

Roswell Park Cancer Institute Corporation

Section 203 Budget Filing

Fiscal Year 2016 – 2017

FINAL

Public Authority Relationship with Unit of Government

Roswell Park Cancer Institute

The Institute was founded in 1898 and became a State Institute in 1911. In 1971, it was one of the first three institutions certified as a comprehensive cancer center by the National Cancer Institute. As such, it is committed to combat cancer through basic research, clinical research and treatment, and professional and public education. Presently, there are 45 such centers designated in the United States. The Institute is a 133 licensed bed facility and an ambulatory care center containing 15 multidisciplinary care centers with a staff of over 3,200 members, including clinical staff physicians, residents, fellows, and research staff. The primary physical plant covers several city blocks in downtown Buffalo.

The operation of the Institute transferred from the New York State Department of Health to the RPCI Corporation on January 1, 1999. In order to meet the demands of the changing health care marketplace and to promote the strengths and capabilities of the Institute, Chapter 5 of the Laws of 1997 added a new Title 4 to Article 10-c of the Public Authorities Law authorizing the RPCI Corporation. This legislative authorization was intended to change the Institute's governance structure to afford it market and managerial flexibility. Among the special powers granted by the legislation to the Corporation were the powers to contract with the State to operate, manage, superintend and control the Institute, and to establish, collect, and adjust fees, rental and other charges in connection with the operation of the Institute.

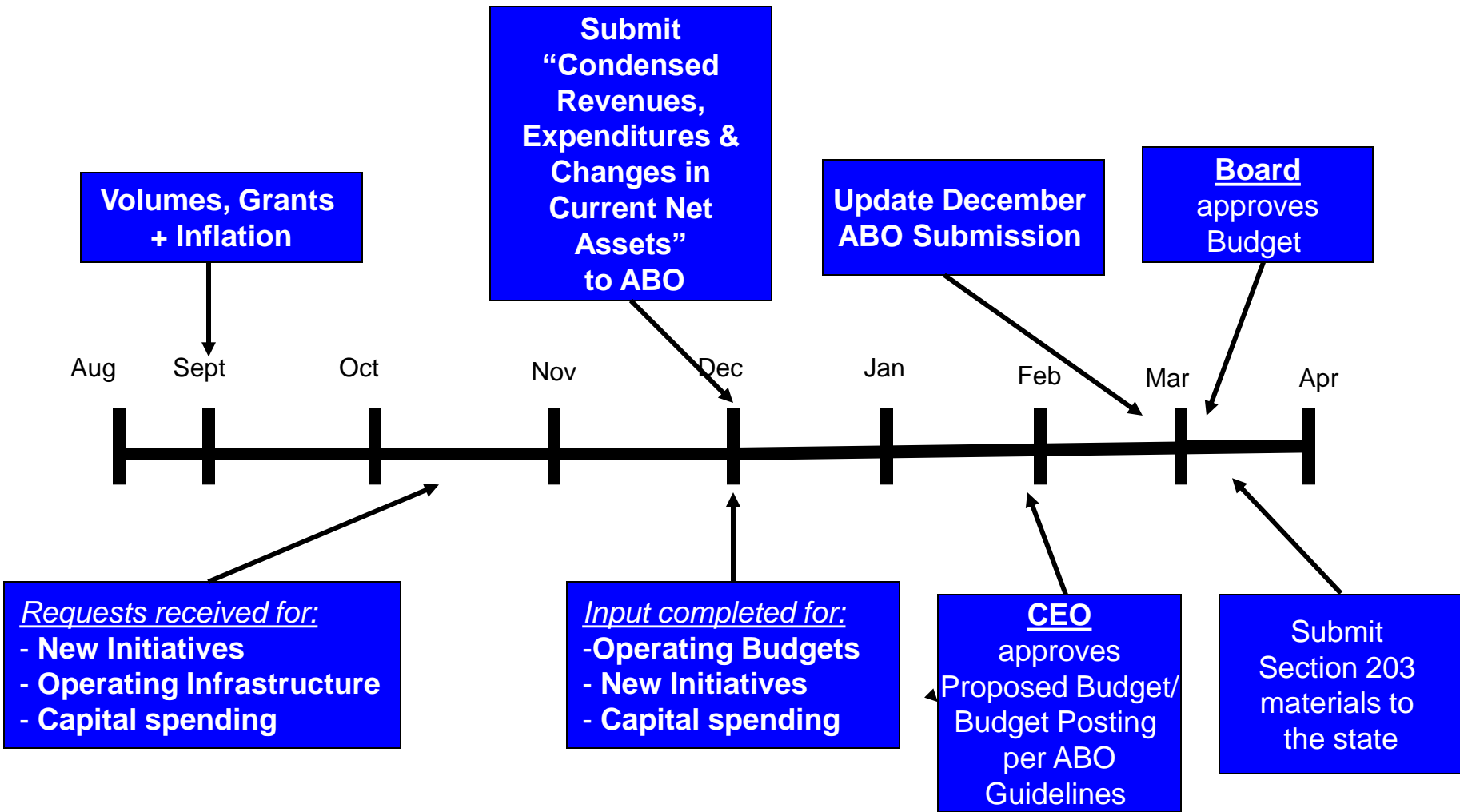
Pursuant to subdivision 2 of Section 403 of the Public Health Law, added by such chapter, the Department, acting on behalf of the State, entered into an Operating Agreement with RPCI Corporation pursuant to which operating responsibility for the Institute was transferred to RPCI Corporation effective January 1, 1999, and giving RPCI Corporation substantial independence in operating the Institute, including the power to establish operating budgets, to establish and implement strategic business plans, to create subsidiary and affiliated entities, to enter into affiliations and alliances with other health care providers and to establish, collect and adjust fees, rentals and other charges in connection with the operation of the Institute.

Revenues generated by the Corporation as a result of operating the Institute are considered to be revenues of the State for the purpose of its bond payment, and are required to be deposited into the Roswell Park Cancer Institute Debt Service Account of the Health Income Fund for payment of debt service on the Bonds. The Department retains responsibility for paying debt service on the Bonds. After allowing for accumulation of a debt service reserve for the Institute, the remaining revenues are transferred to the Roswell Park Cancer Institute Income Account of the Health Income Fund. After allowing for a balance for refunds these revenues are, in turn, transferred to RPCI Corporation.

RPCI Corporation's responsibility is to ensure the fiscal and programmatic integrity of the facility. To achieve this objective, the Corporation has updated the strategic plan for the Institute which includes major programmatic and scientific, as well as, fiscal goals. Some of the key goals include the recruitment of top-tier clinical and scientific talent; developing a methodology to monitor the effectiveness of programs and faculty; enhancing financial viability through revenue and expense controls; building a strong and profitable biotechnology transfer program in collaboration with peer facilities; emphasis on clinical and translational research, as well as developing and implementing new clinical trials and establishing a cancer disease management and clinical outcomes program.

The Institute is a formally designated unit of the Graduate School of the University of New York at Buffalo and has numerous affiliation agreements with other educational institutions and hospitals. Training provided by the Institute under these agreements includes medical, nursing and medical research.

The RPCIC Budget Process Timeline



Capital Allocations will be completed using the Following Team structure

Facilities Committee	IT Committee	Clinical Committee	Scientific Committee	Administrative
<p><i>Chief Institute Operations Officer General Counsel</i></p>	<p><i>President / CEO and Vice President Information Technology</i></p>	<p><i>Chief Clinical Operations Officer</i></p>	<p><i>President / CEO</i></p>	<p><i>V.P. of Finance and C.F.O.</i></p>
<p><i>VP for Facilities Management</i></p>				

Budget Assumptions - FY17

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Revenue Assumptions:

Base Volumes

- Admits +3.3%
- IP Days +3.8%
- OP Visits +2.1%

Rate Assumptions

- Payor increases as negotiated
- Governmental payor increases per regulations

Sources of Revenues:

Includes Private and Governmental Contracts, Grants and Donations, and Funding from New York State

Staffing:

At current levels, adjusted for Productivity Standards, New Initiatives, Strategic Research Initiatives and Infrastructure

Future Collective Bargaining Costs:

Bargaining Unit increases for FY2017 include estimated Step and COLA consistent with expiring CBA

Inflation:

- > Salaries - Steps and COLA factored in per CBA above
- > Fringe Benefits - increase consistent with salaries
- > Pharmaceuticals (inflation, utilization increases & new drugs) +15.7%
- > Medical Supplies, Blood Products, Office Supplies, Purchased Services +2.1%

Programmatic Goals:

- > Continue Implementation of Strategic Research Initiatives
- > Continue Strategic Recruiting Efforts
- > Increase Collaborative Opportunities
- > Continue Implementation of Strategic Transformation Plan
- > OmniSeq (Personalized Medicine) Project

Challenges and Obstacles – External Forces

External forces that challenge our ability to successfully implement Roswell's vision for the future:

- **Current Economic Climate**
- **Outcome of final NYS Budget**
- **NYS support requested and timing of when funds will be received**
- **Recruitment**
 - Increasing costs and competition
- **NIH Funding**
 - Continued competition for funding remains a challenge to growing research
 - Federal Budget restraints due to sequestration remain a challenge
 - NIH Federal FY17 budget may increase and budget restraints could be mitigated
- **Managed Care**
 - Increasing role of national players for commercial and Medicare Advantage plans
 - Increasing premium trends are moderating, causing payors to negotiate more aggressively to keep medical expenses at current or moderately higher costs
 - Increasing use of utilization management and prior authorization tools by payors will provide administrative challenges for ensuring reimbursement for services provided is received
 - Increasing use of limited and tiered networks and ACO's
 - Benefit designs are beginning to require higher cost share (copays/coinsurance/deductible) for patients for certain services.
- **Federal Deficit impairs Medicare program spending**
 - Ongoing impact of Sequestration
- **Physical capacity to meet demand for clinical services**
- **Ability to invest in accordance with RPCI Strategic Plan**
- **Additional Impacts of Healthcare Reform**

CONDENSED BUDGETED REVENUES, EXPENDITURES AND CHANGES IN CURRENT NET ASSETS

<u>REVENUE & FUNDING SOURCES</u>	Last Year (Actual) FY2015	Current Year (Budget) FY2016	Current Year (Estimated) FY2016	Proposed Budget FY2017	Proposed FY2018	Proposed FY2019	Proposed FY2020
<i>Operating Revenues</i>							
Charges for Services	\$ 490,231	\$ 526,594	\$ 533,686	\$ 581,045	\$ 615,924	\$ 661,987	\$ 688,875
Rental & Financing income							
Other Operating revenues	\$ 11,207	\$ 11,073	\$ 10,853	\$ 11,898	\$ 12,108	\$ 12,172	\$ 12,314
<i>Non-operating Revenues</i>							
Investment earnings	\$ 798	\$ 1,025	\$ 556	\$ 1,778	\$ 2,516	\$ 3,320	\$ 4,187
State subsidies/grants	\$ 102,600	\$ 102,600	\$ 102,600	\$ 102,600	\$ 102,600	\$ 102,600	\$ 102,600
Federal subsidies/grants							
Municipal subsidies/grants							
Public authority subsidies							
Other Non-Operating Revenue							
<i>Proceeds from the issuance of debt</i>							
Total Revenues and Funding Sources	\$ 604,836	\$ 641,292	\$ 647,695	\$ 697,321	\$ 733,148	\$ 780,080	\$ 807,976
 <u>EXPENDITURES</u>							
<i>Operating expenditures</i>							
Salaries and Wages	\$ 205,126	\$ 222,980	\$ 219,307	\$ 240,709	\$ 256,709	\$ 267,969	\$ 279,007
Other Employee Benefits	\$ 71,811	\$ 79,033	\$ 72,077	\$ 75,344	\$ 79,323	\$ 83,015	\$ 86,500
Professional Services and Contracts	\$ 79,666	\$ 99,071	\$ 89,595	\$ 102,042	\$ 111,184	\$ 114,382	\$ 115,093
Supplies and Materials	\$ 145,007	\$ 169,307	\$ 163,324	\$ 193,402	\$ 207,392	\$ 221,946	\$ 235,682
Other operating expenditures	\$ 11,262	\$ 11,714	\$ 10,225	\$ 12,488	\$ 12,573	\$ 12,646	\$ 12,742
<i>Non-operating expenditures</i>							
Payment of principal on bonds and financing arrangements	\$ 12,858	\$ 13,279	\$ 13,279	\$ 13,055	\$ 13,726	\$ 15,689	\$ 16,470
Interest and other fiscal charges on debt	\$ 8,214	\$ 7,706	\$ 7,804	\$ 7,531	\$ 6,949	\$ 6,308	\$ 5,624
Subsidies to other public authorities							
Capital asset outlay (including CSC)	\$ 49,596	\$ 56,901	\$ 42,076	\$ 54,221	\$ 43,558	\$ 40,899	\$ 40,268
Miscellaneous	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenditures	\$ 583,540	\$ 659,992	\$ 617,686	\$ 698,792	\$ 731,414	\$ 762,853	\$ 791,387
 <u>CAPITAL CONTRIBUTIONS</u>	 \$ 14,896	 \$ 9,807	 \$ 9,346	 \$ 7,554	 \$ 4,288	 \$ -	 \$ -
 "Excess (deficiency) of revenues and capital contributions over expenditures"	 \$ 36,192	 \$ (8,893)	 \$ 39,355	 \$ 6,082	 \$ 6,022	 \$ 17,227	 \$ 16,589

ROSWELL PARK CANCER INSTITUTE CORPORATION

Cash Flow Projections (in millions)

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	Budget 2016	Projected 2016	Budgeted 2017	Budgeted 2018	Budgeted 2019	Budgeted 2020
Excess (Deficiency) of revenues and capital contributions over expenditures	\$ (8.9)	\$ 39.4	\$ 6.1	\$ 6.0	\$ 17.2	\$ 16.6
Funding of Academic Development	(2.0)	(1.9)	(2.4)	(2.4)	(2.5)	(2.5)
Working Capital Changes and BDF for Unfunded Liabilities & Strategic Investments	29.7	(27.6)	16.2	7.8	(5.0)	(4.4)
Annual Unrestricted Cash Impact	\$ 18.8	\$ 9.9	\$ 19.9	\$ 11.5	\$ 9.7	\$ 9.6
Adjust for movement of AWUIL funds related to OmniSeq & Unfunded Liabilities			(20.5)	(17.5)	(1.8)	(1.9)
Cash Impact from Operations			\$ (0.6)	\$ (6.1)	\$ 8.0	\$ 7.7

Roswell Park Cancer Institute Corporation (PBC)
Projected Operating Revenues - Net Patient Service Revenues
(\$ In Thousands)

	FY16 Projected	FY17 Budget	FY18 Budget	FY19 Budget	FY20 Budget
<u>Volume Statistics</u>					
Admits	4,553	4,703	4,707	4,645	4,702
Days	37,995	39,457	39,540	39,194	39,578
ALOS	8.35	8.39	8.40	8.44	8.42
Visits	214,426	218,895	222,825	228,976	232,395
<u>Direct Patient Service Revenue</u>					
RPCI IP Revenue	189,969	199,735	204,683	209,418	216,167
RPCI OP Revenue	262,143	286,627	295,344	305,073	316,629
Other	24,058	39,203	58,919	88,390	93,219
RPCI Total	476,170	525,565	558,947	602,880	626,014
CPP IP Revenue	18,927	19,421	19,845	20,101	20,734
CPP OP Revenue	34,797	37,426	38,883	40,897	42,451
Other	-	-	-	-	-
CPP Total	53,724	56,847	58,728	60,998	63,185
Total Direct Patient Service Revenue	529,893	582,412	617,675	663,877	689,199
Other RPCI Patient Service Revenue	7,513	3,758	3,690	3,884	5,793
Other CPP Patient Service Revenue	1,055	1,055	1,055	1,055	1,055
Total Other Patient Service Revenue	8,568	4,813	4,745	4,939	6,848
Total Net Patient Service Revenue	538,462	587,225	622,419	668,816	696,047
RPCI Provision for Bad Debts	5,266	6,620	6,905	7,203	7,511
CPP Provision for Bad Debts	860	910	940	976	1,011
Total Provision for Bad Debts	6,125	7,530	7,845	8,179	8,522
Total Net Patient Service Revenue Net of Provision for Bad Debt	532,336	579,695	614,574	660,637	687,525
Grants and Contracts	1,350	1,350	1,350	1,350	1,350
Total Charges for Services	533,686	581,045	615,924	661,987	688,875

Roswell Park Cancer Institute Corporation (PBC)
Projected Operating Revenues - Other Revenue
 In Thousands

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	FY16 Projected	FY17 Budget	FY18 Budget	FY19 Budget	FY20 Budget
Other Operating Revenues:					
Cafeteria	1,606	1,712	1,729	1,746	1,764
Parking	2,355	2,409	2,433	2,457	2,482
Rebates (VHA/Utilities)	2,050	2,050	2,071	2,091	2,112
Network Affiliations & Service Agreements	1,534	1,505	1,520	1,536	1,551
LSB - UB Reimbursement	1,275	1,275	1,288	1,301	1,314
Rental Income	120	120	121	122	124
Aids Hotline	84	84	85	86	87
New Programs funded through Alliance	80	894	973	905	913
CPP Physician Salary Support	1,481	1,561	1,592	1,624	1,657
Other	268	289	296	304	311
Total Other Operating Revenues	10,853	11,898	12,108	12,172	12,314

Roswell Park Cancer Institute Corporation (PBC)
Detail of Salaries and Fringe and Non Personnel Service Operating Expense
 In Thousands

	FY16 Projected	FY17 Budget	FY18 Budget	FY19 Budget	FY20 Budget
<u>Salaries</u>					
Salaries and Wage Costs	212,405	235,526	251,581	262,585	273,354
Furlough/Severance Expense/Payments	1,243	300	-	-	-
Overtime Payments	3,528	2,043	2,146	2,253	2,366
Premium Payments	2,131	2,840	2,982	3,131	3,288
TOTAL Personnel Service Expense	219,307	240,709	256,709	267,969	279,007
<u>Fringe</u>					
NYS Pension Expense & TIAA CREF	25,685	24,744	24,981	25,247	25,547
Health Insurance: Active	19,602	21,149	22,207	23,317	24,483
Health Insurance: GASB Payments	6,600	7,594	8,696	9,915	10,989
Other Fringe	20,190	21,856	23,439	24,536	25,481
TOTAL Fringe Expense	72,077	75,344	79,323	83,015	86,500

Note: The fringe expense includes the cash payment for the retiree's health insurance, but does not include the GASB 45 accrual

Non Personnel Service Operating Expense

Pharmaceuticals	115,624	143,531	155,247	167,152	178,079
Medical, Blood, Other Supplies	47,701	49,872	52,144	54,794	57,603
Contracted Services / All Other	99,819	114,530	123,757	127,028	127,835
TOTAL Non Personnel Service Expense	263,144	307,932	331,148	348,975	363,517

**Roswell Park Cancer Institute Corporation (PBC)
Reconciliation FY16 Budget to FY16 Projected
Modified Accrual Basis**

	<u>in Millions</u>
1 Excess (Deficiency) Revenues over Expenses (FY16 Budget)	\$ (8.9)
2 Mix of Clinical Services / Clinical Margin	\$ 16.6
3 Timing of investment related to conversion of OmniSeq Business Plan	\$ 14.4
4 Delay in opening and ramp-up of the Retail Pharmacy	\$ (1.0)
5 Third Party Revenue	\$ 5.2
6 Health Insurance Premiums	\$ 3.2
7 Capital Spend	\$ 10.8
8 All Other	\$ (0.9)
9 Excess (Deficiency) Revenues over Expenses (FY16 Projected)	\$ 39.4

Roswell Park Cancer Institute Corporation (PBC) FY 2017 Budgeted # of FTE's and # of Employees

<u>Functional Classification</u>	<u>Total # Employees</u>	<u>Total # Full Time</u>	<u>Total # FTE's</u>
Clinical / Clinical Research / Academic	1,896.0	1,618.0	1,704.7
Scientific / Academic	188.0	168.0	174.6
Administrative and Other	535.0	493.0	502.8
Total All Functional Areas	2,619.0	2,279.0	2,382.0

Sources of Funding:

The Source of funding for the projected workforce is:

Patient service Revenues - Government and Private Payors

Grants and Contracts

Donations

New York State Funding

Roswell Park Cancer Institute (PBC)

FY 2017 New Revenue-Enhancement and Cost-Reduction Initiatives

As part of the Institute's long range strategic plan, investments are being made in clinical operations. These investments are critical to meeting the projected demand for oncology services and increasing revenue in RPCI's clinical operations, which are used to support research and academic missions at the Institute.

Major Gap Closing Components:	
	\$\$ in millions
Clinical Margin Improvement	5.0
Transformation Savings (Incremental)	5.7

Roswell Park Cancer Institute (PBC)

FY 2016 – FY2020 Material Non-Recurring Resource

- The Institute is projecting non-recurring capital contribution revenues of approximately \$9.3 million, \$7.6 million, \$4.3 million, \$0.0 million and \$0.0 million in fiscal years 2016 – 2020 respectively. These contributions are expected to assist in funding the continued growth at Roswell Park.

Roswell Park Cancer Institute (PBC)

FY 2017 – Material Shift in Resources Between Years

- Capital projects can span multiple years. The entire project is approved prior to initiation, and due to the magnitude of certain projects there can be an approved balance to carry forward to the next fiscal year. Carry over balances are determined and approved by executive leadership after the start of the new fiscal year.

ROSWELL PARK CANCER INSTITUTE CORPORATION

Borrowed Debt Outstanding projected

PBC revenues are pledged to repayment of the following DASNY indebtedness issued through New York State Department of Health

Borrowed Debt Outstanding

- 1 DASNY Debt issuance 12/4/03
- 2 DASNY Debt issuance 4/7/04
- 3 DASNY Debt issuance 4/7/04
- 4 DASNY Debt issuance 5/24/05
- 5 DASNY Debt issuance 7/13/2011
- 6 Capital lease obligations

Debt outstanding at March 31st year end

in Millions

	Proposed Budget FY2017	Projection FY2018	Projection FY2019	Projection FY2020
	\$ 160.9	\$ 147.2	\$ 131.5	\$ 115.0

Scheduled Debt Service Payment

For the Year ending March 31

- 2016
2017
2018
2019-2023
2024-2028
Thereafter

in 000's

	Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2016	\$ 13,279	\$ 8,806	\$ (1)	\$ 154
2017	\$ 13,055	\$ 8,139	\$ 4	\$ 154
2018	\$ 13,726	\$ 7,448	\$ 9	\$ 154
2019-2023	\$ 87,501	\$ 25,068	\$ 129	\$ 761
2024-2028	\$ 55,196	\$ 3,949	\$ 307	\$ 725
Thereafter	\$ -	\$ -	\$ 4,090	\$ 1,664
	\$ 182,757	\$ 53,410	\$ 4,538	\$ 3,612

*All debt is issued. There is currently no proposed debt.

ROSWELL PARK CANCER INSTITUTE CORPORATION

Purpose of Debt Issuances

PBC revenues are pledged to repayment of the following DASNY indebtedness issued through New York State Department of Health:

1 On December 4, 2003, DASNY issued debt in the amount of \$41,910,000 (RPCIC allocated 85%). Under the terms of the issuance, interest ranges from 2.0% to 5.25% per annum with interest and principal payments due through 2024. The bond proceeds were used solely to defease a portion of the outstanding 1994, 1995 and 1996 bond series.

2 On April 7, 2004, DASNY issued debt in the amount of \$77,245,000 (RPCIC allocated 95.15%). Under the terms of issuance interest ranges from 2.0% to 5.0% per annum with interest and principal payments due through 2024. The bond proceeds were used solely to defease a portion of the outstanding 1994, 1995 and 1996 bond series.

3 On April 7, 2004, DASNY issued debt in the amount of \$78,870,000 (RPCIC allocated 95.51%). Under the terms of issuance interest ranges from 2.0% to 5.0% per annum with interest and principal payments due through 2023. The bond proceeds were used solely to defease a portion of the outstanding 1994, 1995 and 1996 bond series.

4 On May 24, 2005, DASNY issued debt in the amount of \$51,465,000 (RPCI allocated 95.51%). Under the terms of issuance interest ranges from 3.0% to 5.25% per annum with interest and principal payments due through 2026. The bond proceeds were used solely to defease a portion of the outstanding 1996 bond series.

5 On July 13, 2011, DASNY issued debt in the amount of \$48,180,000 (RPCI allocated 74.85%). Under the terms of issuance interest ranges from 2.0% to 5.0% per annum with interest and principal payments due through 2025. The bond proceeds were used solely to defease a portion of the outstanding 1998 bond series.

6 On June 1, 2012, RPCIC entered into a capital lease obligation to rent 226 parking spaces for a 35 year period. Under terms of the agreement, the cost of capital is estimated at 3.4% per annum with interest and principal payments due through 2047.

ROSWELL PARK CANCER INSTITUTE CORPORATION
Debt Service/Pledged Revenues
and Debt limited levels

Debt Service as a percentage of Pledged Revenues*	Debt Service FY 2017	Pledged Revenues	Debt Service Percent of Pledged Revenues
1 DASNY Debt issuance 12/4/03	\$ 10,175	\$ 499,000	2.0%
2 DASNY Debt issuance 4/7/04	\$ 447	\$ 499,000	0.1%
3 DASNY Debt issuance 4/7/04	\$ 3,336	\$ 499,000	0.7%
4 DASNY Debt issuance 5/24/05	\$ 2,496	\$ 499,000	0.5%
5 DASNY Debt issuance 7/13/11	\$ 4,740	\$ 499,000	0.9%
Total	\$ 21,194		4.2%

*Pledged revenues are defined in accordance with RPCI bond documents

RPCI is authorized to incur additional indebtedness beyond its current levels. Should the amount of its requested indebtedness exceed 15% of amounts transferred from the Health Income Fund to RPCI in the previous year, prior written approval of the NYS Division of Budget is required. RPCI has not assumed that additional indebtedness of this magnitude will occur in its FY2017 budget. *NOTE:* RPCI has secured a line of credit with M&T bank to cover operational cash flow needs should NYS be late in paying its quarterly support payments to the Institute. Interest costs related to accessing the line of credit have not been included in the FY 2017 budget as we are assuming NYS support payments will occur in a timely manner.

FY2017 Capital Budget Summary In Thousands (000's)

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	Budget 2017
<u>Projects funded with Operating Cash:</u>	
Total Facilities Capital	\$ 13,657
Clinical, Scientific & Administrative Equipment	9,797
Information Technology	12,565
Strategic Initiatives	7,000
OmniSeq (Personalized Medicine)	323
Subtotal	\$ 43,342
 <u>Projects funded with Support from Outside Sources:</u>	
Clinical Science Center	\$ 6,494
Thoracic Terrace	990
Pediatric Oncology	2,135
Wellness Center	1,260
 Total Capital Expenditures	 \$ 54,221

Note:

None of the projects is expected to have a material impact on the operating budget.

IT projects include ongoing maintenance costs which are not material to the operating budget.

Sec 203.9 CERTIFICATION

By checking this box, I certify that the OSC Budget Request (Part 203) submission is complete and to the best of my knowledge and belief after reasonable inquiry, the information provided in this submission is accurate and correct. This information has been presented to and accepted by the authority's Board.

Chief Operating Officer
Roswell Park Cancer Institute Corporation

Presented to The Roswell Park Cancer Institute Corporation's Board of Directors
on March 3, 2016

Approved by the Board of Directors on March 3, 2016

Roswell Park Cancer Institute Corporation (PBC)

Section 203 Filing

Changes from Proposed budget posted on 2/1/2016 to budget submitted for Board approval

Schedule Change Description

203.6e,g	Increase in Revenues (Charges for Services) for FY2016 to FY2020 Minor changes to expenditures for FY2016 to FY2020 Change in Capital Expenditures for FY2016 and FY2017
203.5h	Updated Cash Projections based on changes to Net Income and Unrestricted Cash
203.5d	Increase in RPCI OP Revenue and Other RPCI Patient Service Revenue for FY2016 to FY2020
203.5e,f	Changes in estimates for Health Insurance: Active and GASB Payments for FY2016 to FY2020
203.6f	Change to FY16 Projected Excess (Deficiency) Revenues over Expenses Adjusted change in Third Party Revenue, Health Insurance Premiums and Other
203.6i	Change to Clinical Margin Improvement
203.6m	Change in Total Capital Expenditures