Certificate Of Public Advantage

Monitor Annual Report

For the Year Ended June 30, 2025

February 22, 2026

Table of Contents

I. History and Background

In 2016 Mountain States Health Alliance (MSHA) and Wellmont Health System (WHS) submitted an application with respect to their Cooperative Agreement. Following the submission of additional information and additional due diligence conducted by the Tennessee Department of Health (Department) on September 19, 2017, the Department issued an Approval Letter which outlined the reasons including the determination that the benefits of the merger outweighed the public disadvantages attributable to a reduction in competition in that service area. In conjunction with the approval letter the active supervision regulatory structure set forth in the Terms of Certification, demonstrated by clear and convincing evidence, that the likely benefits of a Certificate of Public Advantage (COPA) would outweigh any disadvantages attributable to a reduction in competition. Subsequent to approval the two health systems merged to form Ballad Health (BH).

Pursuant to the Fifth Amended and Restated Terms of Certification dated January 1, 2025 (TOC), Article VI, Section 6.02, the Department and the Office of the Attorney General continued to be required to implement the supervisory structure including the appointment of a COPA Monitor (Monitor). The responsibilities of the Monitor are outlined in Exhibit F4. Included in the responsibilities is the requirement to provide the Commissioner of the Tennessee Department of Health and the Department with the COPA Monitor Annual Report (Report) no later than the end of February of each year. The content of the Report as stipulated in Exhibit F4 includes Index Scores, updates on compliance with the COPA and TOC, the status of corrective actions, any recommended enforcement mechanisms, and any findings of the Monitor.

This Report contains the required contents of TOC Exhibit F4, including additional findings of the Monitor.

II. Index Scores

Pursuant to TOC Article VII, Section 7.01 as part of its exercise of Active Supervision, the Department shall annually use an Index to track demonstration of ongoing Public Advantage. The index consists of four sub-indices as follows:

1. Population Health Sub-Index (TOC Exhibit D)
2. Access Sub-Index (TOC Exhibit C)
3. Other Sub-Index (TOC Exhibit K)
4. Economic Sub-Index (TOC Article V and Addendum 1)

Exhibit J, Paragraph 3 of the TOC, states that “due to the comprehensive revision of the scoring structure, no numeric score will be calculated for FY25. Instead, compliance with the governing COPA statutes and Terms of Certification will be assessed through a report rather than a numeric score.” As a result, this report will not contain a calculation of a numeric score for FY25.

Population Health Sub-Index:

Ballad Health exceeded the spending commitment for FY25. The required spend equaled $11,000,000 while actual spend was $15,231,461. Due to changes in the TOC the Population Health Measures were not required to be reported for FY25.

Access Sub-Index:

There are 28 Access Measures. Ballad Health improved in 18 of the 28 measures as compared to the baseline. Two compliance measures were achieved. Five of the 28 measures declined over the baseline performance. Three measures had no data source.

Quality/Other Sub-Index:

Ballad Health reported on 18 Quality Target Measures which are part of the Quality/Other Sub-Index. Ten of the measures showed improvement over the baseline performance. Seven of the measures were worse than baseline. One measure was not required to be reported.

Economic Sub-Index:

Exhibit I of the TOC stipulates that the Economic Sub-Index is scored on a Pass/Fail basis. Article V, Section 5.09 states that BH's ongoing compliance with the provisions of Article V and Addendum 1 shall constitute the measures within the Economic Sub-Index. TOC Exhibit J Item 2 states that if a failing score is assigned to this Sub-Index, then the impact on continuing Public Advantage should be determined.

Throughout BH's fiscal year 2025 the Monitor engaged with BH on a case-by-case basis as payor contracts were renegotiated. The work was conducted in accordance with TOC Article V ensuring BH complied with Health Plan Negotiations and Restrictions, Managed Care Contract Terms, and Communication with Payors. Additionally, the work included ensuring compliance with the terms stipulated in Addendum 1. There were no noted violations of the requirements of the above TOC terms, and as it relates to these sections of the TOC it is my opinion that BH is in compliance with these requirements.

Article V, Section 5.04(a) Competing Services requires BH to provide, for each COPA Hospital, an annual list of at least three competitors for each category of service if such a competition exists. A list for each acute care hospital has been received and reviewed for reasonableness. BH is in compliance with Section 5.04(a).

Article V, Section 5.04 also restricts BH from guiding or directing patients needing Post-Acute Services to a provider in which BH has a material financial or governance interest without first providing to such patients the current list of Ancillary Services and Post-Acute Services referred to in Section 5.04(a). During the year, the internal audit department performed a review of this process at various facilities. The review determined that a few units within some facilities were not always providing the list of Ancillary Services and Post-Acute Services. The organization reeducated those units on the process. Internal audit validated that the deficiencies were corrected and that BH was in compliance.

Article V, Section 5.05 imposes various restrictions on BH relating to Physicians Services. Throughout the year conversations were conducted with BH representatives regarding the language in this article. There has been no evidence of non-compliance with the requirements in this section. I have completed my review of the analysis submitted by BH regarding the 35% limitation. Relying on the data provided by BH I noted that all specialties included in the analysis were either equal to or less than the approved number of FTEs allowed to be employed as of June 30, 2025. While some of the percentages of employed physicians to total changed, the cause was movement in the market by non-employed physicians. Based on the work completed and the analysis provided, I believe BH is in compliance with the relevant sections of the TOC.

Article V, Section 5.06 governs negotiations with vendors for the purchase of equipment and supplies. There have been no complaints from vendors with whom BH negotiates. Therefore, I believe that BH is in compliance with this section.

Pursuant to the TOC, Addendum 1, Part IV, Section 4.2 the New Health System may adjust the hospital chargemaster at its discretion however the increases must be reviewed by the Monitor each year. Section 4.5 requires that the aggregated increases be compared to the Cumulative Inflation Adjustment (CIA). At any time, increases that exceed the CIA will be considered excess increases and stipulations as to the remedy are stated in that section. Historically, rate increases accumulated since closing of the merger that created BH have been compared to the cumulative inflation adjustments, and if the calculated cumulative increase is at or below the CIA, the increases were accepted. BH reviewed the increases to the chargemaster with the monitors. The CIA remained above the actual cumulative increases to the chargemaster and therefore BH is in compliance with this term of the TOC.

III. Compliance with the COPA and Terms of Certification

Total Charity Care:

Article IV, Section 4.03(f) requires BH to include in the annual report Total Charity Care as defined as the sum of Part I, line 7a, column (e) of Schedule H, or equivalent calculation if Form 990 is not available at the time of the annual report.

Article IV, Section 4.03(f)(v) states that if Total Charity Care does not exceed Base Charity Care (as adjusted) for any year, BH may include in the Annual Report an explanation of why Total Charity Care decreased during the year. Base Charity Care was established using fiscal year 2017 data and the above definition which established the Base Charity Care as inflated of $45,465,035 for FY25. During FY25 BH provided Total Charity Care of $65,831,011 which exceeded the baseline target of $45,465,035.

Article IV, Section 4.03(e)(i) requires BH to provide 100% financial assistance to FAP-Eligible Individuals below 225% of the Federal Poverty Guidelines unless their Asset Value exceeds $25,000. Additionally, BH will provide FAP-Eligible Individuals having Household Income between 225% and 450% of the Federal Poverty Guidelines with a partial discount based on a sliding scale of income. I have reviewed the Financial Assistance Policy and have confirmed compliance with these

requirements. Additionally, neither the Virginia Monitor nor I have received complaints from patients regarding the Financial Assistance Policy Applications by BH in FY25.

Facility Maintenance and Capital Expenditures:

Article III, Section 3.07 requires that BH maintain and repair, and as needed upgrade or replace, their medical equipment and related software support, physical plant equipment, building systems and other machinery, facilities and non-medical equipment at a quality and technological level consistent with industry norms for similar sized healthcare systems.

For fiscal years 2024 through 2026, as required by the TOC, BH submitted a three-year Capital Expenditure Plan. The plan called for capital expenditures in FY25 to equal $67,306,000. BH reported spending $128,293,000 towards this plan in their annual report for 2025. The amount of the spending towards this plan does exceed the 90% threshold established in the TOC and equals 191% of the plan being spent. Consistent with the TOC this plan and related expenditures exclude items included in the Monetary Commitment.

In the 2024 COPA Monitor Annual Report it was noted that industry rating agencies (S&P Global, Moody's Investors Services and Fitch Ratings) provide industry benchmarks for capital investments. This investment is measured by capital spend as a percentage of depreciation. For the years 2019 through 2023 the average range as reported by these three rating agencies is from a low of 109% (Fitch Ratings) to a high of 122% (Moody's Investors Services). To ensure a fair comparison to similar health systems BH and the Monitor discussed engaging a consultant to prepare a comparison to like organizations. During FY25 BH engaged KaufmanHall who prepared a report on Rural Healthcare Capital Expenditure Benchmarking. This report showed that rural health systems with revenues greater than $1 billion invested an average of 103% of depreciation on capital for the years 2019 through 2023. Based on the amount of depreciation and additions to property, plant and equipment as reported in BH's audited financial statements the capital investment averages 77% of depreciation for fiscal years 2019 through 2024. Throughout the Covid pandemic many health systems curtailed their capital plans to preserve cash for operational needs given the uncertainty of the financial impact of the pandemic. A retrospective lookback does indicate that on average, BH invested at a lower level than the industry. While each healthcare market has its own nuances BH should ensure that their capital investment is consistent with the industry for similar health systems.

It should be noted that BH's audited financial statements showed capital spending equaled $159,185,000 which equates to 128% of depreciation of $124,456,000 for FY25. These amounts include COPA Plan Spend related to capitalizable items but would be a consistent and fair comparison to industry benchmarks.

The level of capital investment has been mentioned in prior COPA Monitor Annual Reports. Prior recommendations have been made for BH to quantify its annual capital investment as a percentage of depreciation. The state and BH have worked together to establish a quantifiable measure based on industry comparative data. Amendments to the TOC that include the addition of this metric are under discussion.

Monetary Obligations and Commitments:

Article III, Sections 3.01 through 3.06 establishes two distinct categories of Monetary Obligations: Baseline Spending Levels and Monetary Commitments.

Section 3.01(a) requires BH to spend a minimum of $308,000,000 over the first ten years of the COPA beginning in fiscal year 2019. These expenditures are related to four different categories, and three sub-categories pursuant to spending plans developed by BH and approved by the Department. Section 3.01(b) defines these obligations as new and incremental capital expenditures and operating expenses. The spending commitments by category and sub-category for each year and in the aggregate are included in Exhibit B-1 of the TOC.

Section 3.01(b) further defines Monetary Obligations as set forth in Sections 3.02 through 3.05 to be Incremental Commitments and in addition to Baseline Spending. The Baseline Spending levels by category and sub-category are included in Exhibit B-1 of the TOC.

As in prior years BH's Department of Internal Audit conducted an examination of Monetary Obligations on a quarterly basis. The work includes both Baseline Spending and Monetary Commitments. Both the Virginia Monitor and I met with the internal auditor and discussed the work that was performed. Questions that were raised as a result of the examination were discussed and resolved during this meeting. We also reviewed the methodology used in the examination noting sufficiency of the approach. We reviewed work papers, traced amounts to various reports, and found the work to be of acceptable quality with no exceptions being noted.

Summarized below is the status of the Baseline Spending for FY25 by category as provided by BH and audited by internal audit.

Category	**Required Spending**	**2025 Actual Spending**
Expanded Access to Healthcare Services:		
Sub-Categories:		
Behavioral Health Services	$6,890,510	$9,473,199
Children's Health Services	$7,831,371	$8,952,193
Rural Health Services	$74,374,082	$76,384,500
Health Research & Graduate Medical Education	$8,757,817	$10,776,862
Population Health Services	$2,994,045	$3,685,529
Region-wide Health Information Exchange	$95,789	$167,436

All categories show compliance with the requirements of Section 3.01(b) for Baseline Spending.

Summarized below is the status of the monetary commitments for FY25 by category as provided by BH and audited by internal audit.

Category	Required Monetary Commitment	Allowed 2025 Spend
Expanded Access to Healthcare Services:		
Sub-Categories:		
Behavioral Health Services	$12,000,000	$13,171,802
Children's Health Services	$3,000,000	$9,935,602
Rural Health Services	$3,000,000	$9,662,756
Health Research & Graduate Medical Education	$12,000,000	$13,729,540
Population Health Services	$11,000,000	$15,231,461
Region-wide Health Information Exchange	$1,000,000	$4,626,446

BH's actual expenditures have exceeded the requirement in all six categories and are in compliance with Section 3.01(b) of the TOC for those categories.

The following two adjustments were made to the actual amounts spent reported by BH:

Ballad Health submitted actual spending of $14,089,522 for FY25 in the Behavioral Health category. Subsequent to year end BH submitted a spend amendment requesting an increase in the FY25 plan spend. The amount of increase in excess of the Materiality Threshold was denied in the letter dated January 12, 2026, from the Tennessee Department of Health Interim Commissioner (see Attachment 1). The original amount of spend submitted of $14,089,522 was reduced by the amount of the disallowed spend that exceeded the Materiality Threshold of $250,000 or $917,720.

Ballad Health submitted actual spending of $13,800,838 for FY25 in the HR/GME category. Subsequent to year end BH submitted a spend amendment requesting an increase in the FY25 plan spend. The amount of increase in excess of the Materiality Threshold was denied in the letter dated January 12, 2026, from the Tennessee Department of Health Interim Commissioner (see Attachment 1). The original amount of spend submitted of $13,800,838 was reduced by the amount of the disallowed spend that exceeded the Materiality Threshold of 120% of the plan spend or $71,298.

Cumulative Monetary Commitment:

In the 2024 COPA Monitor Annual Report an inception-to-date variance was calculated. Below is an updated calculation of the cumulative amount of overspend (underspend) from fiscal years 2019 through 2025 by category.

Category	2024 Cumulative Variance	2025 Cumulative Variance
Expanded Access to Healthcare Services:		
Sub-Categories:		
Behavioral Health Services	($5,252,554)	($4,080,752)
Children's Health Services	$10,005,632	$16,941,234
Rural Health Services	$13,803,102	$20,465,858
Health Research & Graduate Medical Education	$6,315,297	$8,044,837
Population Health Services	$14,986,563	$19,180,024
Region-wide Health Information Exchange	($2,860,939)	$765,507

Five of the six categories of monetary commitments, Children's Health Services, Rural Health Services, Health Research and Graduate Medical Education, Population Health Services and Region-wide Health Information Exchange show spending in excess of the cumulative amount required. These overages will be carried forward and credited against fiscal year 2026 spending requirements pursuant to Section 3.01(a).

Behavioral Health Services continues to fall short of the monetary commitment. However, fiscal years 2024 and 2025 showed higher than required spending. BH has reduced the cumulative underspend in each of the last two years, therefore no additional remedy is recommended at this time. The state should continue to monitor this spend throughout the remaining ten-year spend period. Remedies provided for in the TOC may be appropriate if progress towards meeting this commitment does not continue.

Ballad Health met its 10-year monetary commitment in Rural Health Services of $28,000,000 during FY24. The cumulative excess spend in Rural Health Services as of June 30, 2024, equaled $13,803,102 which exceeded the remaining required spend of $12,000,000.

Ballad Health met its 10-year monetary commitment in Children's Services of $27,000,000 during FY25. The cumulative excess spend in Children's Services as of June 30, 2025, equaled $16,941,234 which exceeded the remaining required spend of $9,000,000.

IV. Non-Monetary Obligations and Commitments

Employee and Physician Engagement Surveys:

Article IV, Section 4.02(c)(v) requires BH to conduct a full physician engagement and employee engagement survey every three years. These surveys are separate and distinct surveys for each of these stakeholder groups. During FY25 a full employee engagement survey was conducted. The results were reviewed with the states and showed improvement from the FY23 survey results. The engagement score increased by 0.13 when comparing the FY23 survey results to FY25. BH is utilizing the survey results to identify opportunities for improvement.

A full physician engagement survey will be conducted when due in FY26.

Provider Needs Assessment:

Article IV, Section 4.02(c)(vii) requires BH to conduct a provider needs assessment every three years. BH conducted the required assessment during FY25. The results were reviewed with the states and questions were answered. Overall results showed progress in reducing the full-time equivalent (FTE) provider shortfalls in medical and surgical specialties. Specifically, the deficit for medical specialties declined by 29.9 FTEs from 2022 to 2025 and surgical specialties deficit declined by 15.7 FTEs for that same period. The primary care deficit increased by 0.2 FTE's for the three-year period.

V. Public Meeting and Listening Sessions

On November 18, 2025, the Tennessee Department of Health, including the Commissioner, held a public hearing. Attendees that spoke during the hearing commented both positively and negatively regarding BH.

Exhibit F of the TOC states that the COPA Monitor may meet with patients, physicians (employed and non-employed), and community/business leaders 1-2 times annually to discuss issues of compliance with the COPA.

Patient Listening Sessions:

Three listening sessions were scheduled with randomly selected patients during the month of November 2025. While the opportunity to meet in person with the monitor was offered no patients attended any of the sessions offered. In order to receive direct and objective insight from patients of BH the questions that were planned to be used in the listening sessions were converted to a patient survey. This survey was sent to approximately 300 randomly selected patients. The survey questions and responses are summarized below.

1. Rate your experience while receiving services from the hospital.

Very Poor	Poor	Average	Good	Very Good
0	3	4	11	22

2. Did you have a negative experience while receiving services from the hospital?

No		Yes
34		4

3. Rate your impressions of the physicians.

Very Poor	Poor	Average	Good	Very Good
0	2	5	11	21

4. Rate your impressions of the clinical staff (nurses or members of the radiology or lab team etc.).

Very Poor	Poor	Average	Good	Very Good
0	1	0	13	26

5. Rate your impressions of the non-clinical staff (the person at registration, the person who transported you between areas of the hospital etc.).

Very Poor	Poor	Average	Good	Very Good
0	0	1	15	24

6. Rate your impressions of the facilities.

Very Poor	Poor	Average	Good	Very Good
0	3	3	16	19

7. Rate your impressions of the clinical equipment.

Very Poor	Poor	Average	Good	Very Good
0	1	3	14	22

8. Was Ballad Health able to provide the services you required in a timely manner?

No		**Yes**
4		37

9. How would you rate Ballad Health overall?

Very Poor	**Poor**	**Average**	**Good**	**Very Good**
0	3	3	14	21

10. Would you use Ballad Health for future needs?

No		**Yes**
2		37

11. Would you recommend Ballad Health to others?

No		**Yes**
4		36

12. When you were admitted to the hospital, do you recall if you received a packet that included a list of ancillary or post-acute service providers near the hospital (providers for services you might need after leaving the hospital, such as pharmacy, physical therapy, home health, etc.)?

No		Yes
14		19

13. Do you currently use a Ballad Health physician for your primary or specialty care needs?

No		Yes
20		18

Physician Listening Sessions:

Given the lack of participation from the patients, a physician survey was developed and distributed to approximately 75 physicians. A representative group of employed and non-employed, specialist and primary care physicians were selected. The survey questions and responses are summarized below.

1. Rate your impressions of the clinical staff.

Very Poor	Poor	Average	Good	Very Good
			1	7

2. Rate your impressions of the non-clinical staff.

Very Poor	Poor	Average	Good	Very Good
		1	1	6

3. Is the technology current and being maintained?

No		Yes
1		7

4. Are there any service offerings that should be provided that are not available?

No		Yes
6		2

5. Rate Ballad Health's ability to provide you with the support (including ancillaries) you require to provide care for your patients.

Very Poor	Poor	Average	Good	Very Good
		1	2	5

6. Rate Ballad Health's facilities and equipment that you use to care for patients.

Very Poor	Poor	Average	Good	Very Good
		1	2	5

7. Overall, how would you rate Ballad Health?

Very Poor	Poor	Average	Good	Very Good
			4	4

8. Do you plan on practicing in the service area a year from now?

No		Yes
		8

9. Do you plan on practicing in the service area two years from now?

No		Yes
		8

10. Rate how Ballad Health responds to your concerns.

Very Poor	Poor	Average	Good	Very Good
			4	4

Community and Business Leader Listening Sessions:

Interviews were held with community and business leaders. Those conversations focused on the quality of care being provided, condition of the facilities and equipment, availability of necessary services and any instances of monopolistic behavior. Throughout the discussions the general consensus was that the quality of care was adequate, the facilities and equipment were being maintained (although some opportunities at some facilities were noted) and that services required by the community were generally available (there were some problem specialties noted which is consistent with industry norms). None of the individuals interviewed noted any monopolistic behaviors that they were aware of. Several individuals mentioned that BH would benefit from improved communications with the community particularly in articulating the long-range plan for the healthcare delivery system.

VI. Corrective Actions

Throughout this report there are findings and recommendations for BH to address the findings. Most noteworthy are the findings and recommendations related to the Other Sub-Index, Facility Maintenance and Capital Expenditures.

VII. Enforcement Mechanisms

The major area of non-compliance with the TOC requirements is the underspend in the cumulative spending requirements for Behavioral Health Services. Recommendations are contained in the appropriate sections of the report. The Department has the authority to apply other enforcement mechanisms if it deems appropriate pursuant to the TOC. BH overspent in this category in FY25 which resulted in a reduction of the underspend from the FY24 amount. BH should continue its efforts to meet the 10-year incremental spend commitment in this category.

VIII. Additional Findings

Quality/Other Sub-Index:

The TOC establishes two categories of measures, Target Quality Measures and Quality Monitoring Measures. Focusing on the Target Quality Measures, BH met 10 of 18 targets for these measures (one measure was new and lacked a baseline to compare to). The 2025 results were compared to the performance in fiscal year 2017, the baseline year. Of note BH improved performance in 13 of the 18 Target Quality Measures from fiscal years 2024 to 2025. Nationally, the Covid pandemic had

a significant negative impact on quality for hospital providers. Articles published by various industry organizations such as Modern Healthcare, American Hospital Association and The Leapfrog Group provide evidence that most hospitals have recovered with their quality measures returning to pre-pandemic levels. There are several organizations that publish their hospital quality ratings based on their proprietary methodology. Each of these rating systems face criticism for various reasons. However, these ratings are increasingly being used to measure the quality of healthcare providers in the nation. BH has begun to focus on the Leapfrog Safety Score rating by voluntary submission of accurate data. Over time the Leapfrog ratings should begin to show improvement.

Recommendation:

BH should continue to focus on publicly reported ratings of its individual hospitals by various rating organizations.

Financial Performance:

In prior years COPA Monitor Annual Reports, concerns were raised about the financial results from operations. Specifically stated was that without adequate cash flows from operations BH will struggle to meet the objectives of the TOC such as:

- Consistent high-quality patient care;
- Appropriate physician, employee and patient satisfaction;
- Improvement in population health;
- Expanded access to care for the community, especially the rural community; and
- Maintaining technologically current diagnostic and therapeutic testing equipment.

Fiscal year 2025 showed improved operating income primarily due to continued focus on financial management and improved reimbursement from TennCare. Operating income improved from $4,674,000 in FY24 to $29,663,000 in FY25. Excess of Revenue, Gains, and Support Over Expenses and Losses improved from $138,848,000 in FY24 to $223,907,000 in FY25, per the audited financial statements. This improvement should enable BH to continue to make the investments necessary to achieve the above objectives.

IX. Status of Prior Year Recommendations

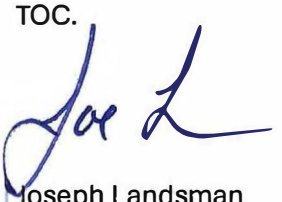
Facility Maintenance and Capital Expenditure:

The COPA Monitor Annual Report for FY23 contained a recommendation to amend the TOC to reflect that annual capital investment be equal to depreciation. As mentioned above BH should quantify its annual investment as a percentage of depreciation at industry standard levels for healthcare systems that are similar. The state and BH have worked together to determine a reasonable target level of investment using industry comparative data as a guide. Amendments to the TOC that include the addition of this metric are under discussion.

X. Summary

On February 3, 2026, I conducted a comprehensive interview with Ballad Health's COPA Compliance Officer and the Executive Vice President, Chief Administrative Officer. The purpose of this interview was to review various sections of the TOC to ascertain BH's compliance with the terms as well as to determine areas of non-compliance. The interview yielded no areas of non-compliance. Pursuant to the work and related results outlined in this report, evidence of continued public advantage exists.

Noted throughout this report are areas of concern that should be addressed as allowed by the TOC.



Joseph Landsman
COPA Monitor

STATE OF TENNESSEE
DEPARTMENT OF HEALTH
ANDREW JOHNSON TOWER, 5TH FLOOR
710 JAMES ROBERTSON PARKWAY
NASHVILLE, TN 37243

BILL LEE
GOVERNOR

JOHN R. DUNN, DVM, PhD, EMBA-SL
INTERIM COMMISSIONER

January 12, 2026

Mr. Alan Levine
Chairman, President and Chief Executive Officer
Ballad Health
303 Med Tech Parkway, Suite 300
Johnson City, TN 37604

Re: Ballad Health's ("Ballad") proposal to modify the approved amounts for the fiscal year ("FY") 2025 and FY26 Behavioral Health Plan and HR/GME Plan

Mr. Levine,

This letter is in response to Ballad Health's requests submitted September 16, 2025 under Section 3.06(c) of the Fifth Amended and Restated Terms of Certification dated January 1, 2025 ("TOC") to modify Ballad's Behavioral Health Plan to include certain FY25 unbudgeted overhead expenses retroactively and to modify the HR/GME Plan to include certain FY25 unbudgeted changes in compensation for employees (the "FY25 amendment requests"). In addition, there are requests for an amendment to increase the FY26 Behavioral Health Plan Strategy #2 related to Primary Care/Behavioral Health, Initiative #1 allowed overhead by $1,695,000 - from $470,000 to $2,165,000 (the "FY26 Behavioral Plan amendment") and to increase the FY26 HR/GME Strategy #1 continue first five-year plan implementation/operations, Initiative #4 for changes in compensation for certain employees by $372,736 - from $1,878,189 to $2,250,925 (the "FY26 HR/GME amendment"). The Tennessee Certificate of Public Advantage ("COPA") Monitor reviewed Ballad's submission and submitted additional questions and requests for information, which were provided. I have reviewed these requests along with the recommendation of the COPA Monitor, who has coordinated analyses with the monitor from the Virginia Department of Health.

TOC Section 3.01 requires that only new and incremental capital expenditures and operating expenses pursuant to approved spending plans count towards satisfaction of the spending commitments. The FY25 amendment requests were filed after the close of FY25. Nevertheless, the Tennessee Department of Health ("TDH") supports the general goals of the Behavioral Health Plan and the HR/GME Plan and recognizes the importance of properly allocated overhead expenses for sustainable budgeting operations and of adequately compensating employees. Under the terms of Exhibit-B-2 III.D, the COPA Monitor may approve excess incremental spending in amounts below the Materiality Threshold in an amount up to the greater of $250,000 or twenty percent (20%) of the initiative.

It is the responsibility of TDH to follow the agreed upon TOC and ensure ongoing stewardship of COPA community investment dollars. The COPA Monitor notes that the increases for the FY25 amendment requests, which were requested after the close of FY25, exceed the Materiality Threshold. He further states that overspend up to the Materiality Threshold may be approved as work is performed on the FY25 actual expenditures. Finally, he recommends that the FY26 Behavioral Health Plan amendment and the FY26 HR/GME Plan amendment be accepted as a correction of previous error.

Therefore, in light of TOC Section 3.01 and in consideration of these recommendations, any portion of the FY25 amendment requests that the COPA Monitor does not approve that exceed the Materiality Threshold is denied. However, **the FY26 Behavioral amendment as of July 1, 2025, to $2,165,000 in allowed spending for Initiative #1 and the FY26 HR/GME amendment, also as of July 1, 2025 to $2,250,925 in allowed spending for Initiative #4, are both approved.** The validation of actual expenditures and final costs creditable to the Behavioral Health Plan and the HR/GME Plan will be made by the COPA Monitor in the annual Behavioral Health Plan and the HR/GME Plan expenditure reconciliation.

We appreciate Ballad's ongoing efforts to fulfill the agreed upon monetary commitments under the TOC. We look forward to the benefits these expenditures will have for the citizens of Tennessee. Thank you for Ballad Health's continuing efforts to serve the needs of the larger community and patients. TDH is confident that granting this request will provide benefits to the community as contemplated in Sections 3.02(a) and 3.03 of the TOC.

Please let my staff know if you have any additional questions or need further clarification.

Sincerely,

John R. Dunn, DVM, PhD, EMBA-SL
Interim Commissioner

cc: Julie Bennett, Chief Legal Officer
Ballad Health

Marvin Eichorn, EVP, Chief Administrative Officer
Ballad Health

Karen Seiden, SVP, Corporate Responsibility and COPA Compliance Officer
Ballad Health

Karen Shelton, MD, Commissioner
Virginia Department of Health

Joe Hilbert, Deputy Commissioner for Governmental and Regulatory Affairs
Virginia Department of Health
James L. Jenkins, Jr., RN, Deputy Director for Office of Licensure and Certification
Virginia Department of Health

Kevin Meyer
COPA Analyst, Virginia Department of Health

Allyson Tysinger
Virginia Senior Assistant Attorney General

Joe R. Landsman
COPA Monitor

Kevin M. Kreutz, Deputy Attorney General
State of Tennessee

JW Randolph, MPH, Deputy Commissioner Health Strategy and Regulation
Tennessee Department of Health

Elizabeth Jones, Director, Health Planning
Tennessee Department of Health

Jim Mathis, COPA Director
Tennessee Department of Health

Judi Knecht, COPA Assistant Director
Tennessee Department of Health

Claire C. Haltom
Baker Donelson PC