COPLEY HOSPITAL, INC.
FY 2018 PROPOSED BUDGET
NARRATIVE

1) EXECUTIVE SUMMARY

Copley Hospital's proposed FY2018 budget reflects our commitment to meeting growing demand for high quality health care services, implementing strategic cost reductions to keep our rates low, investing in the improvement of our facility and infrastructure, and gradually improving our financial position in preparation for health care payment reform initiatives.

In order to meet these objectives, Copley is proposing a 7.5%, or $4.8 million, increase in net patient revenue, which includes <u>no rate increase and no impact on Commercial rates</u> and is funded by our own increased utilization. This increase in net patient revenue is deemed necessary in order to fund the following:

- $1.9 million, or 3% Cap, to cover:
  - $3.4 million in ordinary and necessary expense growth such as employee cost of living and other contracted increases, inflation in expenses, and other strategic spending related to quality, technology needs, and recruitment and coverage for providers and staff.
  - Offset by a $1.8 million decrease from cost savings related to the reduction of 9.4 FTEs, the consolidation of nursing units for more efficient staffing mix, divesting of a physician practice, better price negotiation and management of waste in supplies and drugs, and other cost savings
  - $294 thousand in increased Medicaid provider tax based the tax notice received from the State.
- $1.2 million, or 1.8% increase, to cover costs associated with increased utilization, including:
  - $790 thousand increase in variable costs including implants and other supplies, drugs, billing and collections fees, linens, etc.
  - $510 thousand increase for 5.2 additional FTEs for orthopedic practice provider support, rehabilitation staff, anesthesiologists, and sitters for patients with dementia or mental health concerns
  - Offset by a $113 thousand reduction in oncology infusion services utilization being transferred to Central Vermont Medical Center (CVMC) who will provide medical oversight of Copley's oncology program effective July 1, 2017
- $910 thousand, or 1.4% increase, to cover additional operating costs associated with new Surgical Center, including depreciation, borrowing costs, and cost associated with increased square footage such as utilities, maintenance, housekeeping, and insurance. This is nearly $100,000 less in operating costs budgeted for FY2018 in the approved CON.
- $32,500, or 0.1% increase, for new investments in health reform related to partial funding for a clinical social worker in the Emergency Room.
- $738 thousand, or 1.2% increase, to improve Copley's Operating Margin to 1.3% for FY 2018, in-line with the CAH median.

Utilization growth is the most significant source of funding for the proposed increase in net patient revenue. Over the past few years, Copley has seen a steady increase in its demand for surgical services, primarily in orthopedic surgery. As a result, the proposed FY2018 budget includes a 7.6% increase in OR procedures and a 12% increase in related OR minutes that drive revenue. This increase in surgical time is driven by high demand for total joint surgeries and improved access to surgical care made possible due to increased efficiency.

Copley's FY2018 budget proposes Days Cash on Hand of 83 days. This is slightly lower compared to historical budgets and actual performance and is nearly 30% less than the CAH median. Copley's long-term goal is to attain at least 120 days cash on hand in order to be in a better financial position to be able to invest in much needed improvements to its infrastructure and prepare for payment reform initiatives. This presents an on-going challenge in complying with the net patient revenue cap without deteriorating Copley's financial position.

In summary, Copley proposes that it keep the revenue generated from its own utilization growth and leave rates unchanged into order to generate a modest operating margin and sustain its Days Cash on Hand. We believe this is a reasonable request as Copley has decreased its rates by 7.7% cumulatively over the last three years and our current proposal includes no impact on Commercial rates. Our proposal includes significant cost savings, $1.8 million - equivalent to a 5% rate change - and reflects Copley's commitment to meeting growing demand for high quality health care services and implementing strategic cost reductions to keep our rates low. While doing so, Copley must safeguard its financial position in preparation for future health care payment reform initiatives and to fund much needed improvements to our facility and infrastructure. As such, we respectfully request that the GMCB approve Copley's FY2018 budget as proposed.

2) PREPARATION FOR AND INVESTMENT IN VALUE-BASED PAYMENT AND DELIVERY REFORM

Copley continues to participate in Accountable Care Organizations, including OneCare Vermont (OCV) and Community Health Accountable Care. We are active participants in OCV's Unified Community Collaborative (UCC), working to reduce readmissions and improve transitions in care among providers in the community, with our Cardiologist and co-CMO, Dr. Adam Kunin, serving as Chair of this committee. While Copley is not taking on risk currently, we are contributing data to the ACOs for analysis. We continue to work to improve the operating margin and build up our cash on hand in preparation for future health care payment reform initiatives, such as the All Payer Model. Of the 7.5% proposed increase in NPR, 1.2%, or $738 thousand, is proposed to improve Copley's operating margin to 1.3%, up from 0.5% approved for FY2017, bringing it in line with the CAH median.

We recognize that meaningful participation in value-based payment and health care delivery reform will require us to continue our focus on improving quality and streamlining costs. Cost savings proposed for FY2018 are discussed in further detail in section 6b below. Following are some examples of quality initiatives and other initiatives related to health delivery reform that Copley is participating in:

- Implementation of Shared Decision Making program for Cardiology services
- Continuation of the Orthopedic Shared Decision Making program
- Ongoing participation in the Blueprint for Health program, including the Women's Health Initiative
- VT Program for Quality in Health Care (VPQHC) initiative to reduce readmissions
- American College of Surgeons National Surgical Quality Improvement Program® (ACS NSQIP®) to measure and improve the quality of surgical care and decrease costs
- Medicare Beneficiary Quality Improvement Project (MBQIP) to increase quality data reporting by CAHs for the purpose of driving quality improvement activities
- Antibiotic Stewardship Program (ASP) to optimize the treatment of infections and reduce adverse events associated with antibiotic use.
- Implementing a telemedicine-based rheumatology service with Dartmouth Hitchcock to replace a retiring visiting University of Vermont Medical Center (UVMMC) Rheumatologist.

3) POPULATION HEALTH INITIATIVES AND COMMUNITY HEALTH NEEDS ASSESSMENT

Copley Hospital works collaboratively with a number of local health care organizations, including two FQHCs, Home Health and Hospice, Lamoille County Mental Health, and long-term skilled nursing facilities, along with social service organizations to address population health goals as identified in the Community Health Needs Assessment. Overall, we have focused on connecting our patients with needed services.

To reduce preventable hospital visits (and ultimately reduce healthcare costs), we have placed social workers in the Emergency Department (ED) and in The Women's Center. This service is offered in collaboration with Community Health Services of Lamoille Valley and the Vermont Women's Health Initiative. Referrals made by the social workers, on behalf of our patients, address unmet healthcare needs along with social determinants that affect the patients' health. From January through April 2017, the ED social worker has had 294 patients referred, and made 352 referrals on their behalf.

Our inpatient services team continues to collaborate with our community partners on reducing hospital readmissions. In collaboration with the readmission subcommittee, a multidisciplinary team of participating members of the Unified Community Collaborative (UCC), we have improved patient access for follow up visits with their PCP following discharge. However, we have not been able to identify a care or medical diagnosis trend regarding why readmissions occur. The subcommittee has convened to develop a Process Improvement Project on the implementation and utilization of the LACE risk assessment tool. LACE, an acronym for length of stay, acuity of admission, comorbidities index, and number of emergency department visits in preceding 6 months, utilizes these key indicators to rank a patient's risk for readmission or death within 30 days of discharge. The objective of this project is to evaluate how our patients rank and align interventions and services to that score. In addition to our UCC related partnership, we have recently teamed up with clinical leadership from our local skilled nursing facility to identify opportunities to improve inter-facility transitions of care.

The Live Well Lamoille blog was created as a collaborative community effort, with bloggers representing Copley and a variety of social service agencies, entities, and community leaders embracing the social determinants of health. It was developed in response to the need to reduce chronic conditions in our area. With almost ten thousand views, the blog is a resource for information and encourages readers to make healthy choices and is promoted via social media. We have also invested in our employee wellness program given the ripple effect this has on our community given Copley is one of the largest year-round employers in the area. The hospital also contributed to the local Bike Share program, providing residents free access to bicycles for recreation and transportation and created an annual 5K Walk/Run to promote the Lamoille Valley Rail Trail for recreation/exercise and as part of the town's Rocktoberfest activities.

Preventative screenings for tobacco, substance abuse, depression, food and housing security are helpful in improving population health and are typically done by primary care providers. Copley does not have any primary care providers, but is working to incorporate preventative screenings and referrals into our outpatient electronic health record. The Women's Center is beginning a preventative screenings pilot program with their EHR, and if successful, we look to roll it out to another outpatient clinic in the future. In addition, the hospital granted funds to Healthy Lamoille Valley to assist with their community advocacy efforts, promoting substance-free events and activities, promoting drug take-back locations, and healthy town planning.

4) MENTAL HEALTH AND SUBSTANCE ABUSE NEEDS AND CARE SHORTAGES

We continue to struggle with addressing the mental health and substance abuse needs and care shortages and the impact they have on our community. We are referring patients to the Medically Assisted Treatment Team in our area and implementing new opiate prescribing protocol and policies in response to additional regulations along with promoting awareness of the issue and prescription drug disposal locations. We work closely with substance abuse counselors, law enforcement, and patients themselves.

Our Emergency Department (ED) staff have seen success working very closely with Lamoille County Mental Health Services Crisis Team to evaluate and support those patients who are in our ED waiting for a mental health bed. However, we routinely have patients boarding in our ER, waiting for an appropriate placement. On May 3, 2017, we held a community forum featuring a multi-media presentation and panel that showed the challenges hospital staff face with patients experiencing a mental health crisis and the lack of an adequate number of mental health beds throughout Vermont. We are currently training multi-disciplinary staff to serve as sitters and provide the tools they need to best respond to mental health care events in the hospital. The reality is that our staff will continue caring for mental health patients with longer stays at Copley than what is optimal.

5) NEW HEALTH REFORM INVESTMENTS

Copley's proposed net patient revenue includes a request for an allowance of $32,500, or 0.1%, to fund health reform investments related to cost sharing with local FQHC for a social worker in Emergency Services ($32,500); see section 3 above for details. We continue to invest resources into quality initiatives to improve patient care and safety while also reducing the cost of health care. Our multi-disciplinary initiative to implement the LACE risk assessment for readmissions and participation in ACS NSQIP are examples of such initiatives; see section 2 and 3 above for details.

6) NET PATIENT REVENUE (NPR) BUDGET

Copley Hospital proposes net patient revenue of $69,663,508 in FY2018, up $4,844,103 or 7.5% from the approved FY2017 budget of $64,819,405. This increase is proposed to be accomplished thru increased utilization and no change in rates. After much effort to identify $1.8 million in cost savings for FY2018, Copley determined that a 7.5% increase in NPR is necessary in order to cover its increased costs and generate a modest operating margin of 1.3%.

JUSTIFICATION FOR 7.5% NPR INCREASE

Major factors contributing to Copley's request for a 7.5% increase in NPR include the following:

Increases in Expenses:	Amount	NPR%
Inflation and other increases	3,447,424	
Cost savings	(1,760,143)	3.0% = GMCB Cap
Medicaid provider Tax	294,138	
New Health Reform Investments	32,500	0.1%
New Surgical Center Costs	909,742	1.4%
Utilization-related Costs	1,182,136	1.8%
Total Expense Increase	4,105,797	
Improvement in Operating Margin	738,309	1.2%
Total Net Patient Revenue Increase	4,844,106	7.5%

Inflation and other increases - Copley proposes a $3.4 million increase in ordinary and necessary expense growth such as employee cost of living and other contracted compensation increases, inflation in expenses, and other strategic spending related to quality, technology needs, and recruitment and coverage for providers and staff.

Cost Savings - Copley has identified $1.8 million in strategic cost savings for FY2018 related to the reduction of 9.4 FTEs, the consolidation of nursing units for more efficient staffing mix, divesting of a physician practice, better price negotiation and management of waste in supplies and drugs, and other cost savings. See section 6b for more details on cost savings initiatives.

Medicaid provider Tax - Copley proposes a $294 thousand in increase Medicaid provider tax based on the tax notice received from the State.

New Health Reform Investments - Copley's proposed net patient revenue includes a request for an allowance of $32,500 to fund health reform investments. See section 5 above for details.

New Surgical Center Costs - The completion of Copley's new Surgical Center in FY2017 will add $910 thousand of operating costs, including $500 thousand in annual depreciation, $44 thousand in interest on borrowing, and $366 thousand in cost associated with operating the additional 19,560 square feet of space such as utilities, maintenance, housekeeping, and insurance, including 3.8 FTEs. This is nearly $100 thousand less operating cost than was projected for FY2018 in the approved CON. Furthermore, we propose that funding of these costs come from utilization growth instead of the 2% rate increase projected for FY2018 in the approved CON.

Utilization- related Costs - Copley continues to experience increased demand for surgical services, particularly orthopedic services, a major contributor to the 12% increase in surgical minutes and 15% increase in inpatient days. Increased utilization comes with increase costs. Copley has identified $1.2 million in increased costs specifically related to utilization growth, including:

- $790 thousand increase in variable costs such as implants and other supplies, drugs, billing and collections fees, linens, etc.
- $510 thousand increase related to the addition of 5.2 FTEs for orthopedic practice provider support, rehabilitation staff, anesthesiologists, and sitters for patients with dementia or mental health concerns.
- Offset by a $113 thousand reduction in oncology infusion services utilization being transferred to Central Vermont Medical Center (CVMC) who will provide medical oversight of Copley's oncology program effective July 1, 2017

  See section 7 for further discussion of expenses. Copley is proposing to fund these specific utilization-driven costs via a 1.8% exception above the 3% cap.

Improvement in Operating Margin - The financial health of Copley is of particular concern going into health care payment reform initiatives that would put the hospital at risk should our margin be inadequate to sustain day-to-day operations and necessary investments in our infrastructure. Copley's FY2018 budget proposes an increase in the operating margin to 1.3%, up from the 0.5% approved in FY2017 and in-line with the CAH median.

NPR ASSUMPTIONS

The proposed $4.8 million, or 7.5%, increase in NPR is to be funded by the following:

NPR, Budget 2017	$64,819,405
Rate Change	0
Utilization	7,349,834
Physician Transfers Out	-431,214
Bad debt and charity	75,748
Reimbursement rates	-1,919,689
Disproportionate share	-230,576
Increase in NPR	$ 4,844,103
NPR, Budget 2018	$69,663,508

Utilization – Continued growth in utilization is the most significant factor contributing to the increase in net patient revenue, particularly the increase in surgical utilization and related inpatient days. At Copley, surgical specialties drive well over half of its total patient revenue, including surgical revenue, inpatient routine revenue, ancillary revenue, and office visits. Over the past few years, Copley has seen a steady increase in its demand for surgical services, primarily in orthopedic surgery. As a result, the proposed FY2018 budget includes a 7.6% increase in OR procedures and a 12% increase in related OR minutes that drive revenue. This increase in surgical time is driven by high demand for total joint surgeries and improved access to surgical care made possible due to increased efficiency. The increased surgical utilization is the primary driving factor for increase inpatient utilization and related ancillary services such as imaging, rehabilitation, and laboratory testing.

Physician Transfers Out - Copley's proposed FY2018 NPR budget includes the impact of $431 thousand related to two transfers of services out into either another facility or a private practice.

- Effective June 1, 2017, our employed Urologist has gone into private practice, but will remain in our community and continue to perform surgeries at Copley. This divesting of a physician practice is proposed to reduce professional fee net patient revenue by $156 thousand.
- Copley's Oncology program is currently operated under a collaboration agreement with University of Vermont Medical Center (UVMMC) who provides an Oncologist to oversee the program and visit with our patients on-site. This Oncologist is retiring and UVMMC is unable to replace her at Copley. Effective July 1, 2017, Copley has entered into a collaborative agreement with Central Vermont Medical Center (CVMC) for oversight of its Oncology program; however, their Oncologists will not be on-site at Copley. Copley's oncology patients will have their initial infusion(s) at CVMC resulting in a proposed decrease in net patient revenue totaling $275 thousand for infusion services and related oncology drugs.

Bad debt and charity - Total bad debt and charity care write-offs are proposed to be 2.1% of gross patient revenue, based on Copley's current experience. This represents a decrease from 2.4% budgeted in FY2017, resulting in an increase in proposed net patient revenue of $76 thousand.

Reimbursement rates - Copley Hospital's FY2018 proposed budget includes a reimbursement rate of 58.6%, before Disproportionate Share (DSH) revenue, representing a decrease from the approved FY2017 budgeted rate of 59.9%. The budget-to-budget impact on net patient revenue of changes in assumed reimbursement rates is a decrease of $1.9 million in total. Medicare reimbursement, based on the trend in the ratio of costs to charges, accounts for the majority of the decrease in NPR due to reimbursement rate assumptions, with Medicaid, Commercial, and Other sources remaining relatively flat. A summary of the reimbursement assumptions for each of the major payer sources is included in section 6c below.

Disproportionate share - Copley's proposed FY2018 budget includes a reduction of 23%, or $230 thousand, in Disproportionate Share payments.

a) FY2017 BUDGET VARIANCE

Year-to-date net patient revenue as of May 31, 2017 is $847 thousand, or 2%, over Copley's seasonally-adjusted budget. This overage is predominately due to continued increases in demand for surgical services and the related impact it has on inpatient and ancillary revenue, as well as decreases in bad debt and charity care. Current projections indicate that NPR may be 3% over budget by year-end due to continued increases in utilization.

Surgical minutes are over budget by 3%, which is 12% higher than actual surgical minutes this time last year. This increase in surgical time is driven by increasing demand for total joint surgeries and our efforts to improve access to surgical care and reduce wait times by expanding the hours of our OR when staffing allows, minimizing unused block time, and improving turn-around time and on-time starts.

This utilization growth has had an impact on operating expenses. Year-to-date expenses as of May 31, 2017 are $876 thousand, or 2%, over budget, predominantly comprised of a $946 thousand overage in supplies and drugs. These cost increases are directly related to increased utilization. Current year actual utilization growth, including the impact it has on expenses, has been incorporated into Copley's proposed FY2018 budget.

Total bad debt and charity care write-offs are proposed to be 2.1% of gross patient revenue, based on Copley's current experience. This represents a decrease from 2.4% budgeted in FY2017 and has been incorporated into Copley's proposed FY2018 budget.

As a result of the projected overage in FY2017, Copley projects improvement in its Operating Margin raising it from 0.5% to 1.7%. This is a modest operating margin that is needed to invest in the improvement of our facility and infrastructure. Copley implemented a 3.7% rate reduction in January 2017, marking a three year cumulative rate decrease of 7.7%. Given that both our rates and our operating margin have remained low, we believe that commercial rates could not have been lower for FY2017.

b) COST SAVING INITIATIVES

Copley has committed to $1.8 million in strategic cost savings for FY2018, the equivalent of a 5% rate change. This includes savings related to workforce efficiencies, divesting of a physician practice, better price negotiation and management of waste in supplies and drugs, and other cost savings. Each of these cost savings initiatives is described further below.

Overall, $863 thousand in cost savings are related to workforce efficiencies. These cost savings were identified in conjunction with recommendations from a workforce assessment provided by Quorum Health Resources (QHR) in late 2016, as well as opportunities identified via new procedures implemented internally to scrutinize job requisitions. Cost savings related to workforce efficiencies include:

- $600 thousand in savings related to the reduction of 7.3 FTEs.
- $207 thousand in savings estimated as a result of its proposal to consolidate the Intensive Care Unit and Medical/Surgical nursing units into one Acuity-Adaptable Inpatient Care Unit. The primary goals of this unit are to improve coordination of patient care by aligning nursing competencies and activities with our utilization data, including length of stay, severity of illness and community needs, all while improving operational efficiency. Overall, there will be no FTE reduction as a result of this proposed consolidation and Copley will continue to provide the same levels of acute care that it currently provides, including critical care.
- $56 thousand in savings related to bringing contracted labor in house in Peri-Operative Services and the Progressive Care Unit.

Effective June 1, 2017, our employed Urologist has gone into private practice, but will remain in our community and continue to perform surgeries at Copley. This divesting of a physician practice is proposed to reduce expenses by $344 thousand, including the reduction of 2.1 FTEs (1.0 MD, 1.1 Staff). The net patient revenue related to the professional fees for this provider has been removed from the proposed FY2018 budget.

The FY2018 proposed budget includes cost savings of $381 thousand in supplies, drugs, and food costs as a result of better price negotiation, management of waste, and participation in 340(b) drug program. This is an estimate of the savings that we believe could be achieved. There is some risk that these potential savings may not materialize, or may not be achievable in only one year.

Other cost savings proposed in FY2018 totaling $174 thousand are reductions in purchased services related to coding, laboratory, and Information Technology.

Altogether, the $1.8 million in cost savings reduced: Copley's proposed FTEs by 9.4, proposed labor-related expenses by $1.2 million, supply and drug expenses by $381 thousand, and other expenses by $185 thousand.

c) NPR BY PAYER SOURCE.

i) REVENUE ASSUMPTIONS: MEDICARE

Medicare net patient revenue is proposed to increase by $2,534,836 for a total of $21,416,000, or 49.4% of Medicare gross patient revenue. This proposed increase is substantially driven by the increase in Medicare utilization and costs. Medicare reimbursement estimates utilize a CAH-specific reimbursement model based on the trend in the ratio of costs to charges. The estimates are calculated in accordance with legislated payment rules currently in effect. There are no significant prior year settlement adjustments impacting proposed Medicare net patient revenue.

Meaningful use incentives from Medicare totaling $25,480 for eligible professionals have been included in the FY2018 proposed Other Operating Revenue.

ii) REVENUE ASSUMPTIONS: MEDICAID

Overall Medicaid net patient revenue (excluding DSH) is budgeted at $6,640,310, or 34.0% of Medicaid gross revenue, remaining relatively flat with only a decrease of $127,191, or 1.9%. Copley has not experienced significant changes in Medicaid utilization. Medicaid reimbursement is proposed based on current year-to-date payment trends with no payment rate increase for FY2018.

Meaningful use incentives from Medicaid totaling $305 thousand have been included in the FY2018 proposed Other Operating Revenue.

iii) REVENUE ASSUMPTIONS: COMMERCIAL/SELF-PAY/OTHER

Net patient revenue from commercial and other payer sources is budgeted to increase $2,700,466 for a total of $40,882,528 or 74.7% of gross revenue for commercial and other payers. This proposed increase is substantially driven by the increase in utilization as no rate increase is proposed for FY2018. The reimbursement rates proposed in the FY2018 budget are based on current actual reimbursement rates from commercial and other sources.

7) EXPENSE BUDGET

Copley Hospital proposes total expenses of $70,072,338 in FY2018, up $4,105,797, or 6.2% from the approved FY2017 budget of $65,966,541. Major factors contributing to these increases include utilization growth, costs associated with the new Surgical Center, Medicaid provider taxes, inflation, and other strategic spending. After identifying $1.8 million in cost savings (described in section 6b), Copley's proposed expense growth is comprised of $1.5 million for labor-related costs, $1.4 million in supply and drug costs, and $1.2 million in other expenses, described further below:

Expenses, Budget 2017	$65,966,541		
Staff compensation	862,335	1.3%	Labor Costs:
Contracted Labor	174,671	0.3%	$1,505,089 = 2.3%
Physician compensation	468,083	0.7%	
Supplies	1,301,759	2.0%	Supplies & Drugs:
Drugs	143,808	0.2%	$1,445,567 = 2.2%
Medicare Provider Tax	294,138	0.4%	
Depreciation	561,916	0.8%	Other Costs:
Interest	41,389	0.1%	$1,155,141 = 1.7%
Other	257,698	0.4%	
Expenses, Budget 2018	$70,072,338	6.2%	

Labor Costs – Copley's proposed expenses include a $1.5 million increase in labor-related costs, after incorporating $1.2 million in labor-related cost savings initiatives discussed in section 6b. Major factors contributing to the increase in labor-related costs include cost of living increases for staff; contracted increases for providers; certain market adjustments necessary to retain and recruit quality staff; certain staffing increases related to utilization growth, additional square footage, or other strategic initiatives; and 3%-8% inflation on fringe benefits such as health and dental insurance.

Supplies & Drugs - Supplies and drugs are proposed to increase $1.4 million due to inflation and increase in utilization discussed above, particularly the increase in orthopedic surgeries and increased demand for custom implants for joint replacements. Copley's budget assumes inflation on supplies to range from 1-2.5% and inflation on drugs to be at least 8%. These increases are offset partially with cost savings of $381 thousand related to anticipated improvements in price negotiation, management of waste, and participation in 340(b) drug program.

Other Costs - Other costs are proposed to increase $1.2 million due primarily to increased depreciation, utilities, and interest on borrowing related to the new Surgical Center, as well as increases in provider education allowances, recruitment costs, legal fees for union contract negotiations, community needs assessment planned, additional software support, increased insurance premiums, and Medicaid provider taxes.

8) RATE REQUEST

Over the last three years, Copley has had either no rate increase or a reduction in rates, with a cumulative rate reduction of 7.7%. Copley's FY2018 budget again proposes no rate increase and, therefore, no impact on commercial rates.

No rate increase was deemed necessary to generate a modest 1.3% operating margin of after taking into consideration (1) the favorable impact of increased utilization in FY2017 on net patient revenue; increased utilization expected to continue into FY2018, and (2) proposed cost savings of $1.8 million, the equivalent of a 5% rate change. We continue to see higher utilization and have worked hard to restrict expenses in many areas to cover costs incurred due to the increased demand for our orthopaedic services and anticipated costs outlined in the approved CON for the new surgical center. Copley has demonstrated cost containment during a period of steady growth in utilization. We believe our proposal for not rate change is reasonable and reflects our commitment to contain healthcare cost while improving access to high quality health care for our community. Therefore, we respectfully request that the GMCB approve Copley's FY2018 proposal for no rate change.

9) RESPONSE TO GMCB LETTER RE FY2016 BUDGET OVERAGE

On June 19, 2017, Copley received a letter from the GMCB indicating that Copley's FY2016 budget overage was addressed by the GMCB in December when a revised FY2017 budget was approved. However, the GMCB has asked that we address the FY2017 projected NPR overage. See section 6a for this requested explanation. In addition, it was requested that we explain any proposed changes to Copley's certificate of need related to its new Surgical Center.

Copley is not proposing a change to its certificate of need for the surgical center at this time. We are committed to improving access to high quality surgical care and ensuring that the right care is provided in the right setting. We are evaluating our current operations and want to operate in the new surgical center for a period of time to do our due diligence. This enables us to consider the impact of any additional efficiencies we may gain in the new integrated suite. We appreciate the GMCB's patience as we perform our due diligence.

10) CAPITAL BUDGET INVESTMENTS

Capital spending for FY2018 is proposed at $3,739,327 and will be funded through operations, including funded depreciation. There are no individual capital expenditures over $500 thousand proposed in the FY2018 budget. Copley's FY2018 proposed capital spending is 5.4% of proposed net patient revenue and results in an Average Age of Plant of 11.4 years and Long-term Debt to Capitalization of 20.2%, which are in-line with our CAH peers.

a) ANTICIPATED MAJOR INVESTMENTS FOR FY2019-FY2021

Copley proposes $15.7 million in capital spending for FY2019-2021 as a placeholder related to thoughtful management of our facility, technology, and equipment needs. Copley is developing a new master plan to systematically improve in these areas to provide a safe and comfortable patient environment, high quality care, and seamless coordination of care amongst providers. As always, our future capital investments will support best practices in health care delivery at a scale that fits our community.

b) FY2018 PROPOSED CERTIFICATE OF NEED (CON)

Copley does not anticipate requesting a Certificate of Need (CON) during FY 2018.

11) TECHNICAL CONCERNS

In FY2018, Copley is proposing to consolidate its Intensive Care Unit and Medical/Surgical nursing units into one Acuity-Adaptable Inpatient Care Unit (See Section 6b for details). In Copley's reporting of its proposed budget in Adaptive Insights, you will see that all revenue, expenses, and statistics associated with the "Critical Care" department have been included in the "Medical/Surgical" department for reporting purposes to reflect the activity of this one Acuity-Adaptable Inpatient Care Unit.