

**Partners HealthCare System, Inc.**

**Analysis of the Reasonableness of  
Assumptions Used For and  
Feasibility of Projected Financials of  
Partners HealthCare System, Inc.  
For the Years Ending September 30, 2019  
Through September 30, 2023**

## TABLE OF CONTENTS

	Page
I. EXECUTIVE SUMMARY .....	1
II. RELEVANT BACKGROUND INFORMATION .....	2
III. SCOPE OF REPORT .....	2
IV. PRIMARY SOURCES OF INFORMATION UTILIZED .....	2
V. REVIEW OF THE PROJECTIONS .....	3
VI. FEASIBILITY .....	5

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July 12, 2019

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**RE: Analysis of the Reasonableness of Assumptions and Projections Used to Support the Financial Feasibility and Sustainability of the Proposed Expansion of MRI and CT Imaging Services at Brigham and Women's Hospital Outpatient Satellite in Foxborough, MA**

Dear Mr. Huggins:

I have performed an analysis of the financial projections prepared by Partners HealthCare System, Inc. ("Partners HealthCare") detailing the projected operations of Partners HealthCare including the projected operations of Brigham and Women's Hospital outpatient satellite in Foxborough, MA (the "Foxborough Center"). 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 Partners HealthCare as prepared by the management of Partners HealthCare ("Management"). This report is to be included by Partners HealthCare 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 Partners HealthCare as well as the actual operating results for Partners HealthCare for the fiscal year ended 2018 ("Base Budget"), 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 capital projects involving and ancillary to the Brigham and Women's Hospital expansion of MRI and CT imaging services at the Foxborough Center.

The impact of the proposed expansion of MRI and CT imaging services at the Foxborough Center, which are the subject of this DoN application, represent a relatively insignificant component of the projected operating results and financial position of Partners HealthCare. As such, I determined that the Projections are not likely to result in a scenario where there are insufficient funds available for capital and ongoing operating costs necessary to support the ongoing operations of Partners HealthCare. Therefore, it is my opinion that the Projections are financially feasible for Partners HealthCare as detailed below.

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## **II. RELEVANT BACKGROUND INFORMATION**

Refer to Factor 1 of the application for description of proposed capital projects at the Foxborough Center and the rationale for the expenditures.

## **III. SCOPE OF REPORT**

The scope of this report is limited to an analysis of the Projections, Base Budget 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 certain capital projects involving and ancillary to the Foxborough Center. 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 Partners HealthCare and the Foxborough Center through my review of the information provided as well as a review of Partners HealthCare 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 [Partners HealthCare] 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. 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 Partners HealthCare 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. 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. Five-Year Pro-Forma Statements for the fiscal years ending 2019 through 2023, provided June 7, 2019;
2. Multi-Year Financial Framework of Partners Healthcare System, Inc. for the fiscal years ending 2019 through 2023 prepared as of December 6, 2018;
3. Audited Financial Statements of Partners HealthCare System, Inc. and Affiliates as of and for the years ended September 30, 2018 and 2017;
4. Company website – [www.partners.org](http://www.partners.org);
5. Various news publications and other public information about the Company;

6. Determination of Need Application Instructions dated March 2017; and
7. Draft Determination of Need Factor 1, provided July 12, 2019.

**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 five categories of revenue and six general categories of operating expenses of Partners HealthCare as well as other non-operating gains and losses for the Organization. The following table presents the Key Metrics, as defined below, of Partners HealthCare which compares the results of the Projections for the fiscal years ending 2019 through 2023 to Partners HealthCare historical results for the fiscal year ended 2018.

	Partners, as					
	reported 2018	Change in Key Metric of pro forma results compared to prior year				
	2019	2020	2021	2022	2023	
EBIDA (\$)	1,164,519	19,481	120,000	50,516	43,014	55,715
EBIDA Margin (%)	8.8%	0.0%	0.5%	0.0%	-0.1%	0.0%
Operating Margin (%)	2.3%	-0.2%	0.3%	0.0%	0.0%	0.1%
Total Margin (%)	6.2%	-1.7%	0.5%	0.0%	0.0%	0.0%
Total Assets (\$)	18,303,531	781,560	858,959	633,012	911,996	942,211
Total Net Assets (\$)	8,972,581	742,000	767,000	792,516	820,530	847,245
Unrestricted Cash Days on Hand (days)	212.2	5.0	(6.4)	(13.7)	2.6	7.0
Unrestricted Cash to Debt (%)	132.5%	5.1%	-0.7%	0.4%	5.3%	8.1%
Debt Service Coverage (ratio)	6.5	(1.8)	1.2	(2.8)	3.2	0.3
Debt to Capitalization (%)	43.3%	-2.3%	-1.8%	-2.8%	-1.5%	-1.4%

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 Days Cash 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, 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 are calculated.

Key Metric	Definition
EBIDA (\$)	(Earnings before interest, depreciation and amortization expenses) - Operating gain (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 (deficit) of revenue over expenses / total operating revenue
Total Assets (\$)	Total assets of the organization
Total Net Assets (\$)	Total net assets of the organization (includes unrestricted net assets, temporarily restricted net assets and permanently restricted net assets)
Unrestricted Cash Days on Hand (days)	(Cash & cash equivalents + investments + current portion investments limited as to use + investments limited as to use - externally limited funds) / ((Total operating expenses - non recurring charges - depreciation & amortization) / YTD days)
Unrestricted Cash to Debt (%)	Unrestricted Cash-to-Debt (%) - (Cash & cash equivalents + investments + current portion investments limited as to use + investments limited as to use - externally limited funds) / (Current portion of long-term obligations + long-term obligations)
Debt Service Coverage (ratio)	Debt service coverage ratio (ratio) - (Excess (deficit) of revenue over expenses + depreciation expense + amortization expense + interest expense) / (Principal payments + interest expense)
Debt to Capitalization (%)	Debt to Capitalization (%) - (Current portion of long-term obligation + long-term obligations) / (Current portion of long-term obligations + long-term obligations + unrestricted net assets)

In preparing the Key Metrics, Management noted the following:

- Partners HealthCare has a balloon payment on long-term debt maturing in fiscal year ending 2021 and prepared the Projections to include the balloon payment.

## 1. Revenues

The only revenue category on which the proposed capital projects would have an impact is net patient service revenue. Therefore, I have analyzed net patient service revenue identified by Partners HealthCare in both their historical and projected financial information. Based upon my analysis of the projected results from Fiscal Year 2019 through Fiscal Year 2023, the proposed capital projects would represent approximately 0.007% (about 7 one-thousandths of 1%) of Partners HealthCare operating revenue beginning in FY 2021 to 0.027% (about 3 one-hundredths of 1%) in FY 2023. The first year in which revenue is present for the proposed capital projects is FY 2021.

It is my opinion that the revenue growth projected by Management reflects a reasonable estimation based primarily upon the organization's 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 Partners HealthCare for the years ended 2017 and 2018 in order to determine the impact of the proposed capital projects at the Foxborough Center on the consolidated entity and in order to determine the reasonableness of the Projections for the fiscal years 2019 through 2023. Based upon my analysis of the projected results from Fiscal Year 2019 through Fiscal Year 2023, the proposed capital projects would represent approximately 0.003% (about 3 one-thousandths of 1%) of Partners HealthCare operating expenses beginning in FY 2021 to 0.014% (about 1 one-hundredths of 1%) in FY 2023.

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

## **3. Non-Operating Gains/Expenses and Other Changes in Net Assets**

The final categories of Partners HealthCare Projections are various non-operating gains/expenses and other changes in net assets. The items in these categories relate to investment account activity (realized and unrealized), philanthropic and academic gifts, benefit plan funded status, fair value adjustments and other items. Because many of these items are unpredictable, nonrecurring, or dependent upon market fluctuations, I analyzed the non-operating activity in aggregate. Based upon my analysis, there were no non-operating expenses projected for the proposed capital projects at the Foxborough Center. Accordingly, it is my opinion that the pro-forma non-operating gains/expenses and other changes in net assets are reasonable.

## **4. Capital Expenditures and Cash Flows**

I reviewed Partners HealthCare capital expenditures and cash flows in order to determine whether Partners HealthCare anticipated reinvesting sufficient funds for technological upgrades and property, plant and equipment and whether the cash flow 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 Partners HealthCare cash flow. Based upon my analysis, it is my opinion that the pro-forma capital expenditures and resulting impact on Partners HealthCare cash flows are reasonable.

## **VI. FEASIBILITY**

I analyzed the projected operations for Partners HealthCare and the changes in Key Metrics prepared by Management as well as the impact of the proposed expansion of MRI and CT imaging services at the Foxborough Center upon the Projections and Key Metrics. In performing my analysis, I considered multiple sources of information including historical and projected financial information for Partners HealthCare. 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.

Mr. Brian Huggins  
Partners HealthCare System, Inc.  
July 12, 2019  
Page 6

Because the impact of the proposed expansion of MRI and CT imaging services at the Foxborough Center represents a relatively insignificant portion of the operations and financial position of Partners HealthCare, 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 projects. Based upon my review of the Projections and relevant supporting documentation, I determined the projects and continued operating surplus are reasonable and based upon feasible financial assumptions. Therefore, the proposed expansion of MRI and CT imaging services at the Foxborough Center is financially feasible and within the financial capability of Partners HealthCare.

Respectively submitted,

*Bernard L. Donohue, III, CPA*

Bernard L. Donohue, III, CPA



**Attachment 12**

**FACTOR 4.A.I CAPITAL COSTS CHART**

F4a.ii For each Category of Expenditure document New Construction and/or Renovation Costs.				
Category of Expenditure	New Construction	Renovation	Total	
<b>Land Costs</b>				
Land Acquisition Cost	\$ -	\$ -	\$ -	
Site Survey and Soil Investigation	\$ -	\$ -	\$ -	
Other Non-Depreciable Land Development	\$ -	\$ -	\$ -	
<b>Total Land Costs</b>	\$ -	\$ -	\$ -	
<b>Construction Contract (including bonding cost)</b>				
Depreciable Land Development Cost	\$ -	\$ -	\$ -	
Building Acquisition Cost	\$ -	\$ -	\$ -	
Construction Contract (including bonding cost)	\$ -	\$ 4,350,000	\$ 4,350,000	
Fixed Equipment Non in Contract	\$ -	\$ 4,515,000	\$ 4,515,000	
Architectural Cost (Including fee, Printing, supervision etc.) and Engineering Cost	\$ -	\$ 200,000	\$ 200,000	
Pre-filing Planning and Development Costs	\$ -	\$ -	\$ -	
Post-filing Planning and Development Costs	\$ -	\$ -	\$ -	
Other (specify): Furniture, Fixtures, and Equipment (FPE)	\$ -	\$ 336,000	\$ 336,000	
Net Interest Expensed During Construction	\$ -	\$ -	\$ -	
Major Movable Equipment	\$ -	\$ -	\$ -	
<b>Total Construction Costs</b>	\$ -	\$ 9,401,000	\$ 9,401,000	
<b>Financing Costs</b>				
Cost of Securing Financing (legal, administrative, feasibility studies, mortgage insurance, printing, etc	\$ -	\$ 75,208	\$ 75,208	
Bond Discount	\$ -	\$ -	\$ -	
Other (specify)	\$ -	\$ -	\$ -	
<b>Total Financing Costs</b>	\$ -	\$ 75,208	\$ 75,208	
<b>Estimated Total Capital Expenditure</b>	\$ -	\$ 9,476,208	\$ 9,476,208	
Add/Del Rows				