OHSU Board of Directors Meeting

January 26, 2017
1:30 pm – 3:00 pm

Collaborative Life Sciences Building, Rm. 3A002
2730 SW Moody, Portland, OR 97201
OREGON HEALTH & SCIENCE UNIVERSITY
BOARD OF DIRECTORS MEETING

January 26, 2017
1:30 pm– 3:00 pm
CLSB 3A002

1:30 pm  Call to Order/ Chairman’s Comments  David Yaden
          President’s Comments  Joe Robertson, MD

1:45 pm  FY17 December YTD Financial Results  Lawrence Furnstahl

2:05 pm  Changing the Way We See Alzheimer’s  Jeffrey Kaye, MD

2:25 pm  2017 Legislative Agenda  Abby Tibbs, JD

2:45 pm  Other Business, Adjournment  David Yaden
FY17 First Half Financial Results

OHSU Board of Directors
January 26, 2017
FY17 December YTD Financial Results

- Through the first half of FY17, core OHSU operating income is $52 million, $6 million above budget and somewhat below last year.

- Although aggregate performance pulled ahead of budget by December, this is because continuing shortfalls at OHSU Hospital and Tuality Healthcare are offset by better performance at Salem Health and in the University’s central administrative & support services and restricted research funds:

<table>
<thead>
<tr>
<th>FY17 H1 Variance from Budget</th>
<th>(millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>OHSU Healthcare, net</td>
<td>$(10.9)</td>
</tr>
<tr>
<td>University unrestricted operations</td>
<td>6.9</td>
</tr>
<tr>
<td>Restricted funds (mostly grants)</td>
<td>8.5</td>
</tr>
<tr>
<td>Oregon Heart investment (gift funds)</td>
<td>1.5</td>
</tr>
</tbody>
</table>

  Core earnings above budget  $6.0

- Patient activity at OHSU Hospital is 2% above target and 7% above last year, but average payment rates are flat.
FY17 December Results – Cost Containment

Vigorous corrective actions are underway in OHSU Healthcare, focusing on:

- Non-essential open positions and contract labor
- Suspending discretionary spending
- Volume shortfalls in specific programs (despite overall activity above budget)
- Length of stay management
- Revenue cycle & insurance denial management
- Supply chain & pharmacy costs
- Overhead infrastructure.

To end FY17 on target, continued productivity and prudent belt tightening across the University are also needed.
FY17 December Results – Building on Strength

- OHSU is following a fiscally responsible path as we (along with many other health care and higher education institutions) face potential funding impacts due to a state budget shortfall for 2017 – 2019 and uncertainty at the federal level.

- This means taking an analytical, strategic and judicious approach to spending, prioritizing initiatives and hiring that are essential to patient care, safety, revenue growth and recruitments that are part of strategic plans.

- Department leaders have been empowered to make cost containment decisions, consulting with senior leadership as appropriate.

- Balance sheet:
  - As expected, cash balances declined $20 million in the first half, reflecting seasonal timing of principal payments.
  - Operating cash continues to trend well above the same day last year.
  - Consolidated net worth is up $116 million to pass the $3 billion mark, including application of another $17 million from the State’s $200 million grant to the Knight Cancer Challenge research facilities, new gifts to OHSU Foundation plus strong investment returns.
Core Earnings $6M > Budget through FY17 H1

<table>
<thead>
<tr>
<th>December YTD (6 Months)</th>
<th>FY16 Actual</th>
<th>FY17 Budget</th>
<th>FY17 Actual</th>
<th>Actual - Budget</th>
<th>Actual / Last Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net patient revenue</td>
<td>$963</td>
<td>$1,028</td>
<td>$1,024</td>
<td>$(4)</td>
<td>6%</td>
</tr>
<tr>
<td>Grants &amp; contracts</td>
<td>183</td>
<td>197</td>
<td>203</td>
<td>5</td>
<td>11%</td>
</tr>
<tr>
<td>Gifts applied to operations</td>
<td>48</td>
<td>49</td>
<td>50</td>
<td>1</td>
<td>5%</td>
</tr>
<tr>
<td>Tuition &amp; fees</td>
<td>34</td>
<td>35</td>
<td>34</td>
<td>(1)</td>
<td>2%</td>
</tr>
<tr>
<td>State appropriations</td>
<td>18</td>
<td>18</td>
<td>18</td>
<td>(0)</td>
<td>0%</td>
</tr>
<tr>
<td>Other revenue</td>
<td>54</td>
<td>59</td>
<td>62</td>
<td>3</td>
<td>13%</td>
</tr>
<tr>
<td><strong>Operating revenues</strong></td>
<td><strong>1,299</strong></td>
<td><strong>1,386</strong></td>
<td><strong>1,390</strong></td>
<td><strong>5</strong></td>
<td><strong>7%</strong></td>
</tr>
<tr>
<td>Salaries &amp; benefits</td>
<td>751</td>
<td>814</td>
<td>813</td>
<td>(1)</td>
<td>8%</td>
</tr>
<tr>
<td>Services &amp; supplies</td>
<td>364</td>
<td>395</td>
<td>395</td>
<td>(0)</td>
<td>9%</td>
</tr>
<tr>
<td>Medicaid provider tax</td>
<td>44</td>
<td>43</td>
<td>43</td>
<td>(0)</td>
<td>-3%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>67</td>
<td>70</td>
<td>72</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>Interest</td>
<td>16</td>
<td>18</td>
<td>15</td>
<td>(2)</td>
<td>-5%</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td><strong>1,243</strong></td>
<td><strong>1,340</strong></td>
<td><strong>1,339</strong></td>
<td><strong>(1)</strong></td>
<td><strong>8%</strong></td>
</tr>
<tr>
<td>Core operating income</td>
<td>56</td>
<td>46</td>
<td>52</td>
<td>6</td>
<td>-9%</td>
</tr>
<tr>
<td>State grant to KCC</td>
<td>0</td>
<td>0</td>
<td>17</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td><strong>Oper. income (pre-GASB 68)</strong></td>
<td><strong>$56</strong></td>
<td><strong>$46</strong></td>
<td><strong>$69</strong></td>
<td><strong>$23</strong></td>
<td><strong>22%</strong></td>
</tr>
</tbody>
</table>
## OHSU Patient Activity Up but Average Rate Flat

<table>
<thead>
<tr>
<th>OHSU Hospital Activity</th>
<th>FY16 Actual</th>
<th>FY17 Budget</th>
<th>FY17 Actual</th>
<th>Actual / Last Year</th>
<th>Actual / Last Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inpatient admissions</td>
<td>14,613</td>
<td>14,702</td>
<td>14,945</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Average length of stay</td>
<td>5.91</td>
<td>5.78</td>
<td>5.94</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>Average daily census</td>
<td>459</td>
<td>454</td>
<td>471</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>Day/observation patients</td>
<td>18,845</td>
<td>19,488</td>
<td>18,664</td>
<td>-4%</td>
<td>-1%</td>
</tr>
<tr>
<td>Emergency visits</td>
<td>24,021</td>
<td>23,487</td>
<td>23,548</td>
<td>0%</td>
<td>-2%</td>
</tr>
<tr>
<td>Ambulatory visits</td>
<td>418,545</td>
<td>447,958</td>
<td>435,844</td>
<td>-3%</td>
<td>4%</td>
</tr>
<tr>
<td>Surgical cases</td>
<td>16,523</td>
<td>17,168</td>
<td>16,860</td>
<td>-2%</td>
<td>2%</td>
</tr>
<tr>
<td>Casemix index</td>
<td>2.03</td>
<td>2.06</td>
<td>2.07</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>Outpatient share of activity</td>
<td>47.7%</td>
<td>48.8%</td>
<td>48.9%</td>
<td>0%</td>
<td>3%</td>
</tr>
<tr>
<td>CMI/OP adjusted admissions</td>
<td>56,770</td>
<td>59,192</td>
<td>60,495</td>
<td>2%</td>
<td>7%</td>
</tr>
</tbody>
</table>

### Net patient revenue (millions)

<table>
<thead>
<tr>
<th>Net patient revenue (millions)</th>
<th>FY16</th>
<th>FY17</th>
<th>FY17</th>
<th>Last Year</th>
<th>Last Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$963</td>
<td>$1,028</td>
<td>$1,024</td>
<td>0%</td>
<td>6%</td>
</tr>
</tbody>
</table>

### Revenue per adj. admission

<table>
<thead>
<tr>
<th>Revenue per adj. admission</th>
<th>FY16</th>
<th>FY17</th>
<th>FY17</th>
<th>Last Year</th>
<th>Last Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$16,962</td>
<td>$17,369</td>
<td>$16,926</td>
<td>-3%</td>
<td>0%</td>
</tr>
</tbody>
</table>
ACA Expands Oregon Health Plan Coverage

Shift in Uninsured to Oregon Health Plan/Medicaid Since Start of ACA

- Non-sponsored
- Medicaid
- Medicare
- Commercial

Year: FY12, FY13, FY14 H1, FY14 H2, FY15, FY16, FY17 H1

Values: 44.4% 43.8% 43.9% 42.4% 41.5% 40.9% 41.3% 20.4% 19.8% 19.8% 24.8% 25.6% 26.0% 25.6%
OHSU CMI Above COTH Top Quartile Nationally

OHSU Casemix Index Compared to University Teaching Hospital Peers
AAMC/Council of Teaching Hospitals FY14 Databook

FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 H1
--- | --- | --- | --- | --- | --- | ---
1.91 | 1.88 | 1.97 | 1.97 | 1.98 | 2.03 | 2.07

- 25th percentile: 1.628
- 50th percentile: 1.802
- 75th percentile: 1.950
- 75th percentile: 2.03
### Cash Flow Reflects July Debt Service Payments

#### Balance Sheet (millions) 6/30/16 12/31/16 Change

<table>
<thead>
<tr>
<th>Item</th>
<th>6/30/16</th>
<th>12/31/16</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating cash &amp; investments</td>
<td>$794</td>
<td>$772</td>
<td>$(22)</td>
</tr>
<tr>
<td>Quasi-endowment funds</td>
<td>79</td>
<td>81</td>
<td>2</td>
</tr>
<tr>
<td>Moda surplus note, net</td>
<td>34</td>
<td>34</td>
<td>0</td>
</tr>
<tr>
<td><strong>OHSU cash &amp; investments</strong></td>
<td>906</td>
<td>886</td>
<td>(20)</td>
</tr>
<tr>
<td>Trustee-held bond funds</td>
<td>21</td>
<td>29</td>
<td>8</td>
</tr>
<tr>
<td>KCC capital project fund</td>
<td>85</td>
<td>68</td>
<td>(17)</td>
</tr>
<tr>
<td>CHH-S/other capital funds</td>
<td>80</td>
<td>53</td>
<td>(27)</td>
</tr>
<tr>
<td><strong>Total cash &amp; investments</strong></td>
<td>1,091</td>
<td>1,036</td>
<td>(55)</td>
</tr>
<tr>
<td>Net physical plant</td>
<td>1,606</td>
<td>1,637</td>
<td>31</td>
</tr>
<tr>
<td>Interest in Foundations</td>
<td>1,346</td>
<td>1,385</td>
<td>39</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>(907)</td>
<td>(884)</td>
<td>23</td>
</tr>
<tr>
<td>GASB 68 pension items, net</td>
<td>(244)</td>
<td>(244)</td>
<td>0</td>
</tr>
<tr>
<td>Working capital &amp; other, net</td>
<td>26</td>
<td>103</td>
<td>77</td>
</tr>
<tr>
<td><strong>OHSU net worth</strong></td>
<td>2,918</td>
<td>3,034</td>
<td>116</td>
</tr>
</tbody>
</table>

#### Cash Flow (millions) Dec YTD

<table>
<thead>
<tr>
<th>Item</th>
<th>Dec YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oper. income (pre-GASB 68)</td>
<td>$69</td>
</tr>
<tr>
<td>Depreciation</td>
<td>72</td>
</tr>
<tr>
<td>OHSU investment return</td>
<td>7</td>
</tr>
<tr>
<td>CHH-S project funds applied</td>
<td>27</td>
</tr>
<tr>
<td><strong>Sources of OHSU cash</strong></td>
<td>175</td>
</tr>
<tr>
<td>Regular principal repaid</td>
<td>(23)</td>
</tr>
<tr>
<td>Capital spending</td>
<td>(103)</td>
</tr>
<tr>
<td>Change in capital A/P</td>
<td>(21)</td>
</tr>
<tr>
<td>Change in accrued payroll</td>
<td>(31)</td>
</tr>
<tr>
<td>Other working capital, net</td>
<td>(17)</td>
</tr>
<tr>
<td><strong>Uses of OHSU cash</strong></td>
<td>(195)</td>
</tr>
<tr>
<td><strong>Sources less uses of cash</strong></td>
<td>(20)</td>
</tr>
<tr>
<td>6/30/16 balance</td>
<td>906</td>
</tr>
<tr>
<td>12/31/16 balance</td>
<td>$886</td>
</tr>
</tbody>
</table>

The total change in net worth is $116.
Daily Cash Balances Continue to Build Year to Year

Four-Week Moving Average of OHSU Overnight Cash Balances
Adjusted for Transfers To / From Longer-Term Funds (millions)
Current Context: Federal & State Policy

- “Plans are worthless, but planning is everything” – Dwight D. Eisenhower, 1957

- On January 15th the Washington Post published an interview with Donald Trump discussing plans to “repeal & replace” the ACA:
  - “We’re going to have insurance for everyone. There was a philosophy in some circles that if you can’t pay for it, you don’t get it. That’s not going to happen.”
  - “It’s not going to be their plan,” he said of people covered under the current law. “It’ll be another plan. But they’ll be beautifully covered. I don’t want single-payer. What I do want is to be able to take care of people.”

- In addition to change at the federal level, Governor Brown’s proposed 2017 – 2019 budget reduces Oregon Medicaid payments to hospitals by $400 million per biennium, as part of responding to a projected $1.7 billion gap.

- In the post-election context, OHSU is pausing discretionary spending & hiring except as needed for patient care quality, a safe workplace, financially strong programs and essential operations.

- Taking action now, from our strong financial base, better positions OHSU to make decisions in coming months that ensure a sustainable financial foundation for the long term.
OHSU Track Record: Managing in Turbulence

OHSU Net Assets Up +127% in 10 Years Compared to +65% for S&P 500

Global Financial Crisis

Intellectual Capital
2,800 Faculty,
11,700 Staff and
4,000 Students,
Residents & Fellows

Physical Capital
$1.6b Net Plant

Financial Capital
$2.7b Revenue
$2.0b Investments
$(0.9)b Debt

Trend in OHSU Earnings (millions)

OHSU Net Assets
S&P 500

OHSU Track Record: Managing in Turbulence

- Intellectual Capital:
  - 2,800 Faculty,
  - 11,700 Staff,
  - 4,000 Students,
  - Residents & Fellows

- Physical Capital:
  - $1.6b Net Plant

- Financial Capital:
  - $2.7b Revenue
  - $2.0b Investments
  - $(0.9)b Debt

Global Financial Crisis
Changing the Way We See Alzheimer’s

Jeffrey Kaye, M.D., FA.A.N.
Layton Professor of Neurology & Biomedical Engineering
The Facts

• 5.5 Million living with Alzheimer’s today; 80,000 in Oregon
• 1 in 9 over age 65; 1 in 3 over age 85
• Over 15 million providing care or support; 240,000 in OR
• The most expensive disease in America
• The third leading cause of death
• No effective therapy; Last FDA approved drug in 2003
• Research funding ~1/5 cancer, heart disease...
• 10 Million with AD by 2035 if nothing changes
What do we know about Alzheimer’s disease?
In the beginning... *The discovery of ‘Alzheimer’s disease’*
In the beginning... *The discovery of ‘Alzheimer’s disease’*

- A. Alzheimer. “On an Unusual Illness of the Cerebral Cortex” (1907)
What do we know *now* about Alzheimer’s disease?
Alzheimer plaques & tangles don’t tell the entire story

<table>
<thead>
<tr>
<th>‘Plumbing’</th>
<th>Blood Flow &amp; Nutrient Failure</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘Electrical’</td>
<td>Energy and Connectivity Failure</td>
</tr>
<tr>
<td>‘Waste Management’</td>
<td>Toxin Removal Failure</td>
</tr>
</tbody>
</table>

- **Blood Flow & Nutrient Failure**
- **Energy and Connectivity Failure**
- **Toxin Removal Failure**

**Glympathic Pathway Function**

- Para-Arterial Influx
- Convective Flux
- Para-Venous Efflux

**Brain growth**:
- Growth of dendrites in an aging, inactive brain
- Typical dendritic growth in an active brain
Many novel mechanisms need to be pursued.
Many mechanisms means hundreds of alternative or new treatment targets exist, but are untested.
Importantly, even absent testing these new treatments, 110 years after Alzheimer’s report we now know how to significantly improve the function and QoL of people with Alzheimer’s, but we have yet to effectively apply this knowledge.
How to move forward?

Change the way we see Alzheimer’s!

A Five Point Plan
Why we can we achieve transformational change?

Unique resources and talent at OHSU

- Top ranked NIH AD research center in US
- Outstanding basic neuroscience
- Outstanding clinical expertise: 200+ person years
- Largest database of all AD centers in US
- Second largest brain tissue bank in US
- Unparalleled technologies for research developed at OHSU (stem cells, imaging, biomarkers, home assessments)
- Leading developer of therapies for today and tomorrow
- An amazing Oregon community!
1. Changing How We See the Brain with Alzheimer’s

Waste Management – New proteins associated with dementia

Dr. Jeffrey Iliff, Anesthesia & Perioperative Medicine

Dr. R. Woltjer, Neuropathology Core Leader, Layton Center
2. Changing How we Diagnose and Assess Alzheimer’s

Drs. Silbert, Rooney, and Link
Neurology, ARIC, RRC
3. Changing How we Find Effective Treatments

Centella Asiatica

Dr. Amala Soumyanath
Neurology
‘Ten more new treatments can be tested in half the time...’

OHSU-ORCATECH
Home Technology Assessment System

Studies/Homes
- Merck Study
- Life Laboratory Cohort
- NW VA VISN 20
- MARS Study Chicago
- PRISM Study Miami
- Study XYZ

Activity, Sleep, Mobility Time & Location

Body Composition, Pulse, Temperature, CO₂

MedTracker

Device / Sensor “X”

Computer Activity

Drives Open / Close

Outcomes Readouts

Secure Internet

OHSU
ORCATECH
SENSING LIFE KINETICS

OREGON HEALTH & SCIENCE UNIVERSITY
4. Changing How we Help People with Alzheimer’s Now

ACT-ON: Alzheimer’s Care via Telemedicine for Oregon

SHARP: Sharing History Through Active Reminiscence and Photo-imagery

ICONECT: Internet-based Conversational Engagement Clinical Trial

Drs. Lindauer, Erten-Lyons, Seelye, Croff, Dodge; Neurology
5. Changing the Way we Support the Critical Change Agents

Achieving these landmark changes in AD research and treatment requires a commitment to support and retain the exceptional talent we have, to recruit high level Alzheimer’s scientists of international stature AND MOST IMPORTANTLY THE HEARTS AND MINDS OF OUR COMMUNITY!
In Summary - Where we stand

• We stand at a transformative moment - We need to apply our insights and talents toward seeing Alzheimer’s in new ways.
• In the way its damaging processes take over the brain.
• In the way we identify these changes before it is too late.
• In accelerating how we take these insights and prove that treatments work and are safe.
• And in the way that we bring these discoveries into the homes and the daily fabric of life of everyone facing the challenge of Alzheimer’s now.
Be a change agent -

- Join ACTNOW!: www.alzactnow.org
- Be an active advocate
- Be a research participant
- Be a citizen-scientist
- Be a generous funder

“If you do not change you may end up in the direction you were heading
- Lao Tzu
Thank You!

Jeffrey Kaye, M.D., FA.A.N.
Layton Professor of Neurology & Biomedical Engineering
Director, Layton Aging & Alzheimer's Disease Center
Director, Oregon Center for Aging & Technology (ORCATECH)
kaye@ohsu.edu
2017 Federal and State Government Relations Update

January 2017
Washington D.C.

- Unique time in D.C. Uncertainty and no clear plan of action in Congress or the Executive Branch on many key issues. Areas of focus will include:
  - Regulations/Executive Orders
  - Presidential Appointments – Senate consideration of Supreme Court, cabinet and other federal agency picks
  - Likely on the legislative agenda:
    - ACA Repeal
    - Infrastructure funding
    - Immigration, education and tax reform proposals
    - Defund Planned Parenthood
    - Completion of FY2017 Appropriations (government funded thru potentially April 28, 2017)
Significant Areas of Interest and Engagement for OHSU

- Health care reform
- Funding of Medicaid, Medicare & SCHIP (Children’s Health Program)
- Investments in biomedical research, science
- Education and training of health care workforce
Federal Advocacy

- Oregon Delegation is well positioned to engage on diverse issues of interest to OHSU. For example:
  - Representative Walden, Chair of Energy & Commerce Committee
  - Representative Schrader, Energy & Commerce Committee
  - Representative Blumenauer, Ways & Means Committee
  - Senator Wyden, Ranking Democrat on Senate Finance Committee
  - Senator Merkley, Appropriations Committee
- Strategic alignment in coalition: AAMC, Public Hospitals, Providers and others
- Building relationships with new key leaders in agencies
State Legislative Environment

- Democratic majorities. 20 new members (14 Democrats, 6 Republicans)
- Challenging budget. $1.7b shortfall (approx. $900m Medicaid shortfall)
- Health care community targeted for revenue
- Uncertainty about federal actions
- Likely policy discussions:
  - Transportation, affordable housing, gun violence prevention, PERS, women’s health act, drug pricing, CCOs, revenue reform
OHSU 2017 Session

Areas of Focus:

– Direct state appropriation for education, SHOI, CDRC, OPC, ORH/AHEC, Knight and Oregon Opportunity bonds

– Medicaid budget – hospital tax, insurer tax, IGT, DSH, GME

– Dental Supervision clean-up

– Tobacco 21

– Car seat safety (working with Pediatrics and OHSU students)
Thank You