



OHSU Public Finance and Audit Committee Meeting

**April 12, 2024
10:00-11:00am**

YouTube: <https://youtube.com/live/6WFepiIpXVI?feature=share>

Dial In:

1-503-388-9555 Portland, OR

1-206-207-1700 Seattle, WA

Meeting number (access code): 2632 685 7240



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Agenda

1. FY24 YTD Financial Results
2. FY25 Preliminary Budget Plan



April 5, 2024

To: Members, OHSU Finance & Audit Committee

From: Lawrence J. Furnstahl
Executive Vice President & Chief Financial Officer

Re: FY24 YTD Financial Results & FY25 Preliminary Budget Plan

Enclosed is the material for next week's public meeting of the Finance & Audit Committee, on Friday, April 12th from 10 am to 11 am by WebEx. The two agenda items are review of FY24 year-to-date financial results and the FY25 preliminary budget plan.

Through the first 8 months of FY24, operating income is a loss of \$(33)m, a negative operating margin of -1.0% and \$(27.5)m off the seasonally spread budget. Taking out one-time items, revenues are up 11% from FY23 with strong demand for patient services but expenses are up 15%. However, the underlying rate of loss for the month of February itself was half that of prior months due to improvement in pharmacy and oncology services. We are working hard to narrow this year's operating loss through Strategic Alignment efforts, further Improving Financial Performance (IFP 2.0) work, and spending restraint throughout the University.

Included within the YTD budget variance are \$36m of net one-time gains—real dollars to OHSU but not continuing into next year—and \$26m from units that are performing better than budget, partially due to the ramp up of new program spending. Taking out these items and annualizing the rest yields an underlying run-rate deficit of \$(143)m, showing the lift required to balance the FY25 budget.

Despite the \$(33)m operating loss to date, net worth is up \$209m or 5% to \$4.3 billion, the result of strong investment returns and \$109m of new FEMA assistance to cover prior year costs of the pandemic. As you know, net worth is not the same as spendable cash: \$2.4 billion of OHSU's net worth is in buildings, equipment & technology. OHSU's days cash on hand are 169 at 2/29/24, down from 184 at last year-end and compared to the most recent benchmark (Moody's preliminary 2023 Aa median) of 261 days. We are closing March books now and will have a third quarter update at the meeting.

The FY25 preliminary budget plan targets balanced revenues and expenses of \$5.4 billion. Comparing next year's projection with last year's actual results, patient revenues grow by 23% over two years (FY23 to FY25) with focus on that care most requiring AHC-level services. Over the same timeframe, salaries & benefits grow by 20% compared to 7% for depreciation & interest, reflecting greater investment in people and programs compared to spending on capital (places and things).

The FY25 capital plan includes \$150m of annual spending, equal to FY24's allocation to reflect the same zero-margin budget, with an even balance between infrastructure and strategic priorities. We also plan to spend \$27m to complete design of the Doernbecher / Perinatal expansion prior to Board consideration of proceeding with construction, and up to \$269m for next year's work on the Inpatient Addition (IPA). The IPA is on schedule to open in Spring 2026 at its project budget of \$650m.

Like academic health centers across the country, OHSU continues to navigate an evolving health care landscape that is more challenging than ever. Even though OHSU has fared better financially than many other health systems—thanks in large part to focused work on the part of our members—expenses continue to outpace revenue growth, putting us at financial risk. As Oregon's only comprehensive academic health center, we are uniquely positioned to focus our strategies to further innovate, improve our ability to fulfill our missions, and help address our financial challenges.

Our strategies will focus on our core, state-mandated missions, including improving access to the complex specialty and subspecialty services that no other health system in the region can provide. We want to ensure patients can get the care they need without having to travel outside the region. To succeed, our structures and budgets must align with our overall strategy like never before. Accordingly, we have a plan to align how we invest resources strategically in patient care, research and education.

Our financial strategy is to grow patient activity to meet the needs of Oregon and the Pacific Northwest while also spreading fixed costs across a wider base. We focus on tertiary and quaternary (highly specialized) programs that leverage research and draw patients with complex diseases who need AHC-level care from throughout Oregon and beyond—OHSU's special role. This growth in turn requires earnings, investment income and gifts to invest in people, programs, places and things.

To balance the step-function increase in wages and other costs, we will:

- Care for each patient promptly in the right setting and at the right cost structure
- Secure inflation-appropriate payment rates that recognize the value our members contribute
- Recruit faculty and staff with competitive pay to build programs that sustain excellence and growth
- Implement rigorous cost savings while increasing capacity and access
- Hold fixed costs fixed with growth to capture economies of scale
- Expand revenue sources such as philanthropy and pharmacy services
- Serve the health & well-being priorities of the State of Oregon (e.g., behavioral health and workforce development) to sustain OHSU's public funding.

Doing so will protect and enhance OHSU's unique role as Oregon's health sciences university and only academic health center with statutory state-wide missions in education, research, patient care, and outreach.



OHSU Onward: FY24 YTD Results & FY25 Preliminary Budget Plan

OHSU Finance & Audit Committee / April 12, 2024

Introduction

- This document presents an update on FY24 YTD financial results and sets forth the preliminary budget plan for next fiscal year. The Board will consider and vote on the final FY25 budget at its June meeting.
- Through February, OHSU has an operating loss of \$(33)m that we are working hard to narrow through Strategic Alignment efforts, further Improving Financial Performance (IFP) work, and spending restraint through the University.
- FY24 results include \$36m of real but one-time gains and \$26m of spending below budget largely due to timing of program ramp up; absent these, the underlying run-rate is an annualized loss of \$(143)m.
- This loss plus wage & cost inflation that exceeds payment rate growth create the gap we need to close to achieve a zero-margin budget for FY25.
- Zero margin compares to operating gains averaging 4.8% of revenues pre-pandemic, a difference of over \$240m per year in resources to invest in people, programs, buildings, equipment & technology—investments that allow OHSU’s members in all missions to do their best work and advance the health & well-being of Oregonians.
- The FY25 budget plan is thus a step toward a sustainable level of investment, achieved through renewed focus on improving access to the complex specialty & subspecialty services that no other health system in the region can provide.

Overview of FY25 Preliminary Budget Plan

- The preliminary FY25 budget targets balanced revenues and expenses of \$5.4 billion.
- Between FY23 actuals and FY25 targets, patient revenue is expected to grow by 23% as we meet the demand for AHC-level services.
- Over this same 2-year timeframe, salaries & benefits are projected to increase by 20% compared to a 7% for depreciation & interest, reflecting prioritization of investment in people & programs over places & things (capital spending).

OHSU Revenue & Expense (millions)	FY23 Actual	FY24 Budget	FY24 Feb Estimate*	FY25 Preliminary	2 Yr Growth FY25 / FY23
Net patient revenue	3,069	3,417	3,380	3,770	23%
All other revenues	1,504	1,479	1,569	1,634	9%
Operating revenues	4,573	4,896	4,949	5,404	18%
Salaries & benefits	2,739	3,013	3,078	3,293	20%
Rx & medical supplies	860	949	971	1,084	26%
Other services & supplies	670	676	689	759	13%
Depreciation & interest	252	258	252	268	7%
Operating expenses	4,520	4,896	4,989	5,404	20%
Operating income (loss)	53	0	(40)	0	
<i>Operating margin</i>	<i>1.2%</i>	<i>0.0%</i>	<i>-0.8%</i>	<i>0.0%</i>	
<i>EBITDA margin</i>	<i>6.7%</i>	<i>5.3%</i>	<i>4.3%</i>	<i>5.0%</i>	
<i>*FY24 estimate based on February results annualized with known one-time items. We are working to narrow this gap to the Board-approved balanced budget.</i>					

FY24 February YTD Financial Results (8 Months)

- For the month of February itself, we had an operating gain of +\$2.8m.
- This includes the impact of FEMA funds received by Hillsboro Medical Center (HMC) that reduced our Partner Support by \$7.3m. This is real money but related to past pandemic costs and not recurring into future years.
- Absent this item, the underlying loss for the month was \$(4.5)m, which is about half the prior monthly run-rate.
- The improvement comes in Non-Hospital Pharmacy and Oncology services, consistent with this year's Improving Financial Performance (IFP 2.0) focus.
- YTD operating income through 8 months is a loss of \$(33)m, a negative operating margin of -1.0% and \$(27.5)m off the seasonally spread budget.
- Areas outside the clinical enterprise continue to perform better than budget, in part the result of delays in spending from the ramp up of new education & research programs.
- Taking out one-time items, revenues are up 11% from FY23 but expenses are up 15%.
- *We are closing March books now and will have a Q3 update at the meeting.*

Major Budget Impacts through February

- From FY13 to FY23, OHSU patient activity increased by 4% per year. To meet patient demand while balancing the FY24 budget, we targeted double this but are currently -2% short (6% vs 8% growth).
- Taking out **one-time** items and areas **ahead of budget** (largely due to program ramp up) then annualizing shows a \$143m lift from today's run-rate to balance next year.

FY24 February YTD Variance from Budget (millions)

\$ (5) Budgeted operating income (seasonally spread through February)

(50) Revenue impact of -2.2% lower complexity-weighted activity

(39) Greater than budgeted investment in nursing wages & staffing

+26 Provost, CRO & Central areas ahead of budget (program ramp up)

+44 Medicare 340b settlement (one-time)

(8) One-time expense items, net

(1) All other, net

\$ (33) Actual operating income (FY24 February YTD – 8 months)

\$ (103) Annualized loss taking out **one-time** items but keeping **positive variances**

\$ (143) Annualized loss taking out both **one-time** items and **positive variances**

Dollar Change from February YTD Last Year

- Another way of looking at February results is to compare dollars of revenue and expense to the prior year.
- Revenues are up \$338m but expenses are up \$435m, for a \$(97)m negative swing in operating income for 8 months.

OHSU Operating Income (millions)	FY23 Feb YTD	FY24 Feb YTD	Dollar Change
Operating revenue	\$2,966	\$3,304	\$338
Operating expense	2,902	3,337	435
Operating gain (loss)	<u>\$64</u>	<u>\$(33)</u>	<u>\$(97)</u>

February YTD Loss at \$(33)M with -1.0% Margin

February YTD (8 Months) (millions)	FY23 Last Year	FY24 Budget	FY24 Actual	Actual - Budget	Actual / Last Year
Net patient revenue	\$1,973	\$2,259	\$2,268	\$9	15.0%
Medical contracts	107	121	121	(0)	13.2%
Grants & contracts	352	370	379	9	7.5%
Gifts applied	58	74	75	1	30.1%
Tuition & fees	56	56	55	(2)	-1.4%
Sales, services & other	176	172	213	41	20.8%
State support*	245	188	194	6	-20.6%
Operating revenues	2,966	3,241	3,304	64	11.4%
Salaries & benefits	1,778	2,000	2,065	65	16.2%
Rx & medical supplies	552	625	647	22	17.1%
Other services & supplies	408	449	457	8	12.1%
Depreciation	136	144	140	(4)	2.8%
Interest	28	28	28	0	-0.1%
Operating expenses	2,902	3,246	3,337	91	15.0%
Operating income (loss)	\$64	\$(5)	\$(33)	\$(27)	
<i>Operating margin</i>	<i>2.1%</i>	<i>-0.2%</i>	<i>-1.0%</i>	<i>-0.8%</i>	
<i>EBITDA margin</i>	<i>7.7%</i>	<i>5.1%</i>	<i>4.1%</i>	<i>-1.0%</i>	

*State support in FY23 included funds related to FY22 from the State's mid-biennium rebalance.

FY24 budget is breakeven across 12 months but due to seasonality earnings for interim periods varies slightly above or below zero, including \$(5)m through February.

Volume Metrics Up but Size-Weighted Activity Off

Patient Activity	FY23	FY24	FY24	Actual	Actual
February YTD (8 Months)	Last Year	Budget	Actual	/ Budget	/ Last Year
Inpatient admissions	17,821	18,428	18,357	-0.4%	3.0%
Average length of stay	7.05	7.00	7.02	0.3%	-0.4%
Average daily census	484.7	481.3	489.0	1.6%	0.9%
Observation / day patients	29,541	31,175	31,481	1.0%	6.6%
Surgical cases	22,594	23,937	24,430	2.1%	8.1%
Emergency visits	35,946	36,587	36,579	0.0%	1.8%
Ambulatory visits	730,787	773,449	790,225	2.2%	8.1%
Casemix index (CMI)	2.50	2.50	2.48	-0.8%	-0.8%
Outpatient share of activity	55.5%	57.6%	57.7%	0.2%	4.0%
CMI/OP adjusted admissions	100,066	108,671	107,747	-0.9%	7.7%
Rate-adjusted gross charges	4,535	4,904	4,796	-2.2%	5.7%

Healthcare Growth Against Budget & Last Year

- Shortfall from budgeted volume occurs in areas targeted to grow fastest to meet AHC-level demand—non-hospital pharmacy, imaging & lab, and oncology services—that are up strongly from last year (+12%) but not yet as much as planned (+17%).

Feb YTD Volume Growth by Service Area (FY24 / FY23)	% of Hosp. Charges	Budgeted Growth	Actual Growth	Actual vs Budget
Non-hospital pharmacy	26%	19.4%	17.4%	-1.6%
Professional (imaging, lab, etc.)	18%	10.7%	5.7%	-4.5%
Oncology services	5%	29.1%	10.9%	-14.1%
Subtotal - higher growth areas	50%	16.9%	12.2%	-4.1%
Surgery & procedural	21%	3.9%	2.0%	-1.8%
All other hospital services	29%	-2.0%	-1.2%	0.8%
Subtotal - lower growth areas	50%	0.4%	0.1%	-0.3%
Rate-adjusted gross charges	100%	8.1%	5.7%	-2.2%

- This pattern reflects the need to allocate more capacity (beds, ORs, infusion chairs) to cancer care and other subspecialty programs unique to an academic health center.
- Addressing this challenge is a core focus of IFP 2.0 work and the bed capacity and patient flow summit; February shows improvement in non-hospital Rx & oncology.

Net Worth Up \$209M or +5.1% in FY24 Feb YTD

- OHSU's days cash on hand are 169 on 2/29/24, down from 184 at last year-end and compared to the most recent benchmark (Moody's 2023 Aa median) of 261 days.
- \$109m of FEMA assistance has been approved by the government this year and accrued through February but will be paid in cash with a lag. This FEMA receivable is the largest timing difference between the \$209m YTD increase in net worth and the \$47m increase in OHSU-held cash & investments.

Balance Sheet (millions)	6/30/23	2/29/23	8-Month Change
OHSU-held cash & investments	\$1,386	\$1,433	\$47
OHEP construction fund	236	177	(59)
Net property, plant & equipment	2,219	2,280	60
Interest in OHSU Foundation	1,536	1,558	22
Long-term debt	(1,370)	(1,353)	17
PERS pension liability	(396)	(396)	0
Working capital & other, net	485	607	122
Consolidated net worth	\$4,097	\$4,306	\$209
Operating income (loss)			(33)
FEMA public assistance			109
OHSU investment return			112
Grant & gift funded capital			0
Foundation gain (loss)			22
Other non-operating items			(0)
YTD change in net worth			\$209

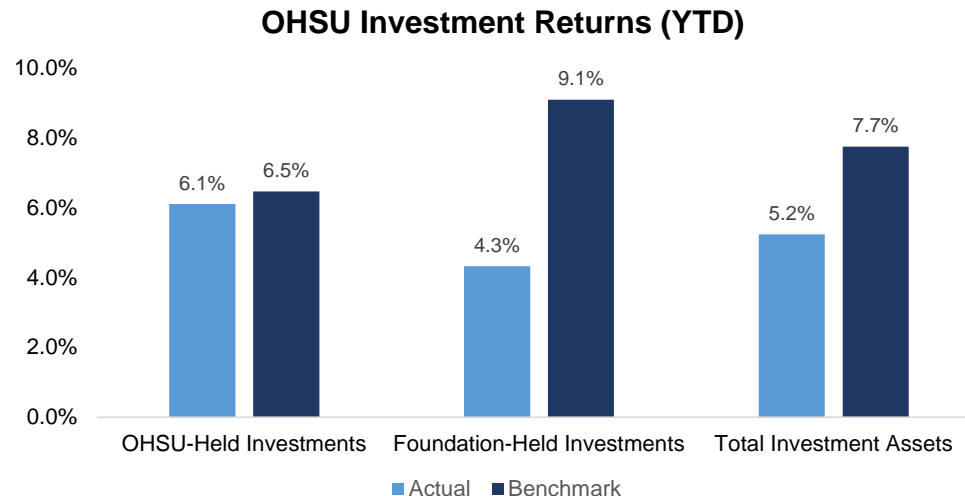
FY24 Feb YTD Cash Flow	(millions)
Operating income	\$(33)
Depreciation	140
FEMA public assistance	109
Investment return	112
Construction funds applied	59
Grant & gift funded capital	0
Sources of cash	387
Long-term debt repaid	(17)
Capital spending	(201)
FEMA receivables & other	(122)
Uses of cash	(340)
Net cash flow	\$47

Note that Foundation assets are largely donor given & directed.



FY24 February YTD Investment Returns Up 5.2%

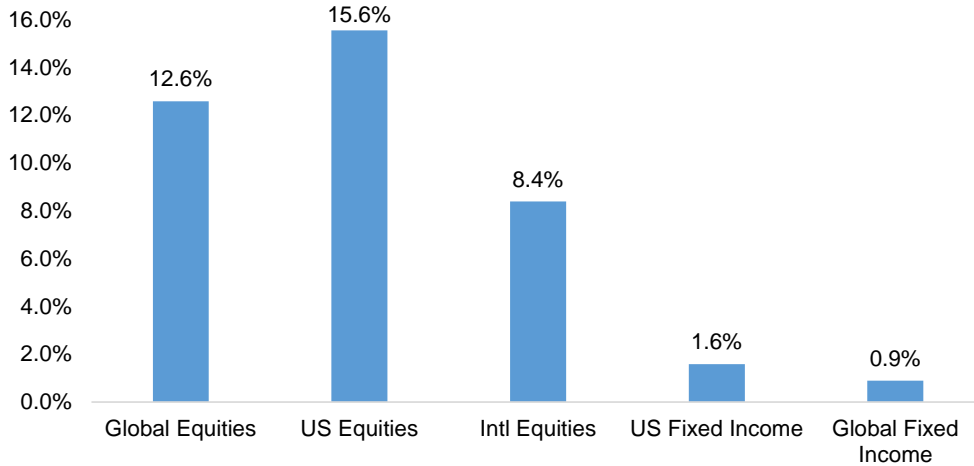
- February saw positive global equity returns due in part to strong monthly payrolls report, corporate earnings above expectations and positive economic survey results.
- Recent inflation readings were broadly in line with expectations, but uncertainty remained with respect to the future path of central bank rate policy.
- US Equities outperformed International Equities in part due to the strength of the US technology sector and economy. US Fixed Income decreased as yields continued to rise across the curve, while credit spreads remained generally unchanged.
- *Foundation endowment returns will lag benchmark at times like now when public markets rise rapidly, due to a long-term strategy focused on returns to illiquid & private assets. Over 7.25 years endowment returns have outperformed benchmark by 2.4%.*



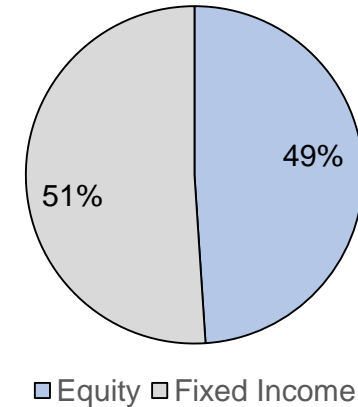
Foundation preliminary actual and benchmark return calculated by OHSUF staff with net asset value (NAV) sourced from investment managers.

Investment Returns (continued)

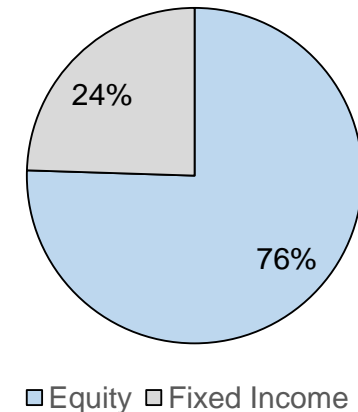
Major Index Returns (YTD)



Asset Allocation – OHSU-Held Funds



Asset Allocation – Foundation-Held Funds



Asset Pool	6/30/2023 Balance	2/29/2024 Balance	FY24 YTD TR (%)	Benchmark YTD TR (%)
OHSU-Held Funds				
Short-Term Asset Pools	536,897	496,981	2.9%	2.9%
Long-Term Asset Pools	1,081,776	1,105,526	7.5%	8.0%
Other Asset Pools	102,582	107,387	6.8%	6.8%
Total OHSU Assets	\$1,721,256	\$1,709,894	6.1%	6.5%
Foundation-Held Funds				
Non-Endowment Asset Pools	238,524	207,570	5.1%	4.7%
Endowment Assets	1,367,038	1,429,301	4.2%	9.7%
Total Foundation Assets	\$1,605,562	\$1,636,871	4.3%	9.1%
Total OHSU Investable Assets	\$3,326,818	\$3,346,765	5.2%	7.7%

Foundation preliminary actual and benchmark return calculated by OHSUF staff with NAV sourced from investment managers.



Earnings to Invest in People, Programs & Things

- In FY19, OHSU had an operating gain of \$176.5m. If we had kept just this dollar level of earnings for the next 56 months (FY20 through FY24 February YTD), cumulative earnings would have been \$824m—and higher if calculated on a % of revenue basis.
- In fact, operating income has been a cumulative loss of \$(27)m, offset by \$285m of federal support (CARES & FEMA) booked “below the line” per GASB accounting.
- The actual net is a gain of \$258m or \$(565)m below the pre-pandemic dollar level.

Oper. Income & Federal Support (millions)	Actual Gain (Loss)	FY19 Earnings Comparison
FY20 operating loss	(29.2)	176.5
FY21 operating gain	72.4	176.5
FY22 operating loss	(89.7)	176.5
FY23 operating gain	53.0	176.5
FY24 February YTD operating loss	(32.9)	117.7
Subtotal - 56 months oper. income	(26.5)	823.6
CARES Act / FEMA assistance	284.7	
Total - oper. income & fed. support	258.2	823.6
Shortfall from FY19 dollar earnings	(565.4)	

Introduction to FY25 Preliminary Budget Plan

- Like academic health centers across the country, OHSU continues to navigate an evolving health care landscape that is more challenging than ever.
- Even though OHSU has fared better financially than many other health systems—thanks in large part to focused work on the part of our members—expenses continue to outpace revenue growth, putting us at financial risk.
- As Oregon’s only comprehensive academic health center, we are uniquely positioned to focus our strategies to further innovate, improve our ability to fulfill our missions and help address our financial challenges.
- Our strategies will focus on our core, state-mandated missions, including improving access to the complex specialty and subspecialty services that no other health system in the region can provide.
- We want to ensure patients can get the care they need without having to travel outside the region.
- To succeed, our structures and budgets must align with our overall strategy like never before. Accordingly, we have a plan to align how we invest resources strategically in patient care, research and education.

Introduction to FY25 Budget Plan (continued)

- As a first step, in April and May, select senior leaders across our missions will complete a comprehensive audit of all current expenses, projects and roles.
- The executive leadership team will review the results and make final decisions about the next steps as an organization, prior to presentation of the proposed FY25 budget to the Board in June.
- Although reductions in force may be necessary, the intent of this work is to shift our overall strategy to ensure the highest and best use of the services that distinguish OHSU from others and on which Oregon depends.
- Dedicated working groups in various areas will tailor cost-saving and revenue-generating changes to ensure they align with our strategic priorities and advance our core missions.
- Managing change effectively means embracing tough choices; nevertheless, we will maintain our commitment to the culture that makes OHSU a beacon in health care, research and education.
- We must proceed with discipline and compassion, understanding each decision impacts lives and livelihoods.

What Must Be True for Success

- We will continue to communicate changes widely with transparency.
- Embrace change, and question and alter norms that hinder our progress.
- Embrace choices anchored in excellence.
- Safeguard key programs in patient care, research, education, central services and community service.
- Agree that all leadership levels, from the Board of Directors to frontline leaders, must back tough choices—even when it is hard or gets noisy.
- Acknowledge institutional objectives will override divisional or entity interests.
- Continue to pursue and—where indicated—expand core, mission-focused and revenue-generating initiatives.
- Remain committed to growth in learner enrollment and retention through strategic investment in education quality.
- Grow the transformational, funded research at OHSU that powers discovery.
- Continue to attract and retain top-tier faculty and staff.
- *This is the moment to define the future for OHSU. Together, we will forge a path that respects our past, responds to our present, and reimagines our future, while building a culture that unites and strengthens all of us.*

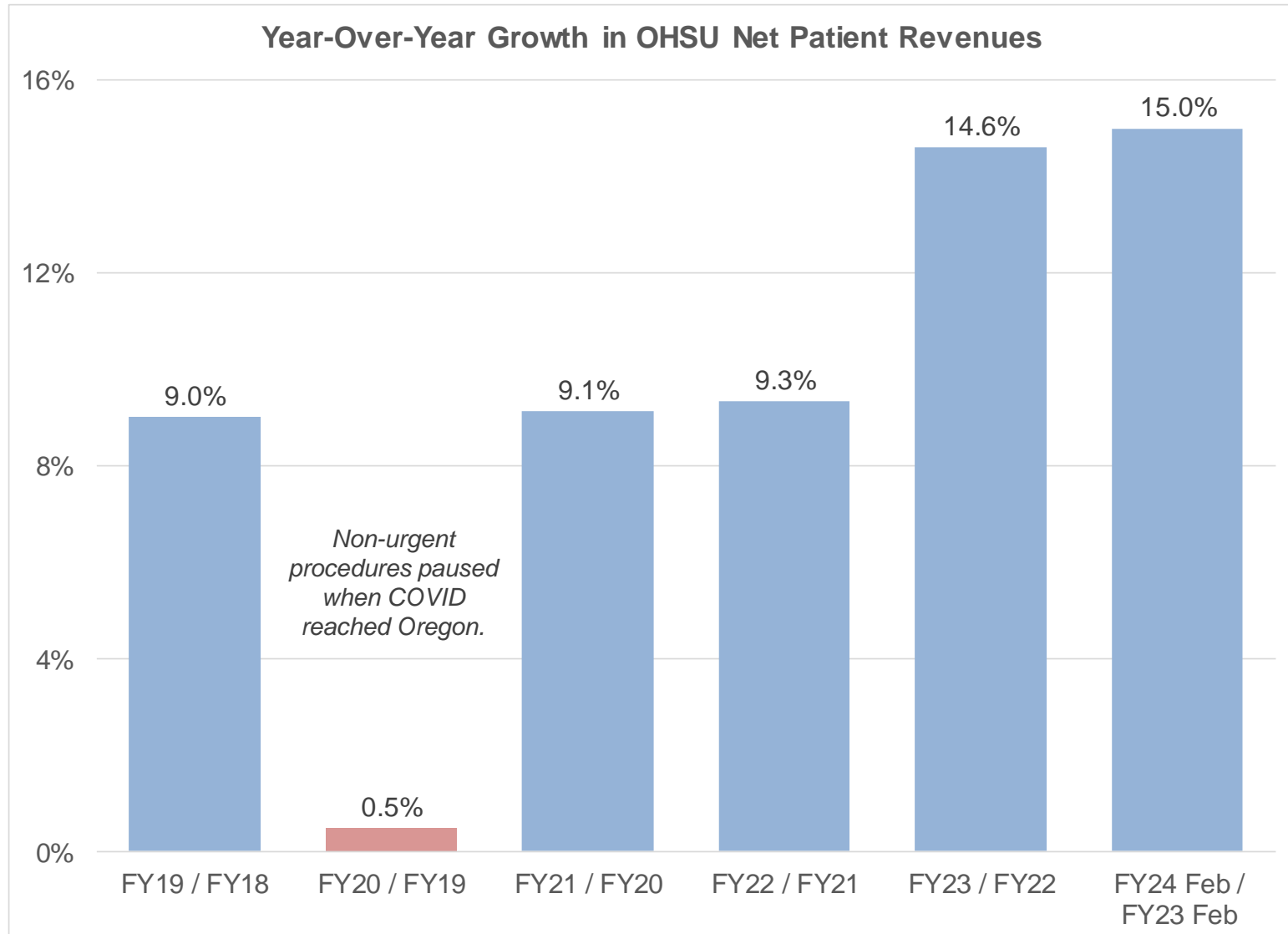
OHSU's Pre- & Post-Pandemic Financial Strategy

- OHSU's financial strategy has been to grow patient activity to meet demand while holding a substantial portion (~40%) of our cost base fixed against volume growth.
- We have focused growth on tertiary / quaternary (highly specialized) programs that draw patients with complex diseases who need AHC-level care from throughout Oregon and beyond.
 - *These programs leverage the critical mass of intellectual and technological capital of a health sciences university rich in research and education—OHSU's role in Oregon.*
- In addition to growth, which has been constrained by physical space, we secure resources through:
 - Philanthropy
 - Meeting the pharmacy needs of our cancer, neuro & other patients
 - Serving the health and well-being priorities of the State of Oregon (e.g., behavioral health & workforce development) to sustain OHSU's public funding.
- By July 2026 the \$650m Inpatient Addition (IPA) will open adding 128 adult cancer + complex surgery beds with shell space for future growth.
- Design is proceeding on the Doernbecher addition to replace and expand perinatal services and the neonatal ICU. We plan to bring this project to the Board once detailed cost estimates are available—they currently range about \$350m.

Conditions for Long-Term Financial Sustainability

- Financing continued growth—doubling revenue every 9 years since 1995—requires ongoing investment in people, programs, places & things that in turn requires operating income, investment income and major gifts, together with State support.
- For example, the OHSU Hospital Expansion Project—the IPA under construction at \$650 and the DCH Addition under design in the range of \$350m—will require approximately \$1 billion in resources from earnings, gifts, investment returns and debt.
- From 6/30/10 to 2/29/24, OHSU did in fact generate and secure \$2.6 billion of resources—\$1 billion from operating income and \$1.6 billion of investment returns and net gifts for endowment and capital.
- However, of the \$1 billion from earnings, \$1,031m was generated during the 9 years pre-COVID (FY11 - FY19) offset by a net loss of \$(27)m since (FY20 - FY24 Feb YTD).
- Conditions for sustained growth across missions and financial stability include:
 - *Revenue > expense by 4% - 5%*
 - *Growth in revenue >= growth in expense*
 - *Growth in net worth (physical + financial capital) = growth in revenue & expense.*
- We met these conditions pre-pandemic but not since; the FY25 budget plan aims to get us back on the path toward long-term sustainability.

Demand for OHSU Services Remains Very Strong



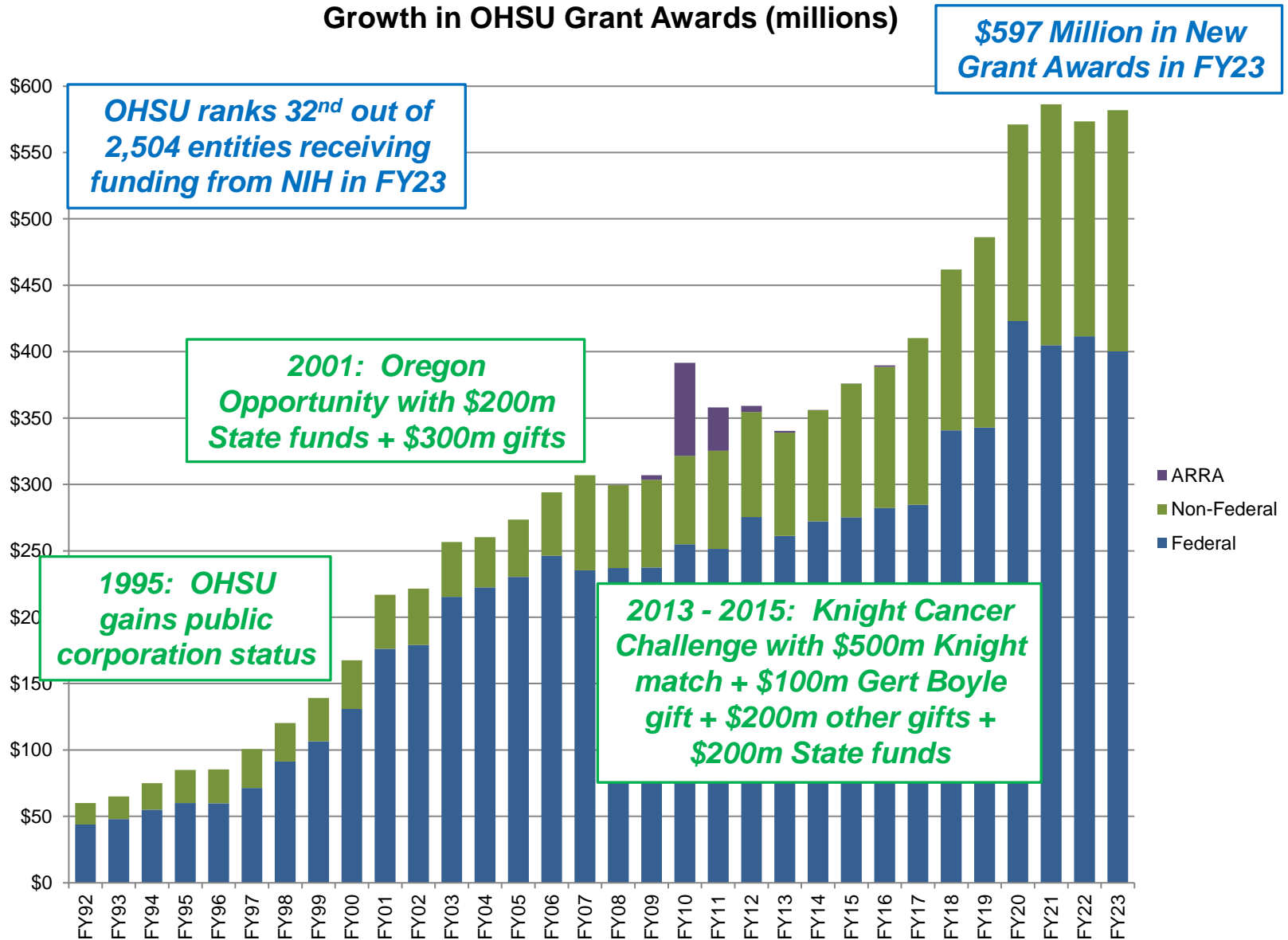
Demand for OHSU Care Grows 2x Other Hospitals

OHA's website provides public data on net patient revenues by hospital, a metric of demand for patient care services. Over 5 years from 2018 to 2023 (using 9 months annualized), OHSU's hospital net patient revenue has grown by 58%, twice that of all other Oregon hospitals, reflecting the demand for OHSU's unique specialty/subspecialty services as Oregon's academic health center.

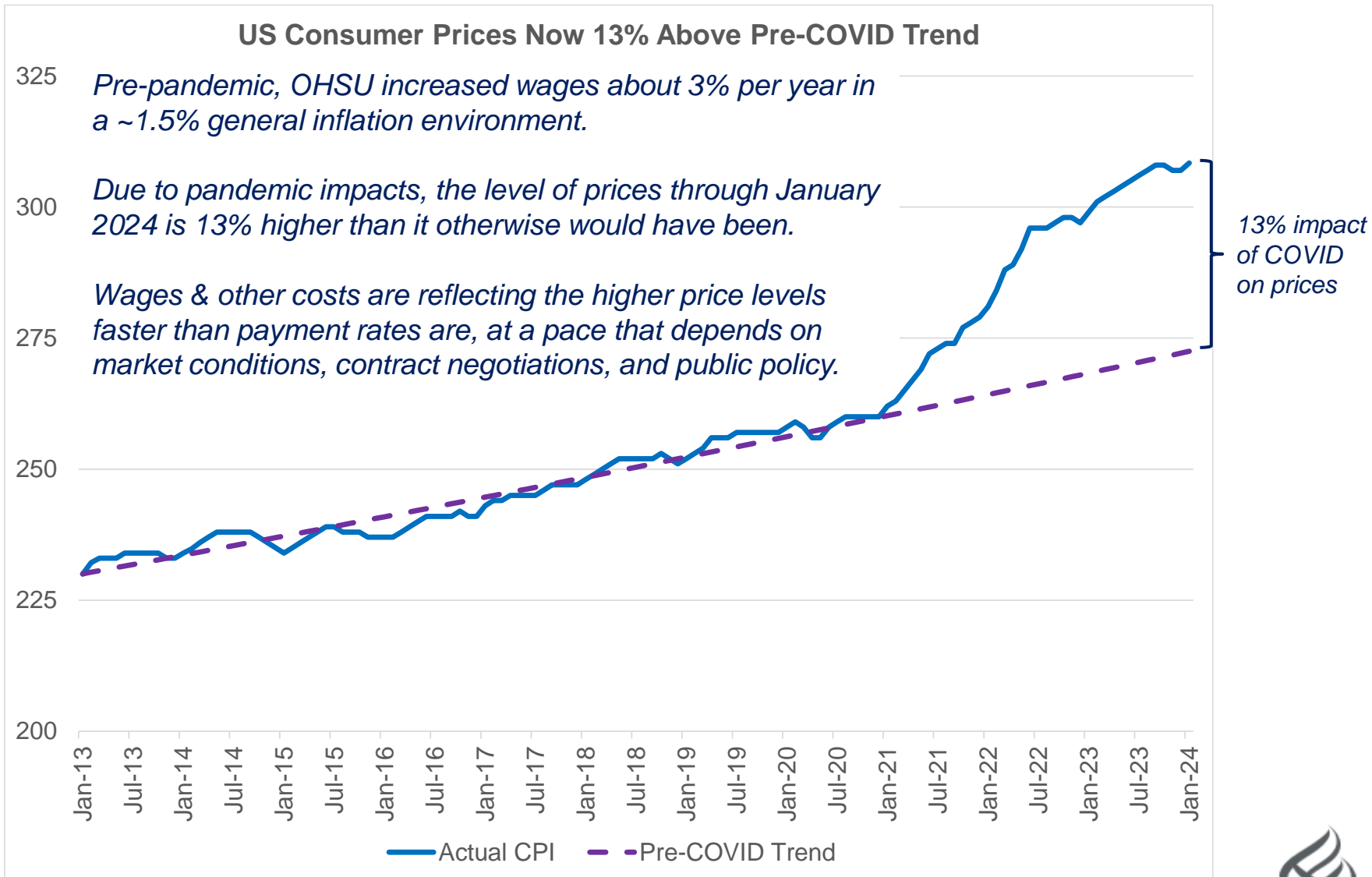
Net Patient Revenue (millions)	OHSU Hospital	All Other Oregon	OHSU % All Other
2018 (Jan to Dec)	\$1,682	\$11,191	15%
2023 (Jan to Sep x 12/9)	\$2,661	\$14,355	19%
5-year percent growth	58%	28%	

30-Year Path to National Scale in Research

Growth in OHSU Grant Awards (millions)

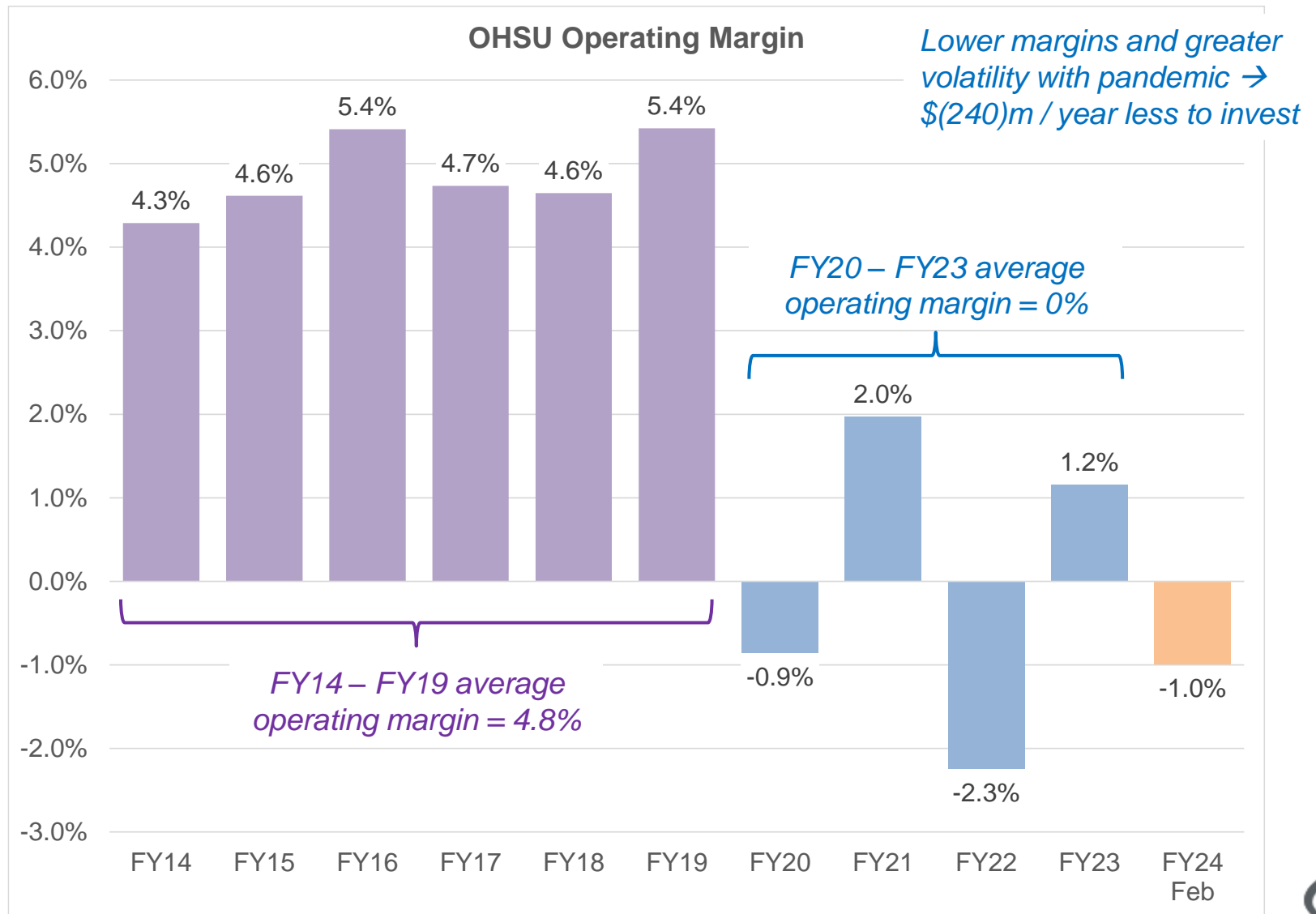


Inflation, though Cooling, Has Added 13% to Prices

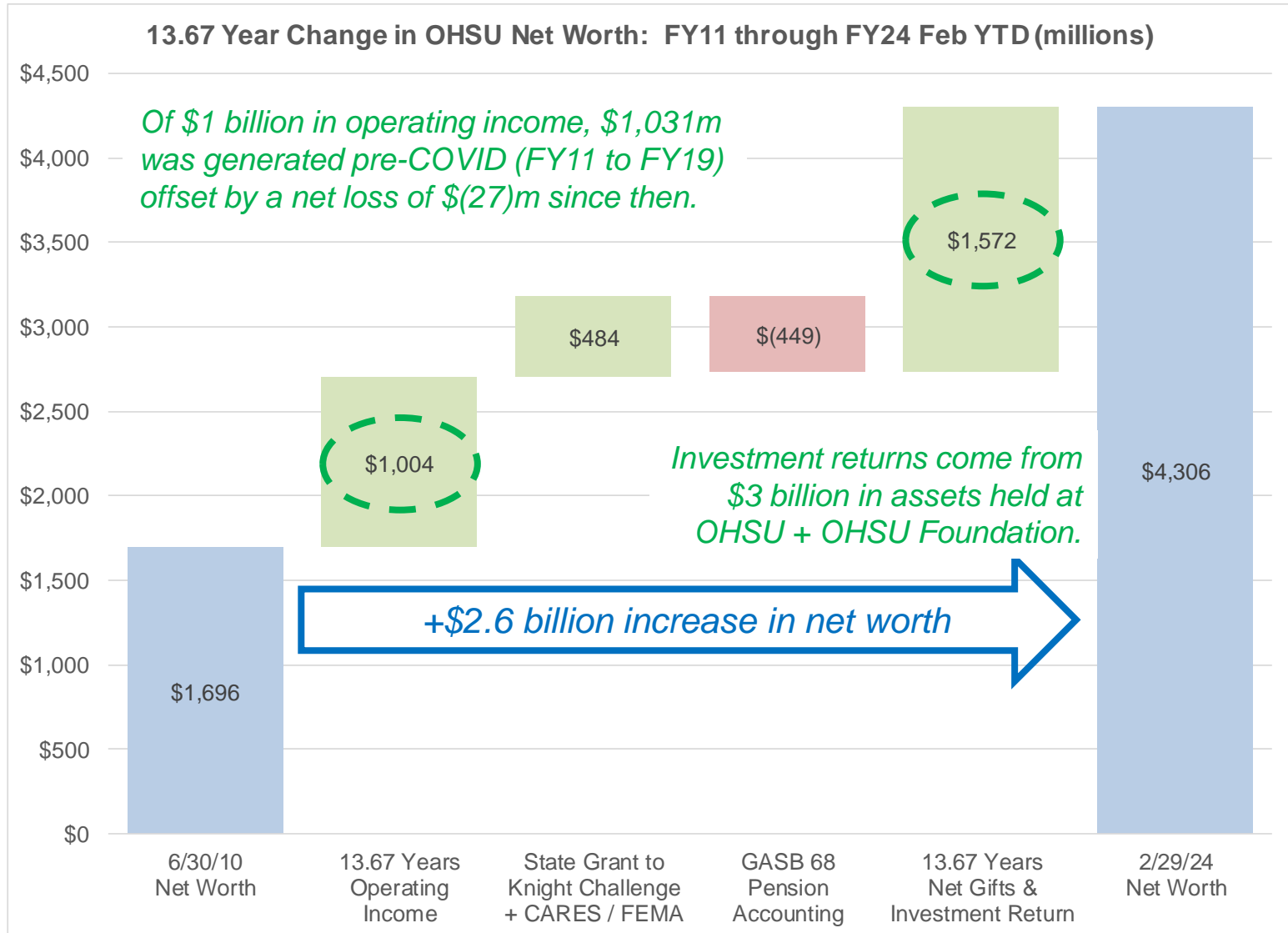


Data source: Bureau of Labor Statistics

Margin to Invest in People, Programs & Places



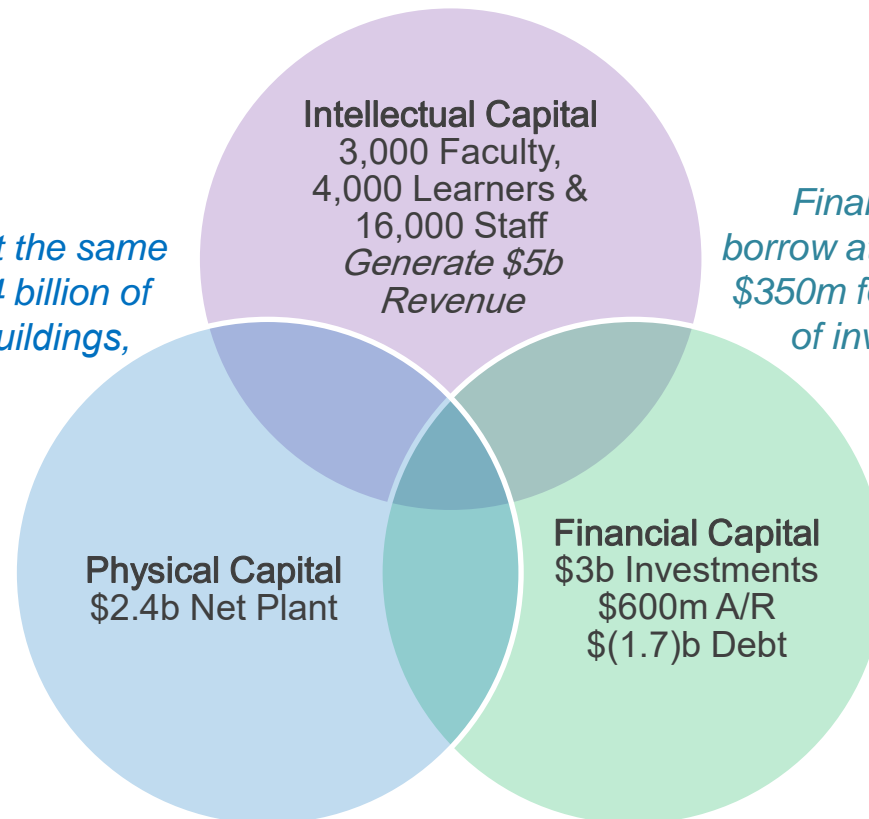
Growth Requires Capital: 7% Net Worth CAGR



\$4.3 Billion of Net Worth on the Balance Sheet

- Physical & financial assets on the balance sheet exists to support the work of the University's faculty, learners and staff across education, research and patient care.
- Pre-COVID growth in net worth was 9% per year compared to 8% revenue growth—capitalizing significant investments in people, programs, places & things.
- Since COVID growth in net worth has slowed to 4%, mostly from investment returns.

Note that net worth is not the same as spendable cash: \$2.4 billion of OHSU's net worth is in buildings, equipment & technology.



Financial capital allows OHSU to borrow at reasonable rates, including \$350m for IPA in 2021 at 2.4%. Half of investments are endowment & gifts at the Foundation.

All 3 Missions Undergird OHSU's Access to Debt

New York, January 23, 2024 --Moody's Investors Service has affirmed Oregon Health & Science University's (OHSU) Aa3 revenue bond rating. The outlook is stable. OHSU has a total of \$1.2 billion of debt outstanding.

RATINGS RATIONALE

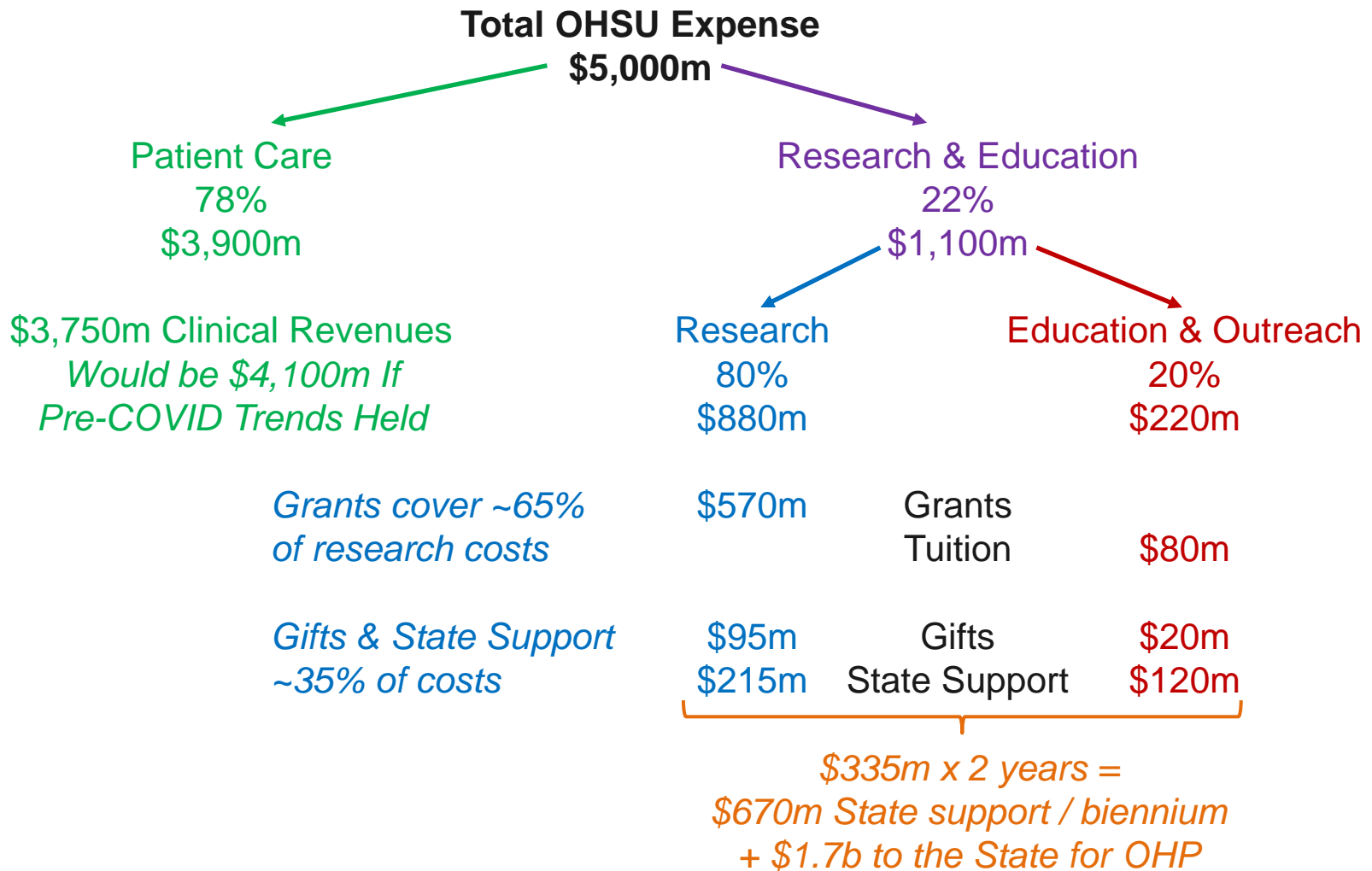
OHSU's Aa3 is undergirded by its top class academic, research and clinical capabilities. These will drive continued strong demand for its educational and clinical services, with healthcare admissions drawn from across the state and from neighboring states, and with medical school acceptance rates at 4%. OHSU will maintain its essential role as the only academic medical center in the state. It has the state's sole medical school and serves as the exclusive provider of certain high quaternary procedures. As a public university and a political subdivision of the state, OHSU will also continue to garner significant state support, including ongoing state appropriations, favorable intergovernmental transfers (IGT), and periodic capital infusions. In addition, superior philanthropy will continue to provide resources for strategic capital and programmatic investments.

(Emphasis added.)

Financing Biomedical & Health Research

- Research is a long term and inherently speculative endeavor.
- It is funded from a mixture of sources.
- For biomedical sciences in the US, this mixture of sources can include:
 - Federal and private grants
 - State support
 - Philanthropy
 - Clinical earnings (when positive)
 - Undergraduate tuition (at general universities).
- At OHSU today, \$570m of grant revenues (\$445m direct + \$125m indirect) fund about 65% of the approximately \$880m total cost of science.
- The remaining 35% is funded from gifts and State support, which have supplemented and then—since the pandemic—replaced clinical earnings.
- *The FY25 budget strategically directs \$25m of incremental State support (IGT funds) to behavioral health priorities.*

Big Picture View of OHSU's \$5B Budget



QDP-IGT Leverages 71% Federal Match for \$2.2B+

- The QDP – IGT partnership between OHSU and the State will bring over \$2.2 billion of federal Medicaid funds to Oregon in FY24 and FY25 (the 2023 – 2025 biennium).
- 77% of this total will go to the State to fund the Oregon Health Plan while 23% helps fund OHSU’s unique missions as Oregon’s public health sciences university.
- *State statute governing OHSU’s reimbursement level must be renewed by Fall 2025.*

2023 - 2025 Biennium Two Years (millions)	QDP Medicaid Funds	IGT Non-Federal Funds	Oregon Health Plan Medicaid Funds	Total All Columns
Federal Funds (70.7% FMAP)	\$(1,036)		\$(1,219)	\$(2,255)
State Funds (29.3% Oregon share)	(430)	935	(505)	0
OHSU Funds	1,465	(935)		530
Oregon Health Plan Budget			\$1,725	
<i>Oregon Managed Medicaid (CCOs):</i>				
<i>OHSU care at CCO rates</i>	\$770			
<i>OHSU care at Commercial rates</i>	2,235			
<i>QDP / Q&A payment to OHSU</i>	\$1,465			

Gap in Research & Education Growth Rates

Research & education costs	\$1,100m	+5.5%	\$1,160m
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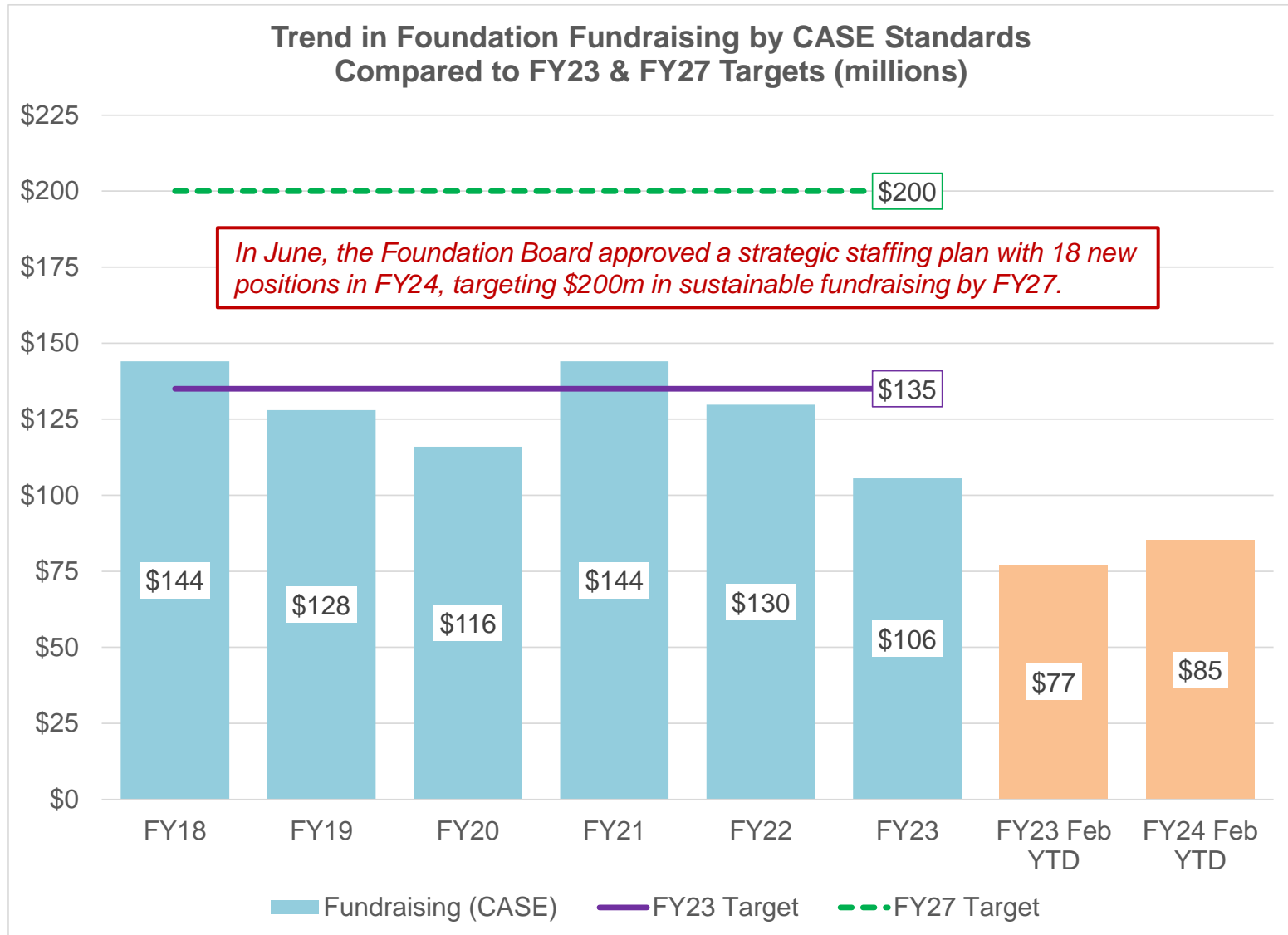
Multi-year target for revenues:

Grant funding (with more grants)	570m	+4%	593m
Tuition & fees (with Tuition Promise)	80m	+2%	82m
State support	335m	+3%	345m
Gifts (growing with revenues)	115m	+8%	124m

Total funding	1,100m	+3.6%	1,144m
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Remaining funding gap	\$0m		\$(16)m
<i>Percent gap each year</i>			<i>-1.4%</i>

Foundation Targets \$200M Gift Level by FY27



Strategic Objectives in FY25 Budget & Beyond

- Our multi-year financial strategy assumes that OHSU advances into the position of The Tertiary/Quaternary Destination for a geography spanning north to Seattle, south to Sacramento and San Francisco, east to Salt Lake City, and west to Honolulu.
- Within this position, we have a National-Class Cancer Center drawing patients from an even wider geography.
- \$650m Inpatient Addition (IPA) project opens in Spring 2026, adding 128 beds focused on these programs. The Doernbecher/Perinatal Addition is under detailed design.
- From this position, we secure inflation-appropriate payment rates that fully recognize the value of our members and cover the costs of our services, together with a stable balance of commercial and government payers so that the growth rate in payment rates covers the growth rate in costs.
- This strategy includes firmly designating bed and OR capacity to meet the demand from patients (including those waiting at other hospitals) who need advanced cancer, neuro, cardiovascular and complex surgical services that leverage multi-disciplinary teams and technological assets of an AHC—OHSU’s unique role in Oregon.
- It also requires optimal placement and management of patients who are stable for transfer to OHSU programs at partner sites such as Hillsboro Medical Center and Adventist Health Portland—caring for each patient promptly with the right care at the right place and at the right cost structure.

Trend in OHSU Adult Admissions by Source

- Since the pandemic, as adult admissions from the Emergency Department have risen by +28%, regular or scheduled admissions (such as inpatient surgeries at the start of cancer treatment) have declined by -18% overall, while total transfers from other hospitals to OHSU have fallen by one-third.
- These trends have hampered our ability to fulfil our unique state-wide role as Oregon's only major academic health center.

Adult Admissions	FY19	FY20	FY21	FY22	FY23	FY23/FY19
Regular admissions	11,313	10,156	9,212	8,926	9,268	-18%
Direct transfers	3,935	3,519	3,091	2,524	2,105	-47%
Transfers through ED	970	1,140	1,318	1,091	1,179	22%
Total transfers	4,905	4,659	4,409	3,615	3,284	-33%
ED admissions	6,480	6,261	6,254	7,652	8,283	28%
SNF admissions	80	231	117	97	63	-21%
Total adult admissions	22,778	21,307	19,992	20,290	20,898	-8%
ED admissions / total	28%	29%	31%	38%	40%	

Change in Relative Share of Surgical Volume

Compared to FY19 pre-COVID activity, total CMI & outpatient adjusted admissions at OHSU are up 17%, while inpatient surgical cases are down -15%.

OHSU Hospital Volume Metrics	FY19 Actual	FY24 Annualized *	Percent Change
Inpatient surgical cases	13,553	11,556	-15%
Outpatient surgical cases	<u>23,527</u>	<u>25,089</u>	<u>+7%</u>
Total surgical cases	37,080	36,645	-1%
Emergency visits	47,856	54,869	+15%
Average daily census	475.8	489.0	+3%
CMI/OP adj. admissions	137,995	161,211	+17%
<i>IP surgical cases % adj. adm.</i>	9.8%	7.2%	

*FY24 February YTD x 12/8

Strategic Objectives in Budget (continued)

- We will continue to invest in competitive pay for critical frontline staff.
- We will also rigorously reduce costs—especially where growth in payment rates does not cover the growth in unit cost inflation—using these principles to treat all expenditures as strategic investments and retain only what is essential:
 1. Prioritize and fully fund key capabilities that drive success.
 2. Allocate minimum necessary resources to meet industry standards.
 3. Fund basic operational costs to maintain functionality.
 4. Cut non-essential spending.
- Research & education will be scaled to available funding from grants, tuition, gifts & State support (which together grow ~2-4% / year) until sufficient clinical earnings are generated near the end of the 2020s → *highlighting the importance of philanthropy and investment returns.*

Key Assumptions for FY25 Budget Targets

- FY24 H1 actual base for HC+SoM (includes \$41m of H1 IFP savings)
- FY24 budget base for All Other University areas
- 6.5% clinical volume growth in Healthcare (compares to 4.3% 10-year average, doubling down on specialty/subspecialty strategy)
- 4.45% weighted average clinical rate increase (compares to 2.8% 10-year average)
- 4.0% grants growth
- 2.0% tuition growth with continuation of OHSU Tuition Promise
- 60% clinical mission FTEs variable with volume growth ($60\% \times 6.5\% = 3.9\%$ increase)
- No other net increase in FTEs that are not grant funded
- 5.8% weighted average wage & benefit growth per FTE
- 100% of Rx & medical supplies variable with 6.5% volume growth + 7.5% cost inflation
- \$295m total FY25 QDP/IGT funds (\$530m biennium - \$235m to be booked in FY24)
- \$25m new strategic investment for Behavioral Health

Major Lifts & Risks in FY25 Budget Targets

- Securing \$166m in IFP savings in Healthcare + School of Medicine (equal to FY24 January - June IFP target annualized)
- Plus \$34m of additional savings in HC + SoM for \$200m in total improvement
- \$103m net gain from 6.5% clinical activity growth + 4.45% average rate increase in excess of 60% variable cost of care + wage & cost inflation
- \$13.6m in savings across the Provost, Chief Research Officer & Central areas compared to spending levels in the FY24 Board-approved budget
- \$48m additional investment in nursing with full-year implementation of Oregon's new hospital staffing law
- Zero "OHSU Incentive Plan" allowance in FY25 break-even budget—we would begin to increase compensation only with dollars above 1% operating / 6% EBITDA margin
- *These assumptions result in break-even budget for FY25 with \$42m in general contingency, up \$30m from FY24 budgeted amount, to mitigate against risks*
- *For sense of scale, this \$30m increase would cover a 0.5%-point reduction in payment rate growth (3.95% on average rather than 4.45%, compared to 2.8% historically).*

Budget to Budget Changes in Revenue & Expense

Compared to the FY24 budget approved by the Board last June, the FY25 preliminary plan has \$509m more revenues, 71% from patient care, and \$509m more expense, 41% invested in salaries & benefits for our members and 27% in pharmacy & medical supplies for our patients.

FY25 Plan vs FY24 Budget (millions)	FY24 Budget	FY25 Preliminary	\$ Change Bdg to Prel
Net patient revenue	\$3,417	\$3,770	\$353
Medical contracts	184	191	7
Grants & contracts	557	591	34
Gifts applied	113	111	(2)
Tuition & fees	83	85	2
Sales, services & other	259	291	32
State support	283	365	83
Operating revenues	4,896	5,404	509
Salaries & benefits	3,013	3,293	280
Rx & medical supplies	949	1,084	135
Other services & supplies	676	759	83
Depreciation	217	227	10
Interest	42	42	(0)
Operating expenses	4,896	5,404	509
Operating income (loss)	\$0	\$0	\$0
<i>Operating margin</i>	<i>0.0%</i>	<i>0.0%</i>	
<i>EBITDA margin</i>	<i>5.3%</i>	<i>5.0%</i>	

Calculation of FY25 HC + SoM Budget Target

Healthcare + School of Medicine FY24 H1 direct margin (6 months)	\$157 million
Prior year 340b recovery (one-time)	(44)
Healthcare share of one-time costs	+4
H1 IFP savings (\$20m budgeted + \$21m incremental)	(41)
6-month direct margin run-rate prior to any IFP savings	\$76
	<u>x 2</u>
Annualized direct margin run-rate <u>prior to IFP savings</u>	\$152
Impact of higher volume + payment rates net of variable clinical FTEs, supplies & services + wage & unit cost inflation	+103
Full-year investment in RN staffing (2 x \$22m + 8.5%)	<u>(48)</u>
Budget base prior to IFP savings with volume + cost growth	\$207
FY25 IFP savings from FY24 H2 run-rate [2 x (\$124m - \$41m)]	+166
New FY25 savings target	+34
Incremental FY25 IGT funding to SoM research & education	<u>+11</u>
Healthcare + School of Medicine direct margin target for FY25	\$418 million
<i>Compares to FY24 approved budget direct margin of \$412m</i>	

Preliminary FY25 Capital Budget Projects

- The annual capital budget for FY25 is set at \$150m, equal to this year's allocation to reflect the same zero-margin budget, with an even balance between infrastructure and strategic priorities and priority to patient-critical needs.
- We also plan to spend \$27m to complete design of Doernbecher / Perinatal expansion and \$269m for next year's work on the Inpatient Addition opening in 2 years.

FY25 Proposed Capital Budget Allocations (000)	OHSU Health	Other University	Total OHSU		OHSU Health	Other University	Total OHSU
Infrastructure				New Strategic Priorities			
Infrastructure / replacement	\$34,215	\$20,223	\$54,438	Safety standards upgrade 4C - Design/Build	\$150	-	\$150
Library materials / Academic areas	815	6,500	7,315	DCH Clean Steam System - Design/Build	200	-	200
Space Committee (relocation & repurposing)	-	2,950	2,950	Visage Medical Imaging Replacement	319	-	319
Research equipment replacement	-	2,150	2,150	Epic Cupid Cardiovascular Module	490	-	490
Flexible Workspace	-	1,850	1,850	Epic Home Infusion	979	-	979
School of Medicine replacement	-	1,690	1,690	Alaris Pump Replacement	6,398	-	6,398
Knight Cancer Institute - capital gift match	-	750	750	OR Lights, Booms and Integration Replacement	7,043	-	7,043
Public Safety and Administration	-	1,500	1,500	Parking Garage C	-	2,200	2,200
Institutional Contingency / Infrastructure	-	6,008	6,008	Kronos to UKG Dimensions Upgrade	-	1,978	1,978
<i>Subtotal Infrastructure / Replacement</i>	<i>35,030</i>	<i>43,621</i>	<i>78,651</i>	<i>Subtotal New Strategic Priorities</i>	<i>15,580</i>	<i>4,178</i>	<i>19,758</i>
Strategic pre-committed				Total FY25 Capital Base Allocation			150,000
Robertson Life Science Building P2 Remodel	-	3,420	3,420	OHEP Inpatient Addition (IPA)			268,965
PGE Feeder Connection	-	2,200	2,200	Doernbecher / Perinatal Addition Design			26,720
Security Cameras for Parking Structures	-	1,000	1,000	Total FY25 Capital Budget Allocation			\$445,685
OHSU 2025 Initiatives	-	527	527				
Research equipment from grants	-	5,000	5,000				
Robertson Life Science Building 7th Floor Build-out	-	7,169	7,169				
Marquam Hill Nonconforming Site Improvements	-	4,000	4,000				
West Campus Animal Housing (Corral 9)	-	3,154	3,154				
Partnership Project (Lease Consolidation)	-	1,000	1,000				
West Campus Drain Piping Replacement	-	500	500				
CHO - OHSU Knight - Legacy Collaborative	3,724	-	3,724				
CHO Mt. Hood Infusion Clinic Expansion	3,871	-	3,871				
GI Lab Future Inpatient Relocation (Hatfield Research Ctr 11)	13,527	-	13,527				
Emergency Department Expansion - Programing only	2,500	-	2,500				
<i>Subtotal Strategic pre-committed</i>	<i>23,621</i>	<i>27,970</i>	<i>51,591</i>				

Update on OHEP: Inpatient Addition (IPA)

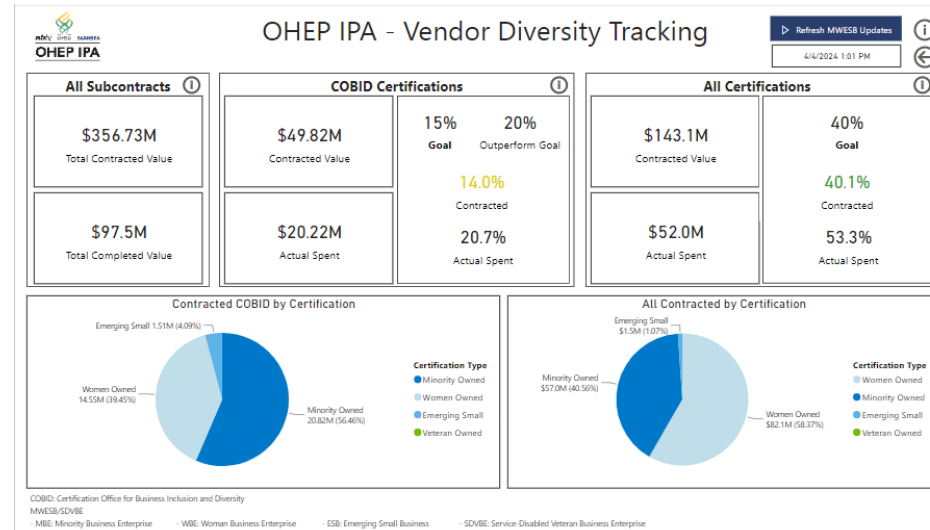
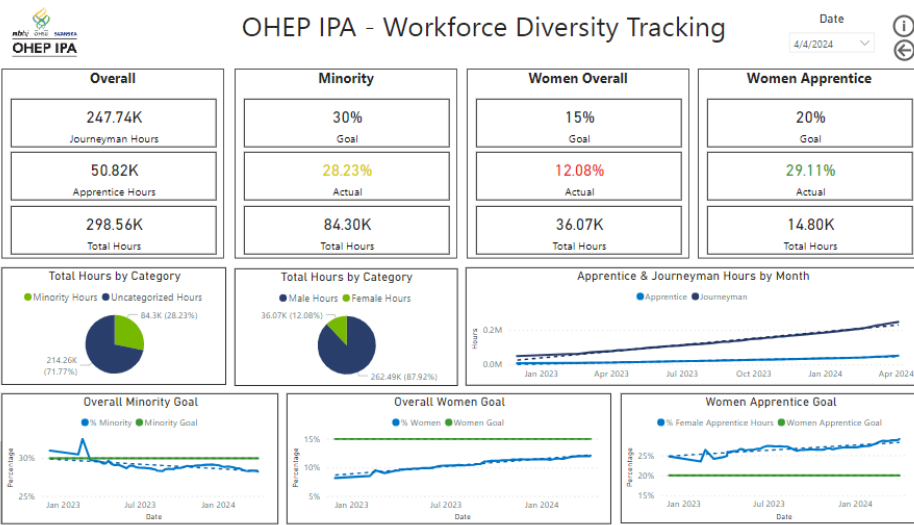
- Opening in Spring 2024 the IPA will include four inpatient units with 128 beds to support oncology and complex surgery; patient parking with 125 stalls; and 4 shelled floors to accommodate future inpatient bed and ancillary services expansion.
- Upcoming construction milestones (design & concrete structure complete):

Interior Construction Starts (Patient floors)	Apr-24
Structural Top out	Jul-24
Bridge Construction	Jul-24 - Mar-25
Exterior Skin Complete	Feb-25
First Elevators Operational	Feb-25
Building Dry-in	May-25
Substantial Completion	Dec-25
Tentative Go-Live	Apr-26



Update on OHEP / IPA (continued)

- The most recent February 2024 cost estimate is \$656.5m against a budget of \$650M, with \$28M remaining in owner's contingency.
- Go-Live Planning is underway across all four workstreams: Operations (Joe Ness); Human Resources (Qiana Williams); Clinical Workflows / Care Models (Renee Edwards & Patrick McCormick); and Faculty Recruitment (Atif Zaman & Elaine King).
- Efforts to center diversity, equity, and inclusion in the IPA construction continue and the outlook is positive. We are tracking project vendor and site workforce diversity and have plans to hit those goals.



Achieving the New Post-Pandemic Equilibrium

- Our financial strategy has been to continuously grow patient activity to meet the needs of Oregon and the Pacific Northwest while spreading fixed costs across a wider base.
- We focus on highly specialized programs that leverage research and draw patients with complex diseases who need AHC-level care from throughout Oregon and beyond.
- Growth requires earnings, investment income & gifts to invest in people, programs, places and things.
- To balance the step-function increase in wages & other costs, we will:
 - Care for each patient promptly in the right setting and cost structure
 - Secure inflation-appropriate payment rates
 - Recruit faculty and staff to build programs that sustain excellence and growth
 - Implement rigorous cost savings while increasing capacity and access
 - Hold fixed costs fixed with growth to capture economies of scale
 - Expand revenue sources such as philanthropy and pharmacy services
 - Serve the health & well-being priorities of the State of Oregon (e.g., behavioral health and workforce development) to sustain OHSU's public funding.
- Doing so will protect and enhance OHSU's unique role as Oregon's health sciences university and only academic health center with statutory state-wide missions in education, research, patient care and outreach.