes the land acquisition, construction, fit-out, and equipping of an approximately 224,000 gross square foot facility for pediatric medical use at 380 First Avenue in Needham, MA (the "Needham Facility"). The Needham Facility is to include eight operating rooms dedicated to ambulatory surgery services, as well as hospital outpatient space to include phlebotomy, physical and occupational therapy, ophthalmology, and diagnostic radiology (including one magnetic resonance imaging system (an "MRI")).
3. Weymouth - The Applicant proposes the leasing, construction, fit-out, and equipping of approximately 33,862 gross square feet within a building located at 200 Libbey Parkway in Weymouth, MA (the "Weymouth Facility"). The Weymouth Facility will accommodate



diagnostic and therapeutic hospital services including audiology, speech therapy, vision function testing, phlebotomy, echocardiology and radiology, including one MRI.

The Proposed Projects aim to provide needed pediatric specialty care without traveling to the Longwood Medical Area as a third of the Applicant's patients reside in the health service area of the Proposed Projects. Further, the Proposed Projects will be located near major highway transportation routes for ease of access to patients in other health service areas. Further, the renovation of the Waltham Facility and the development of the Needham Facility are a part of a coordinated strategy to consolidate ambulatory clinical capacity in a cost-effective manner.

### III. SCOPE OF REPORT

The scope of this report is limited to an analysis of the ten-year financial projections for Children's, the Applicant, for the fiscal years ending 2021 through 2030, 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 March 26, 2021 and represented the most current version of detailed multi-year prospective financial information





available at the time BDO performed its procedures 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 Children's.

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 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 are 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 opinions and 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 the Applicant for the periods ending September 30, 2016 through September 30, 2030;
2. Overview of Key Model Assumptions;

3. Update re Determination of Need Filing presented to the Board of Trustees, dated June 7, 2021;
4. Capital Authorization: Route 128 Ambulatory Satellite Expansion presented to the Board of Trustees, dated November 17, 2020;
5. FY21 Q1 Operating and Capital Budget and FY21 Operating and Capital Plan presented to the Finance Committee, dated September 9, 2020;
6. FY21 Q2 Budget and Rolling Operating Plan and FY21 Q2 Capital Budget and Plan presented to the Finance Committee, dated December 10, 2020;
7. Financial and Statistical Report for the period ended December 31, 2020;
8. Report of Independent Auditors on Debt Compliance, dated January 27, 2021;
9. Audited Consolidated Financial Statements and Supplementary Information for Boston Children's Hospital and Subsidiaries for Years Ended September 30, 2020 and 2019;
10. Audited Consolidated Financial Statements and Supplementary Information for Boston Children's Hospital and Subsidiaries for Years Ended September 30, 2018 and 2017;
11. Gain from Operations Actual to Budget Comparison for FY 2005 through FY 2019;
12. P&L Crosswalk to Q1 and Q2 Budget Presentations;
13. Schematic Estimate for Boston Children's Hospital, Needham Satellite Project, from Turner Construction Company, dated August 7, 2020;
14. Waltham Master Plan Estimate from Wise Construction, dated July 24, 2020;
15. Purchase Agreement between Children's Hospital Boston and Siemens Medical Solutions USA, Inc., dated September 2018;
16. Equipment Estimates from C/W Design for the Waltham Facility and Needham Facility;
17. Turner Construction Company Building Cost Index for Q2 2020 and Q1 2021;
18. Turner Construction Company Market Conditions for Boston as of Q2 2020;



19. Internal Budget Estimates from Information Services Department for the Needham Facility and Waltham Facility;
20. Vermeulens Market Outlook as of Q1 2021;
21. Executed LOI, Purchase and Sale Agreement, and Other Supporting Documentation Related to the Needham Facility Land Development Rights;
22. Payette Fee Proposals for the Needham Facility and Waltham Facility, transmitted July 1, 2020;
23. Waltham Radiology Master Plan Estimate from Wise Construction, dated June 26, 2020 and Supporting Internal Excel File;
24. Execution Copy of Lease Related to the Weymouth Facility;
25. Various Additional Excel Files Supporting the Build Up of Maximum Capital Expenditure;
26. Draft Determination of Need narrative for the Applicant;
27. Long Term Plan Presentation to the Finance Committee, dated January 16, 2019;
28. RMA Annual Statement Studies, published by The Risk Management Association;
29. Definitive Healthcare data;
30. IBISWorld Industry Report, Hospitals in the US, dated January 2021; and
31. 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 tables present the Key Metrics, as defined below, which compare the operating results of the Projections to market information from RMA Annual Studies ("RMA"), IBISWorld, and Definitive Healthcare as well as the Applicant's historical performance, to assess the reasonableness of the projections.

Key Financial Metrics and Ratios	Projected									
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Children's Medical Center Corporation										
<b>Profitability</b>										
Operating Margin (%)	-3.5%	1.6%	2.5%	2.9%	2.9%	2.6%	2.7%	2.8%	2.9%	3.1%
Excess Margin (%)	2.9%	8.2%	7.9%	7.7%	7.3%	6.7%	6.9%	7.1%	7.4%	8.0%
Debt Service Coverage Ratio (x)	2.3x	5.9x	5.3x	5.6x	5.9x	6.1x	6.2x	6.4x	6.5x	6.6x
<b>Liquidity</b>										
Days Available Cash and Investments on Hand (#)	575.4	510.4	453.7	420.7	413.8	418.9	426.9	442.4	456.9	472.8
Operating Cash Flow (%)	2.3%	8.0%	9.2%	9.2%	9.3%	9.3%	9.4%	9.4%	9.4%	9.5%
<b>Solvency</b>										
Current Ratio (x)	1.3x	1.3x	1.2x	1.2x	1.2x	1.2x	1.2x	1.2x	1.2x	1.1x
Ratio of Long Term Debt to Total Capitalization (%)	25.1%	24.9%	24.7%	24.5%	24.3%	24.1%	24.0%	23.7%	23.5%	23.1%
Ratio of Cash Flow to Long Term Debt (%)	3.2%	12.0%	14.6%	15.4%	16.3%	16.8%	17.3%	17.7%	18.1%	18.6%
Unrestricted Net Assets (\$ in millions)	\$ 5,659	\$ 5,720	\$ 5,773	\$ 5,844	\$ 5,907	\$ 5,955	\$ 6,017	\$ 6,090	\$ 6,181	\$ 6,303
Total Net Assets (\$ in millions)	\$ 6,435	\$ 6,497	\$ 6,550	\$ 6,620	\$ 6,684	\$ 6,732	\$ 6,793	\$ 6,867	\$ 6,958	\$ 7,079

Key Financial Metrics and Ratios	Actual					Industry Data (1)		
	2016	2017	2018	2019	2020	RMA - Medical and Surgical Hospitals	IBIS - Hospitals in the US	Definitive Healthcare
Children's Medical Center Corporation								
<b>Profitability</b>								
Operating Margin (%)	1.3%	2.2%	3.2%	3.4%	-2.6%	2.2%	16.3%	-3.5%
Excess Margin (%)	5.8%	13.6%	16.7%	8.2%	12.1%	1.1%	7.6%	2.9% (2)
Debt Service Coverage Ratio (x)	5.5x	5.5x	6.1x	6.4x	2.9x	NA	1.2x	NA
<b>Liquidity</b>								
Days Available Cash and Investments on Hand (#)	534.1	604.0	631.0	597.1	681.7	NA	NA	29.0
Operating Cash Flow (%)	6.8%	8.1%	8.5%	8.3%	3.7%	NA	55.7%	NA
<b>Solvency</b>								
Current Ratio (x)	1.6x	1.4x	1.4x	1.4x	1.3x	1.9x	1.1x	1.6x
Ratio of Long Term Debt to Total Capitalization (%)	17.5%	20.4%	19.0%	18.9%	24.9%	37.5%	NA	NA
Ratio of Cash Flow to Long Term Debt (%)	17.7%	16.4%	17.9%	18.5%	5.1%	NA	NA	NA
Unrestricted Net Assets (\$ in millions)	\$ 4,102	\$ 4,729	\$ 5,234	\$ 5,270	\$ 5,725	NA	NA	NA
Total Net Assets (\$ in millions)	\$ 4,851	\$ 5,502	\$ 6,054	\$ 6,123	\$ 6,501	\$60	NA	NA

**Footnotes**

(1) Industry data ratios based on each data source's respective definitions and may differ from the ratio definitions listed below

(2) Profit before taxes margin from RMA data and net income margin from 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 to assist 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 are calculated.

Key Financial Metrics and Ratios	
Ratio Definitions	Calculation
<b>Profitability</b>	
Operating Margin (%)	Gain from Operations Divided by Total Operating Revenue
Excess Margin (%)	Excess of Revenue over Expenses Divided by (Total Operating Revenue + Total Nonoperating Gains)
Debt Service Coverage Ratio (x)	(Gains from Operations + Depreciation and Amortization + Interest) Divided by Interest (1)
<b>Liquidity</b>	
Days Available Cash and Investments on Hand (#)	(Cash and Unrestricted as to Use Investments) Multiplied by 365 Divided by (Total Operating Expenses Less Depreciation and Amortization)
Operating Cash Flow (%)	(Gains from Operations Plus Depreciation and Amortization, Costs Related to Asset Dispositions, and Non-Cash Pension Expense) Divided by Total Operating Revenue
<b>Solvency</b>	
Current Ratio (x)	Current Assets Divided by Current Liabilities
Ratio of Long Term Debt to Total Capitalization (%)	Long Term Debt Divided by Total Capitalization (Long Term Debt and Unrestricted Net Assets)
Ratio of Cash Flow to Long Term Debt (%)	(Gains from Operations Plus Depreciation and Amortization, Costs Related to Asset Dispositions, and Non-Cash Pension Expense) Divided by Long Term Debt
Unrestricted Net Assets (\$ in thousands)	Total Unrestricted Net Assets
Total Net Assets (\$ in thousands)	Total Net Assets

**Footnotes**

(1) Per Management, there are no principal repayments in the historical or projected period reviewed



## 1. Revenue

We analyzed the revenue forecast within the Projections. Revenue for the Applicant includes net patient service revenue ("NPSR"), research grants and contracts, recovery of indirect costs on grants and contracts, other operating revenue, unrestricted contributions net of fundraising expenses, and net assets released from restriction used for operations.

Approximately 81.0 percent of revenue is derived from net patient service revenue. NPSR is projected to grow between 3.7 percent and 2.5 percent annually over the projection period which is within range or below actual growth of 7.5 percent in FY 2017, 6.0 percent in FY 2018, and 6.2 percent in FY 2019.<sup>1</sup> Approximately 70.0 percent of NPSR is derived from the Hospital, approximately 25.0 percent is from the PO, and the remainder from other subsidiaries. Management projects NPSR from the PO to increase by 5.0 percent in FY 2021 and 2022, and by 2.0 percent in FY 2023, equaling NPSR generated in FY 2019. For the remainder of the projection period NPSR from the PO is projected to remain constant with FY 2023. Based upon our discussions with Management and the documents provided, the projected net patient service revenue for the Hospital was estimated based upon Management's anticipated changes in the following categories:

### A. Statistics

Inpatient and outpatient statistics for FY 2021 and FY 2022 are based on the approved rolling FY 2021 and FY 2022 budgets. Statistics for FY 2023 through FY 2030 are based on

---

<sup>1</sup> Please note, FY 2020 results for the Applicant were significantly impacted by the COVID-19 pandemic. We understand the Applicant cancelled or postponed all nonessential or elective procedures, non-urgent admissions, clinic visits, and research visits. As a result, FY 2020 results were deemed not meaningful from a historical trending perspective and we focused our analytical procedures on pre-COVID-19 historical results.



projected number of bedded patient days. Bedded patient days increased between 1.0 percent and 9.3 percent per year over the projections. Projected growth in bedded patient days exceeded historical levels in fiscal years 2022 through 2024. These higher levels of growth primarily relate to the return to COVID-19 operating levels, the opening of the Hale Building beginning in FY 2022, and the addition of 12 inpatient adolescent and pediatric psychiatric beds at Waltham in FY 2022. The eleven-year compound annual growth rate ("CAGR") from FY 2019 (pre-COVID-19) to FY 2030 of 1.9 percent falls within the Hospital's historical growth.

#### **B. Gross Charges per Statistic**

Gross charge per statistic for FY 2021 and FY 2022 are based on the approved rolling FY 2021 and FY 2022 budgets. Beyond FY 2022, gross charges increase at a rate of 3.0 percent per year, which is consistent with the Applicant's long-term plan presented to and approved by the Board in FY 2019 (the "Board Approved Plan"). Management indicated this was the most recent Board Approved Plan as of the date of our analyses.

#### **C. Payment on Account Factor ("PAF")**

The PAF for FY 2021 and FY 2022 are based on the approved rolling FY 2021 and FY 2022 budgets. Beyond FY 2022, the PAF is based on the prior year's PAF, and updated to reflect charge increase and anticipated changes in payer rates. The charge increase is 3.0 percent annually, which is consistent with the Board Approved Plan, while the change in payer rates varies by payer; however, ranges from 1.0 to 3.0 percent annually, which is consistent with the FY 2021 budget presentation.

The Proposed Projects are largely relocating existing capacity rather than simply adding capacity. For example, the Applicant will consolidate day surgery volume at the Waltham Facility and Needham Facility and reduce day surgeries at its location in Lexington. As a result, the Proposed Projects result in only a net increase of two operating rooms. Additionally, the Applicant seeks to transition less acute pediatric specialty care from the capacity-constrained Longwood campus to community locations that are less costly to operate and more accessible to patients. Further, the Proposed Project will provide space to support an integrated and cross-disciplinary approach to care, incorporating behavioral health supports, physical therapy, and occupational therapy as an integral part of the ambulatory care pathway. Given the nature of the Proposed Projects, there is no increase in licensed beds related to the projects; although the projections do include an increase in number of clinic visits and surgical cases/minutes beginning in FY 2025 related to the Proposed Projects.<sup>2</sup>

In order to determine the reasonableness of the projected revenue, we reviewed the underlying assumptions upon which Management relied. Based upon our review, Management relied upon the historical operations and anticipated market movements. The eleven-year CAGR for total operating revenue in the Projections of 2.9 percent falls below Children's revenue growth rates in the prior three fiscal years (FY 2017 through FY 2019). Based upon the foregoing, it is our opinion that the revenue growth projected by Management is based on reasonable assumptions and is feasible for Children's.

---

<sup>2</sup> We understand the timing of project completion and subsequent revenue impact is uncertain given the variable time needed for approvals and construction/fit-outs/renovations; however, for purposes of the DON application submission, the projections assume incremental revenues begin in FY 2025.





## 2. Operating Expenses

We analyzed each of the categorized operating expenses for reasonableness and feasibility as it related to the Projections.

The operating expenses in the analysis include salaries and benefits, supplies and other expenses, direct research expenses of grants, health safety net assessment, depreciation and amortization, costs related to asset dispositions, and interest and net interest rate swap cash flows. Salaries and benefits account for approximately 57.0 percent of total operating expenses and supplies and other expenses account for approximately 25.0 percent of total operating expenses throughout the projection period.

Salaries and benefits were projected to increase annually between 2.3 percent and 3.6 percent for FY 2021 through FY 2030. Approximately 59.0 percent of the Applicant's total salaries and benefits relate to the Hospital. Management either held salaries and benefits flat to FY 2020 or utilized a historical average over FY 2018 through FY 2020 for the other components of the Applicant. Growth in salaries and benefits for the Hospital was determined based on growth in full time equivalents ("FTEs") and change in wages. FTEs were determined based on the growth in bedded patient days and adjusted patient days. Wages were grown by a merit increase of 2.5 percent annually plus a 0.5 percent market adjustment.

Supplies were projected to increase annually between 3.1 percent and 9.5 percent for FY 2021 through FY 2030. Approximately 97.0 percent of the Applicant's total supplies and other expenses relate to the Hospital. Supplies were projected to increase based on adjusted patient

days and expense per adjusted patient day. Expense per adjusted patient day was grown by 2.0 percent (or 3.0 percent for pharmacy and blood products), which is consistent with the Board Approved Plan.

Based upon the foregoing, it is our opinion that the operating expenses projected by Management reflects are based on reasonable assumptions and are feasible for the Applicant.

### **3. Improvement Plan**

Management incorporates an improvement plan within its financial forecast for FY 2022 through FY 2030. This improvement plan reflects future initiatives and strategic plans which are not yet identified and therefore, not allocable to detailed line items in the income statement. We understand based on discussions with Management that the Applicant undergoes this process as a part of its regular forecasting. We reviewed the Applicant's actual gain from operations in comparison to the Applicant's budget for each of the prior 15 fiscal years and noted the Applicant met or exceeded budget in 12 out of 15 years. As such, it is feasible that the Applicant will continue to achieve the improvement plan targets included in the Projections.

### **4. Capital Expenditures and Proposed Projects Financing**

We reviewed the project costs within the Projections related to the Proposed Projects of which \$434.7 million are classified as maximum capital expenditures ("MCE") per the DON regulations. We understand, as of the drafting of our report, the Applicant's Board of Trustees approved the MCE as of June 7, 2021. The project costs related to the Proposed Projects are included



within the Projections in FY 2021 through FY 2027. We reviewed supporting documentation building up the total maximum capital expenditures including a Turner Construction Company estimate for the Needham Facility, Wise Construction estimates for the Waltham Facility, Payette architecture proposals, C/W Design Group, Inc. equipment estimates, purchasing agreements, land acquisition right documents, and a lease, as well as assessed the cost per square foot for a previous project of the Applicant. We understand the Turner Construction Company and Wise Construction estimates include a 3.46 percent escalator. We reviewed reports by Turner Construction Company and Vermeulens related to escalation trends and estimates and confirmed the included escalator reflects the historical 34-year average. However, we noted one report, Vermeulens, as of the first quarter of 2021, recommended an escalation of 4.0 percent, versus the 3.46 percent, given short-term impacts from COVID-19. As such, we requested the Applicant prepare a sensitivity analysis of the projections and confirmed a change of escalator would not meaningfully change the key metrics as presented above or the conclusions reflected in this report.

In addition to capital expenditures, we also reviewed the proposed financing of the projects. It is our understanding that the expenditures related to the Proposed Projects are expected to be funded through the Applicant's net assets and cash flows. The capital expenditures are included within the Applicant's cash flows with no additional debt financing anticipated. We note that the Projections include cumulative routine capital expenditures of \$900.0 million and major project expenditures of \$1,684.6 million for a total cumulative capital expenditure of \$2,584.6 million over the projection period. The capital expenditures subject to the Proposed Projects represents 16.8 percent of the total capital expenditures over the ten years. We note the model indicates total cash on the balance sheet of approximately \$350.0 million in each year, as well

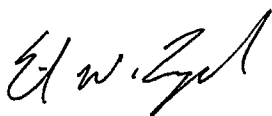
as investments unrestricted as to use averaging approximately \$3,500.0 million over the projection period. Therefore, it appears that the Applicant will be able to finance the Proposed Projects within its normal capital expenditures without the need for debt financing.

## VI. FEASIBILITY

We analyzed the Projections and Key Metrics for the Proposed Projects. 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 9.8 percent of cumulative projected operating revenue for the ten years from 2021 through 2030. Based upon our review of the relevant documents and analysis of the Projections, we determined the anticipated operating 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 Children's.

Respectively submitted,



Erik Lynch  
Partner, BDO USA LLP