



## OREGON HEALTH & SCIENCE UNIVERSITY BOARD OF DIRECTORS MEETING

**September 24, 2015  
2:00 pm – 4:00 pm  
CLSB, Room 3A001**

|           |                                                                                                  |                                                   |
|-----------|--------------------------------------------------------------------------------------------------|---------------------------------------------------|
| 2:00 p.m. | Call to Order/Chairman's Comments<br>President's Comments<br>Approval of Minutes <b>(Action)</b> | Jay Waldron<br>Joe Robertson, M.D.<br>Jay Waldron |
| 2:15 p.m. | Unaudited Preliminary FY15 Financial Results                                                     | Lawrence Furnstahl                                |
| 2:35 p.m. | Integrity Report                                                                                 | Jen Ruocco                                        |
| 2:55 p.m. | Legislative Report                                                                               | Abby Tibbs                                        |
| 3:15 p.m. | Public Safety Update                                                                             | Greg Moawad                                       |
| 3:35 p.m. | Adopt Changes to Governance Documents <b>(Action)</b>                                            | Connie Seeley                                     |
| 3:55 p.m. | Other business; adjournment                                                                      | Jay Waldron                                       |

**Oregon Health & Science University  
Board of Directors Meeting  
June 25, 2015**

Following due notice to the public, the regular meeting of the Board of Directors of Oregon Health & Science University (OHSU) was held at 1:30 p.m. in the School of Nursing, Room 358/364, located at 3455 SW Veterans Hospital Road, Portland, Oregon.

A transcript of the audio recording was made of these proceedings. The recording and transcript are both available by contacting the OHSU Board Secretary at 3181 SW Sam Jackson Park Road, Mail Code L101, Portland, Oregon 97239. The following written minutes constitute a summary of the proceedings.

**Attendance**

A quorum of the Board was present. Board members in attendance were Jay Waldron, Chair, presiding; Ken Allen; Frank Toda; Suzy Funkhouser; Joe Robertson; Prashant Dubey; David Yaden; Mardilyn Saathoff; and Amy Tykeson. Also present were Lawrence Furnstahl, Chief Financial Officer; Connie Seeley, Board Secretary and OHSU Chief of Staff; other OHSU staff members and members of the public.

**Call to Order**

Jay Waldron called the meeting to order at 1:35 p.m. Mr. Waldron briefly outlined the meeting agenda and asked Joe Robertson to begin the meeting with the president's comments.

**President's Comments**

Dr. Robertson's comments covered the following topics:

- *Growth at OHSU*  
OHSU has grown in every one of its missions this past year. Student enrollment continues to increase, we have double digit increases in funding over last year, and OHSU has signed a letter of intent with Salem Health with the intent of forming an integrated health system across the northern part of the Willamette Valley.
- *Knight Cancer Challenge*  
Today is the day that we publically announced that we have met the Knight Cancer Challenge, that OHSU has raised \$500 million to match the \$500 million pledge made by Phil and Penny Knight. A billion dollars to fight cancer. I want to thank all the members of our community.

**Approval of Minutes**

Mr. Waldron asked for the approval of the minutes of the April 23, 2015 Board meeting, included in the Board Docket. Upon motion duly made by Dr. Toda and seconded by Mr. Allen, the minutes were unanimously approved.

**FY15 YTD Results and Proposed FY16 Budget with Academic Tuition and Fee Book**

*Resolution 2015-06-05: Operating Budget, Capital Budget and Academic Year Fee Book*

Mr. Furnstahl presented the FY16 operating capital budget. He said that every university finds a way of taking the strength of their faculty and generating the funds necessary to support the creation and dissemination of knowledge. Since OHSU is a graduate-focused university it must rely mostly on a mix of securing major gifts, and through generating clinical revenues. There are two opportunities for revenue: The Affordable Care Act and the Knight Cancer Challenge.

Mr. Furnstahl pointed out a couple of notable things on the Income Statement for FY15: Net Patient Revenue growing 10% year-over-year with the impact of the Affordable Care Act; Gift Supply to Operations is largely the first two Knight gifts for the Knight Cancer Institute and the Knight Cardiovascular Institute being deployed and overall 8% year-over-year operating income and driving 13% year-over-year growth on the bottom line.

Describing major components of the FY16 budget: 7% revenue growth to \$2.6 billion lead by a 3% increase in patient activity and the first year of spending for the Knight Cancer Challenge. We are targeting \$120 million of operating income for about a 4.5% operating margin. We are continuing the OHSU Tuition Promise Program into its third year. We are also working very hard to hold unit costs.

Mr. Furnstahl spoke about the goals built into the budget, including one set by the clinical enterprise of 10% per case cost reduction.

**Mr. Dubey** asked that since year to date we are significantly over in our operating margin and our EBITDA \$30 million or so, presumably at the beginning of the budget cycle everybody lines up and says, this is what I want to do for the year. They say this is what it will cost, and some committee says yes or no. Now that there is new funding, is there sort of a recast of the budget or a new ask, or is there some formal process for that though out the year? Mr. Furnstahl replied that, looking at p. 23 of the board docket, you can see in the first column we are currently assuming to run end of year about \$26 million over budget. Everyone has to hit their budget and people who are over we are telling them hold to that. And then we went through a process to say that of that \$26 million, we are going to take 13 and have that be incremental investments. And then we went through a process across the university coming up to, specifically, the provost and myself and the School of Medicine and finally the president for identifying priorities.

**Ms. Tykeson** asked, regarding the Knight Cancer funding and allocations and budgets, is that somehow separated out differently? Mr. Furnstahl replied that, yes, if you look at the income statement, that is a good place to show it, you notice that gifts supplied to operations are budgeted to increase by 47% next year. That is the first year of spending on the Knight Challenge Early Detection Initiatives, and then that is matched dollar for dollar with the new expenses on the expense side.

Mr. Furnstahl continued his presentation by highlighting a few budget lines, and specifying that we wanted to make sure that we continued on the strategic trends of cost control while we had revenue in order to generate the most robust pool of investments to continue to position the university nationally and globally.

Overhead in general administration, while forecast to be down next year, if it goes up at all, will be due to our continued investments in information technology.

Some expectations for next year: Within the clinical enterprise, we expect directly managed expenses to grow by about 3%.

Within the faculty practice we expect the cost for producing one unit of work to decline from this year to next. We are holding costs down in the hospital, faculty practice and in central administrative and support services, on a unit basis, which drives the operating income up.

**Mr. Prashant** asked if we have a policy whereby every dollar above 3% above our budget is 50/50 incremental? Mr. Furnstahl replied that this is a policy that we are starting. In the past this has been an implicit practice that we are now making a more transparent and explicit practice. The 3% margin is what we need to fund our robust capital budget and so we set that as that margin.

Mr. Furnstahl made a point about unit costs. Our target is to reduce them by 10%. We will do that over the course of 4-5 years, and this budget is the first chunk of that movement.

**Ms. Saathoff** asked if some significant savings were centered into the general administration to get a decrease. Mr. Furnstahl replied, yes there was.

**Ms. Saathoff** asked where does Mr. Furnstahl think he can get those kinds of cost savings over the next five years? Mr. Furnstahl replied that he thinks there are two sources. One, against a backdrop of continued growth in services and supplies, we continue to focus on supply chain, not only buying things cheaper, but utilizing things more effectively. The second is we have a good track record of growth at OHSU, and through our partnership strategy hope to extend that to the extent we can grow without incrementally dollar for dollar adding overhead costs, we lower the unit costs.

Mr. Furnstahl spoke briefly about the capital budget. Part of the \$223 million to be spent on capital expenditures will be shared between the clinical enterprise and the academic enterprise. Fifty-five percent of that amount (just under \$191 million) is replacement in infrastructure, so we are making sure that before we invest in anything new, we are maintaining the existing capital base of the university.

**Mr. Waldron** said he had a question from page 47. How is that going to affect our cash on hand? Mr. Furnstahl replied that it will effect cash on hand significantly. What you see there is the very top line, which is operating cash investments held at OHSU. That does not include the money which comes from gifts held at the foundation, up \$150+ million. Of all of our metrics, we have done a strong job reducing our debt against our net worth and our interest expenses a percentage of our revenue. The one we have improved, but not improved as much is our liquidity, how much cash we are holding,

although it certainly seems that \$764 million seems like a lot of money, but you also have to remember it is against a \$2.5 billion university. So, that significant increase, 20% plus increase represents a significant strengthening of our liquidity over this year.

Mr. Furnstahl then introduced the Provost, Dr. Jenny Mladenovic, to discuss tuition.

Dr. Mladenovic summarized the fee book and tuition schedules the board members had before them. She reminded the attendees that we have implemented the tuition promise, which means those students who are part of clinical programs have no change in their tuition from their entry date. So the tuition increase or change for this year is limited to those entering students and ranges from 0-4%.

**Mr. Yaden** commented about what a notable achievement it is and what it means for students to be able to hold tuition flat.

**Mr. Waldron** called for action on the operating and capital budgets, academic tuition and fee book resolution. Mr. Allen moved to approve the tuition and fee book. Dr. Toda seconded the motion. The measure passed.

### **State Compact**

#### *Resolution 2015-06-06: Achievement Compact with Oregon Education Investment Board*

Dr. David Robinson was introduced. He was seeking authorization or approval of our achievement compact with the Oregon Education Investment Board (OEIB). This board, established in 2011, was created to provide metrics or some oversight of the education continuum in the State of Oregon, to help insure that we meet our goals for education. As a member of the OEIB, OHSU is required to enter into an achievement compact with the OEIB before each fiscal year begins, to keep us compliant with state legislative requirements. Dr. Robinson then went on to show that OHSU has achieved each of the five metrics that were submitted in the compact.

**Ms. Tykeson** asked if this is the last year OHSU will be following this information.

Dr. Robinson answered that even though the OEIB is sun-setting, and some of the functions will be transferring to the Chief Education Officer's office, this function is not one of those that is transferring. It is uncertain what will happen to this data. Dr. Robinson stated he does not believe there is any intention to continue these achievement compacts after this year.

**Ms. Funkhouser** asked if we still do the 23 KPMs for the Ways and Means. Dr. Robinson explained that we also, as part of our general fund appropriation mechanism, we have 23 key performance measures that are monitored initially by Ways and Means and by the legislature. The first three of these are actually overlapping those KPMs, so we do meet those and we traditionally meet all of those KPMs.

**Ms. Saathoff** asked if the purpose of these compacts was to identify some targets to achieve, to do better in some of these areas, or was it to just gather data to inform us of how we are doing?

Dr. Robinson replied that he believes one of the major functions was to actually gather data in order to inform the legislative process in the allocation of appropriations about how those appropriations were given. And to do it across the continuum so there is some lining up of the achievement compacts, K-12, community colleges, all the way to higher ed.

**Ms. Saathoff** asked if we met the target? Dr. Robinson replied, yes. We work on these very hard.

Hearing no further questions or comments on the State Compact report, Mr. Waldron called for a motion on Resolution 2015-06-06, which approves the entry into the Achievement Compact with the Oregon Education Investment Board. Upon motion duly made by Mr. Yaden, and seconded by Ms. Saathoff, the resolution was unanimously approved.

#### **Proposed Taxable Debt Issue**

*Resolution 2015-06-07*

Mr. Furnstahl approached the board seeking approval for the next phase of the plan of refinance for OHSU. This phase is for \$100 million in 30 year bonds. This is to enhance the liquidity of OHSU and to fund partnerships and population health and science with corporations that are not appropriate for tax exempt. Mr. Furnstahl stressed that this phase is part of OHSU's long-term financial plan. He went on to describe OHSU's strong position as well as the opportune financial climate.

**Mr. Waldron** expressed gratitude of the entire board for the work Mr. Furnstahl and everyone at OHSU has done to raise OHSU's bond rating. He went on to say that often people do not understand what a difference that makes in terms of interest, the potential to reduce interest rates, and save many, many millions of dollars.

Hearing no further questions or comments on the proposed taxable debt issue, Mr. Waldron called for a motion on Resolution 2015-06-07, which allows OHSU to issue bonds. Upon motion duly made by Mr. Tykeson, and seconded by Mr. Yaden, the resolution was unanimously approved.

#### **Good Morning America interview on Knight Challenge**

The board then viewed a video from that morning's Good Morning America interview of Phil Knight and Dr. Brian Druker, by Robin Roberts, on the successful completion of the Knight Challenge.

#### **Quality Report**

*Chuck Kilo, M.D.*

Dr. Kilo spoke to the board about OPEX, the OHSU Performance Excellence System. This is about Lean, and other improvement methods that are bundled together. OHSU is at almost the 3 year mark with this, and it is going very well. Dr. Kilo explained that some priorities that they are working on are multi-year efforts. With some areas of improvement they are on target, or ahead, and some they are not. Dr. Kilo also shared his list of priorities for FY16. He also explained in some detail that OHSU's mortality rates are not where we would want them to be, compared to other academic medical centers in the UHC.

**Mr. Waldron** asked Dr. Kilo if he could explain "Palliative Care/Caring Wisely" from his slide. Dr. Kilo explained there is a strong sense that at OHSU, providers are getting more aggressive than in the past, and people are getting care and dying while they are under care at OHSU, as opposed to getting palliative care, or hospice care, and passing away at home. He said that aggressive end-of-life care needs to be analyzed and refresh our efforts toward a respectable end-of-life care.

**Ms. Saathoff** said that she heard Dr. Kilo mention that OHSU looks to be ahead of our peers in terms of our Lean approach, and trying to improve our metrics. So if generally we are ahead of our peers, even though not in all areas, to what do you attribute that? Dr. Kilo responded that they have had fantastic executive support. The other is our culture. I think we have a culture that is primed for this. And, we have taken the implementation of Lean very seriously. Some places that are using Lean use it as an example, meaning they are using the tools. But they are not using the management systems, which are a lot harder than the tools. Culture is the biggest piece. We address it holistically, and I attribute our success to these things.

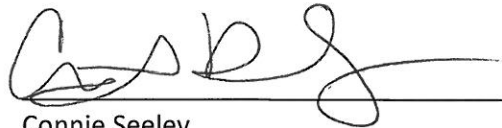
**Dr. Robertson** added that that culture runs deep, and has over a period of years, and that was one of the reasons that this building was built in the way that it was built, to advance inter-professional education. Because engendering collaboration and trust in our culture needs to start at the beginnings of training, because you cannot train people in silos then tell them to go out and work together. It is to create culture that Dr. Kilo has mentioned is one of the reasons we are so committed to inter-professional education.

**Mr. Yaden** asked if in being more aggressive with patient treatments, is that driven by patients' and families expectations, or physicians feeling that more can be done? Dr. Kilo replied that that is a good question, and they do not know the answer to that. It is even difficult to know if we are in fact being more aggressive. Most of the rest of the country is more aggressive than we are historically. We look at our use of POLST, the Physicians' Orders for Life-Sustaining Treatment, and we have not seen our use of POLST be where it has historically been. These are the things that we are hypothesizing about, and we have room to move on. Dr. Kilo noted that there have been great improvements in patient experience, moving very close to the top 10%.

#### **Adjournment**

Hearing no further business, Mr. Waldron adjourned the meeting at 2:48 p.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Connie Seeley', written over a horizontal line.

Connie Seeley

Board Secretary





# **Unaudited FY15 Financial Results & GASB 68 Pension Accounting for PERS**

**OHSU Board of Directors  
September 24, 2015**



# FY15 Financial Results

- Unaudited OHSU operating income for FY15 is \$110 million, \$40 million above budget and \$15 million or 16% more than last year—prior to a required change in accounting for PERS pension expense, moving from a cash to accrual basis.
- FY15 results include \$22 million from OHSU's share of the first year of the Hospital Transformation Performance Program (HTPP), a new value-based payment within Oregon's Medicaid coordinated care transformation, which is funded by a hospital provider tax.
- In addition, overall patient activity is 3% above budget, accounting for essentially all of the remaining variance.
- Going forward, there is opportunity to improve income further to secure dollars for strategic investment, by better controlling year-over-year growth in services & supplies, and bringing certain units, such as Pediatrics, back on target. FY16 budget (approved in June) adopts this approach by holding most spending flat.
- KPMG will present their audit report on the FY15 financial statements in October.

# Components of \$40M Gain from Budget

- June YTD variance from operating income budget by major area (millions):

|                                                |               |
|------------------------------------------------|---------------|
| Hospital Transformation Performance Program    | \$22.4        |
| Other Hospital operations (3% volume)          | 22.7          |
| Prior-year hemophilia A/R write-off            | (2.0)         |
| Operating expense for computer system licenses | (1.5)         |
| Other university unrestricted                  | 0.5           |
| Restricted grants & gifts                      | (1.8)         |
| Total OHSU variance from budget (pre-GASB 68)  | <u>\$40.3</u> |

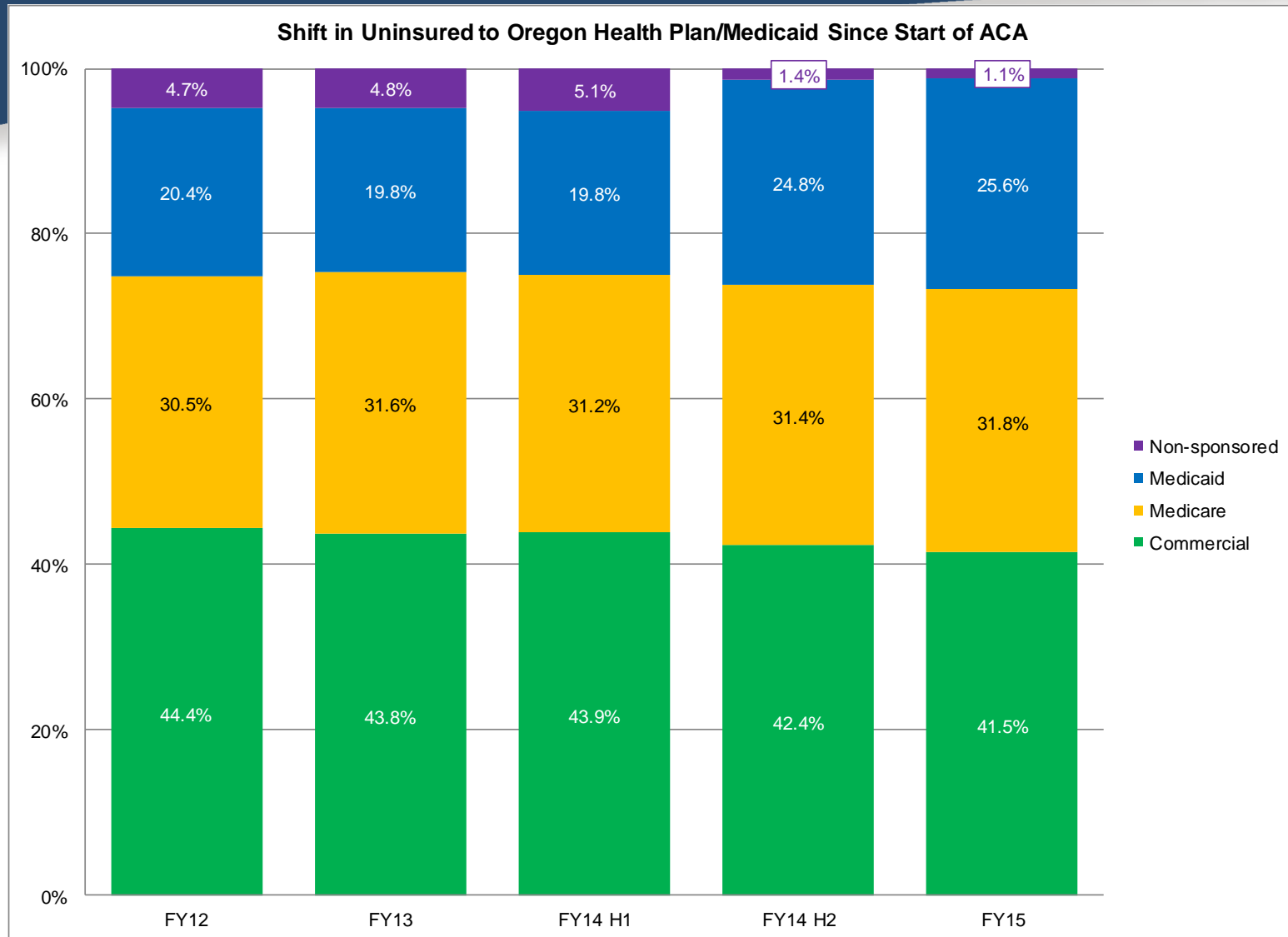
# FY15 Earnings \$40M Over Budget (Pre-PERS)

| June YTD (12 Months)<br>(millions) | FY14<br>Actual | FY15<br>Budget | FY15<br>Prelim | Prelim -<br>Budget | Prelim /<br>Last Year |
|------------------------------------|----------------|----------------|----------------|--------------------|-----------------------|
| Net patient revenue                | \$1,645        | \$1,719        | \$1,808        | \$89               | 10%                   |
| Grants & contracts                 | 371            | 373            | 377            | 4                  | 2%                    |
| Gifts applied to operations        | 67             | 76             | 80             | 4                  | 20%                   |
| Tuition & fees                     | 63             | 66             | 67             | 1                  | 5%                    |
| State appropriations               | 35             | 33             | 33             | 0                  | -6%                   |
| Other revenue                      | 96             | 118            | 98             | (20)               | 2%                    |
| Operating revenues                 | 2,277          | 2,386          | 2,463          | 77                 | 8%                    |
| Salaries & benefits                | 1,343          | 1,421          | 1,420          | (1)                | 6%                    |
| Services & supplies                | 633            | 666            | 697            | 31                 | 10%                   |
| Medicaid provider tax              | 69             | 72             | 80             | 8                  | 17%                   |
| Depreciation                       | 115            | 130            | 129            | (0)                | 12%                   |
| Interest                           | 23             | 27             | 27             | (0)                | 18%                   |
| Operating expenses                 | 2,183          | 2,316          | 2,353          | 37                 | 8%                    |
| Oper. income pre-GASB 68           | 95             | 70             | 110            | 40                 | 16%                   |
| GASB 68 PERS accounting:           |                |                |                |                    |                       |
| Reverse cash contribution          |                |                | 38             |                    |                       |
| Book accrual accounting            |                |                | 89             |                    |                       |
| Oper. income under GASB 68         | \$95           | \$70           | \$237          | \$167              | 150%                  |

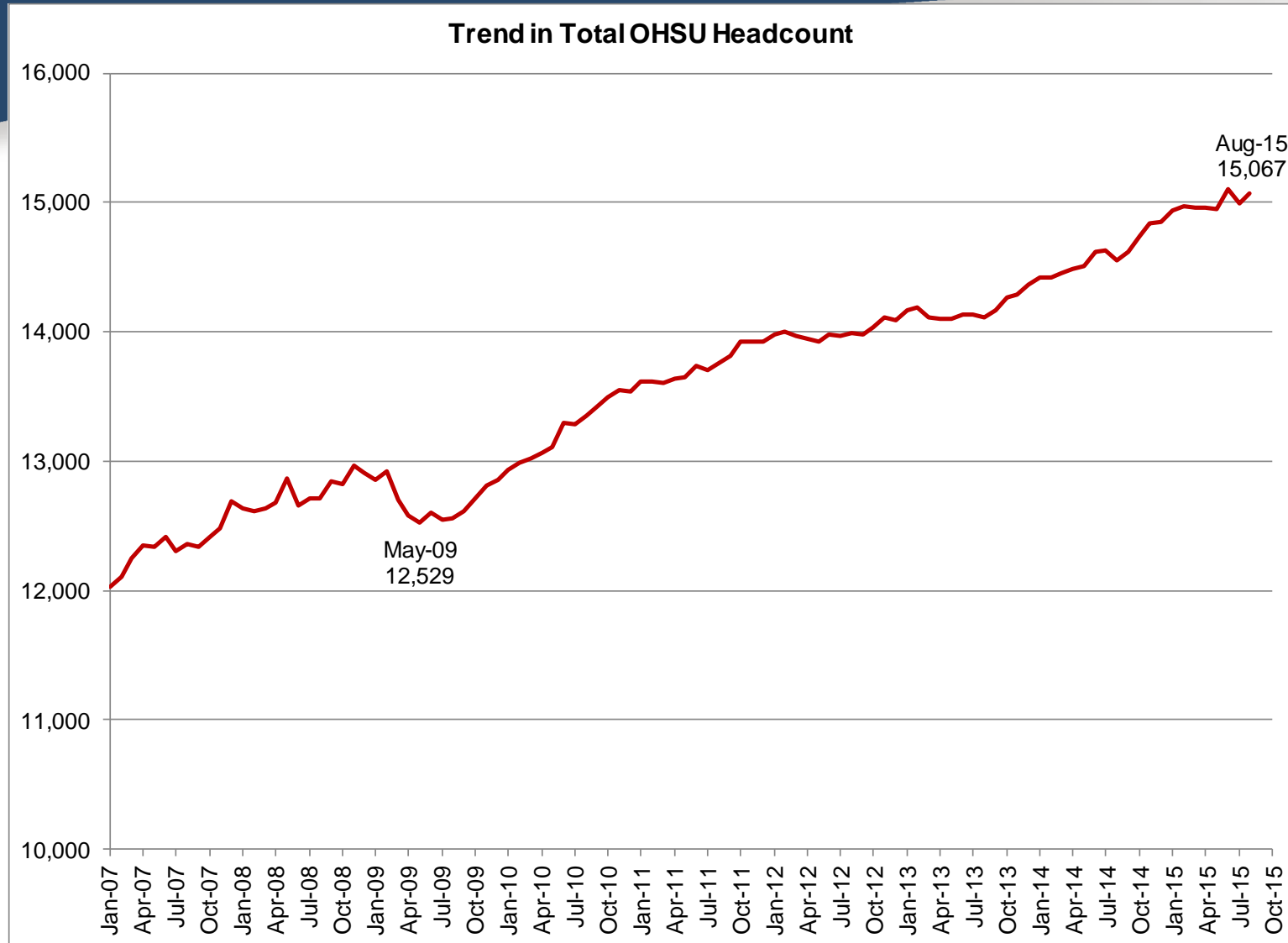
# Outpatient Care Drives Volume Growth

| June YTD (12 months)         | FY14<br>Actual | FY15<br>Budget | FY15<br>Actual | Actual /<br>Budget | Actual /<br>Last Year |
|------------------------------|----------------|----------------|----------------|--------------------|-----------------------|
| Inpatient admissions         | 28,535         | 29,390         | 29,244         | 0%                 | 2%                    |
| Average length of stay       | 5.79           | 5.76           | 5.82           | 1%                 | 1%                    |
| Average daily census         | 442            | 456            | 454            | 0%                 | 3%                    |
| Day/observation patients     | 34,096         | 34,882         | 35,798         | 3%                 | 5%                    |
| Emergency visits             | 45,611         | 45,012         | 47,995         | 7%                 | 5%                    |
| Ambulatory visits            | 776,918        | 826,886        | 811,510        | -2%                | 4%                    |
| Surgical cases               | 30,414         | 31,290         | 31,580         | 1%                 | 4%                    |
| Casemix index                | 1.97           | 1.97           | 1.98           | 1%                 | 1%                    |
| Outpatient share of activity | 45.2%          | 45.5%          | 47.1%          | 4%                 | 4%                    |
| CMI/OP adjusted admissions   | 102,512        | 106,153        | 109,435        | 3%                 | 7%                    |

# ACA Expands OHP/Medicaid Coverage



# 2,500 Jobs Added Since Financial Crisis



# GASB 68 Accounting for PERS Pension

- About half of OHSU's pension-eligible employees are in the State's PERS defined-benefit plan; the remaining half are in our own UPP defined-contribution plan.
- In FY15, OHSU must adopt new GASB 68 accounting standards for pension:
  - GASB 68 moves PERS accounting from a cash to an accrual basis
  - All PERS entries are booked one year in arrears, based on the system's accounting cycle—thus FY15 results reflect FY14 PERS activity
  - Changes in benefit terms (such as COLA reductions passed in FY14 then reversed by the Oregon Supreme Court in FY15) impact current year financial results all at once
  - Variances in investment returns and changes in assumptions (such as mortality tables) are amortized over several years
  - Large swings require subsequent event disclosures in the footnotes.
- As a defined-contribution plan, UPP accounting doesn't change (cash = accrual).



# GASB 68 Accounting (continued)

- FY15's GASB 68 accounting entries for PERS are counter-intuitive, to say the least:
  - Instead of a \$38 million PERS pension expense on a cash basis, there is a \$89 million pension credit, leading to a \$127 million reduction in expense and post-GASB 68 operating income of \$237 million instead of \$110 million.
  - This reflects PERS activity actually occurring in FY14 (booked in OHSU's FY15 results, due to the one year lag): in particular, legislative passage of significant COLA and other benefit reductions, combined with very strong investment results that year.
  - During FY15, the Oregon Supreme Court reversed most of these benefit reductions, which will result in a correspondingly large increase in expense to be booked in FY16, without an offsetting strong investment year.
  - Despite the PERS plan being in (temporary) surplus at 6/30/14, the lagged impact on OHSU's balance sheet at 6/30/15 is actually a \$(53) million reduction in net worth, because 4/5ths of the excess investment returns are deferred until future years.

# Impact of PERS on FY15 Income Statement

| PERS Funding Position<br>(millions) | Total PERS<br>System | OHSU<br>4.3% Share |
|-------------------------------------|----------------------|--------------------|
| 6/30/13 plan assets                 | \$58,479             | \$2,494            |
| 6/30/13 plan liabilities            | (63,582)             | (2,711)            |
| 6/30/13 over (under) funding        | (5,103)              | (218)              |
| FY14 service cost                   | (1,020)              | (44)               |
| Change in benefit terms             | 2,424                | 103                |
| Interest on plan liability          | (4,820)              | (206)              |
| Investment income                   | 9,887                | 422                |
| Contributions net of admin.         | 899                  | 38                 |
| Total change in position            | 7,370                | 314                |
| 6/30/14 plan assets                 | 65,402               | 2,789              |
| 6/30/14 plan liabilities            | (63,135)             | (2,692)            |
| 6/30/14 over (under) funding        | \$2,267              | \$97               |

| PERS Pension Expense<br>(millions) | Total PERS<br>System | OHSU<br>4.3% Share |
|------------------------------------|----------------------|--------------------|
| FY14 service cost                  | \$(1,020)            | \$(44)             |
| Change in benefit terms            | 2,424                | 103                |
| Interest on plan liability         | (4,820)              | (206)              |
| Actual investment return           | 9,887                | 422                |
| Expected investment return         | 4,419                | 188                |
| Actual - expected return           | 5,467                | 233                |
| 4 of 5 years deferred              | (4,374)              | (188)              |
| Actual return less deferral        | 5,513                | 234                |
| Admin. net of member contr.        | (16)                 | 1                  |
| Net pension credit (expense)       | \$2,081              | \$89               |

# Impact of PERS on 6/30/15 Balance Sheet

## 6/30/15 OHSU Balance Sheet Based on 6/30/14 PERS Balance Sheet (millions)

|                                        |          |
|----------------------------------------|----------|
| 6/30/14 total plan assets              | \$65,402 |
| 6/30/14 total plan liabilities         | (63,135) |
|                                        | <hr/>    |
| 6/30/14 plan over-funding              | 2,267    |
|                                        | <hr/>    |
| OHSU 4.3% share                        | 97       |
| → Deferral of excess investment return | (188)    |
| FY15 contribution (booked as pre-paid) | 38       |
|                                        | <hr/>    |
| Net position on OHSU balance sheet     | \$(53)   |

# FY15 Results: Net Worth & Investments

- OHSU's consolidated net worth increased \$157 million in FY15, ending above \$2.5 billion for the first time, the result of record operating income plus the Foundation's booking Gert Boyle's \$100 million gift to the Knight Cancer Challenge, offset in part by deferral of PERS investment gains under GASB 68, noted above.
- OHSU generated \$51 million of positive cash flow in OHSU-held cash & investments through June, with strong operating earnings and slower-than-budgeted capital spending offset by completion of CLSB (reflected in the \$21 million decrease in capital A/P on the right-hand side of the next page), and a year-end delay in receipt of Medicaid pass-through revenues due to a periodic federal "upper payment limit" audit that has since been resolved successfully.
- Cash & investments usually fall in the first half, then recover in the second 6 months of the fiscal year—a trend magnified this year by payment of \$22 million from the Hospital Transformation Performance Pool, received in early May, and the CLSB and pass-through items.

# Cash & Investments Up \$51M in FY15

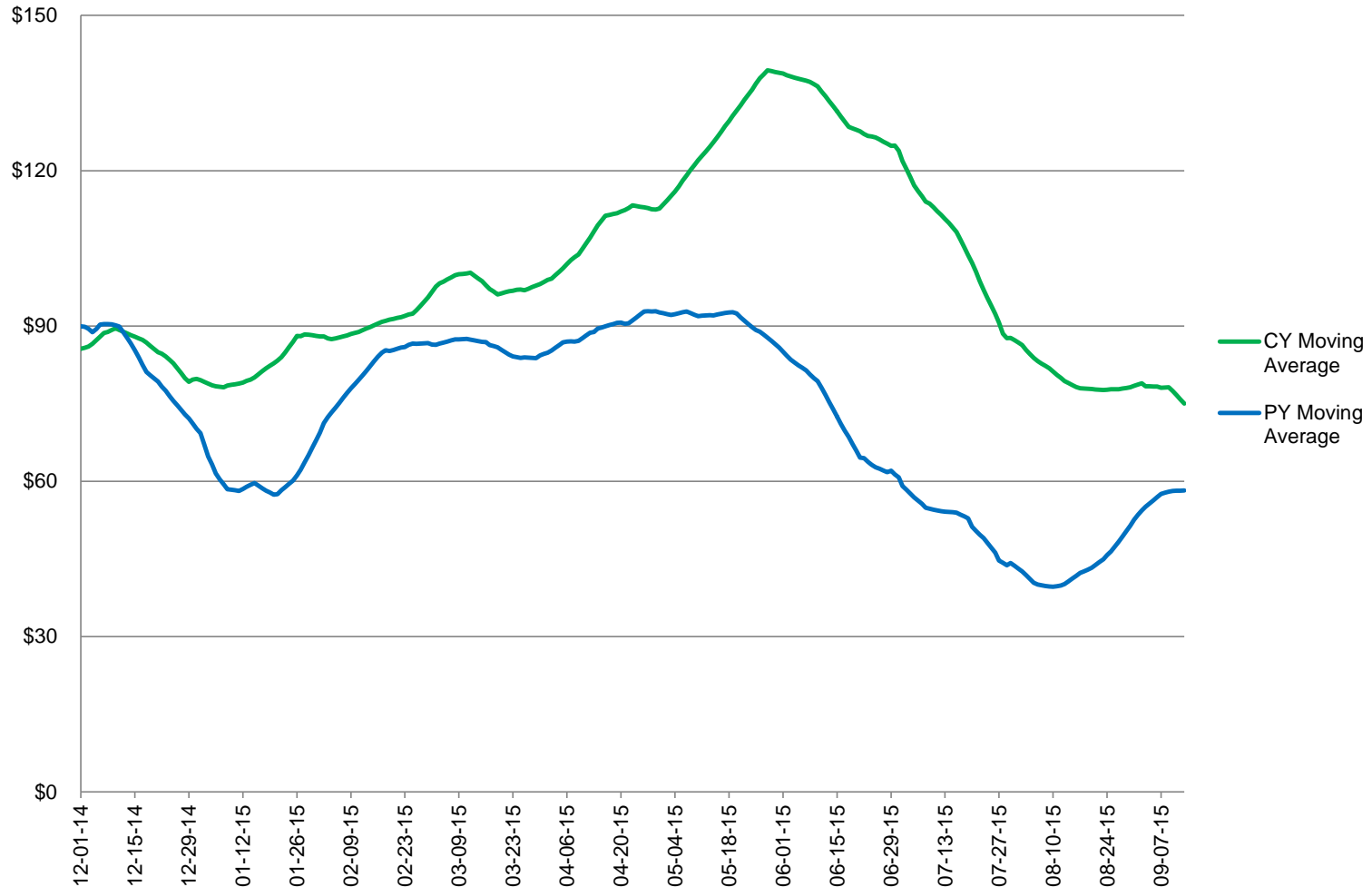
| (millions)                   | 6/30/14      | 6/30/15      | Change       |
|------------------------------|--------------|--------------|--------------|
| Operating cash & investments | \$587        | \$595        | \$8          |
| Quasi-endowment funds        | 92           | 86           | (6)          |
| Moda surplus note            |              | 50           | 50           |
| OHSU cash & investments      | <u>680</u>   | <u>731</u>   | <u>51</u>    |
| Trustee-held bond funds      | 29           | 31           | 2            |
| CLSB project funds           | 17           | 1            | (16)         |
| Total cash & investments     | <u>725</u>   | <u>762</u>   | <u>37</u>    |
| Net physical plant           | 1,517        | 1,528        | 11           |
| Interest in Foundations      | 829          | 922          | 94           |
| Long-term debt               | (758)        | (739)        | 19           |
| GASB 68 pension items, net   |              | (53)         | (53)         |
| Working capital & other, net | 64           | 113          | 49           |
| OHSU net worth               | <u>2,376</u> | <u>2,533</u> | <u>157</u>   |
|                              |              |              |              |
| Oper. income (pre-GASB 68)   |              |              | 110          |
| OHSU investment return       |              |              | 3            |
| Gain (loss) from Foundations |              |              | 94           |
| GASB 68 pension accounting   |              |              | (53)         |
| Other non-operating items    |              |              | 4            |
|                              |              |              | <u>\$157</u> |

| (millions)                 | Jun YTD      |
|----------------------------|--------------|
| Oper. income pre-GASB 68   | \$110        |
| Depreciation               | 129          |
| OHSU investment return     | 3            |
| CLSB project funds applied | 16           |
| Sources of OHSU cash       | <u>259</u>   |
| Principal repaid           | (19)         |
| Capital spending           | (141)        |
| Capital accounts payable   | (21)         |
| Medicaid passthrough delay | (30)         |
| Other working capital, net | 4            |
| Uses of OHSU cash          | <u>(207)</u> |
| Sources less uses of cash  | 51           |
| 6/30/14 balance            | 680          |
| 6/30/15 balance            | \$731        |

# Daily Cash Balances Follow Seasonal Pattern

Four-Week Moving Average of OHSU Overnight Cash Balances  
Adjusted for Transfers To / From Longer-Term Funds (millions)



# FY16 August YTD Financial Results

- Operating income for the first two months of FY16 is \$17.1 million, \$(2.4) million below budget but \$8.4 million higher than last year, on 10% revenue growth and 8% expense growth (results on a pre-GASB 68 basis).
- Aggregate patient activity is 1.3% above target and 4.9% above FY15 levels, with a shift in service mix toward the children's hospital (where we have more free bed capacity) and away from urology, orthopedics and neurosurgery where faculty recruitments are somewhat slower than anticipated.
- In general, a relative shift from adult surgical to pediatric volume reduces patient revenue growth, but lower hospital expenses are making up the difference.
- The modest shortfall from budget through August thus largely reflects delays in spending grant awards and drawing gifts from the Foundation, not unusual during early months of the fiscal year. This should correct as the year goes on.
- Consolidated net worth through August is up only \$10 million, as operating income is offset by investment losses in both OHSU's and the Foundation's stock portfolios, consistent with recent market volatility.



# August Off Slightly on Lower Gifts Applied

| <b>August YTD (2 Months)</b><br>(millions) | <b>FY15</b><br><b>Actual</b> | <b>FY16</b><br><b>Budget</b> | <b>FY16</b><br><b>Actual</b> | <b>Actual -</b><br><b>Budget</b> | <b>Prelim /</b><br><b>Last Year</b> |
|--------------------------------------------|------------------------------|------------------------------|------------------------------|----------------------------------|-------------------------------------|
| Net patient revenue                        | \$284.9                      | \$315.8                      | \$313.1                      | \$(2.7)                          | 10%                                 |
| Grants & contracts                         | 53.9                         | 62.8                         | 55.9                         | (6.8)                            | 4%                                  |
| Gifts applied to operations                | 7.5                          | 17.6                         | 11.0                         | (6.6)                            | 47%                                 |
| Tuition & fees                             | 9.3                          | 9.5                          | 9.9                          | 0.4                              | 6%                                  |
| State appropriations                       | 5.6                          | 5.9                          | 5.9                          | (0.0)                            | 6%                                  |
| Other revenue                              | 15.3                         | 18.0                         | 16.9                         | (1.1)                            | 10%                                 |
| Operating revenues                         | 376.5                        | 429.6                        | 412.8                        | (16.8)                           | 10%                                 |
| Salaries & benefits                        | 227.3                        | 245.0                        | 245.3                        | 0.3                              | 8%                                  |
| Services & supplies                        | 102.8                        | 123.3                        | 108.3                        | (14.9)                           | 5%                                  |
| Medicaid provider tax                      | 12.0                         | 14.7                         | 14.4                         | (0.3)                            | 20%                                 |
| Depreciation                               | 21.1                         | 21.8                         | 21.9                         | 0.1                              | 4%                                  |
| Interest                                   | 4.7                          | 5.4                          | 5.8                          | 0.4                              | 24%                                 |
| Operating expenses                         | 367.9                        | 410.1                        | 395.7                        | (14.4)                           | 8%                                  |
| Oper. income pre-GASB 68                   | \$8.7                        | \$19.5                       | \$17.1                       | \$(2.4)                          | 96%                                 |



# OHSU Integrity Program

FY15 Annual Report to the  
OHSU Board of Directors

Presented by: Jennifer Ruocco, PhD  
Chief Integrity Officer

Date: September 24, 2015

# Program effectiveness

*To have an effective compliance and ethics program...an organization shall—*

- (1) **exercise due diligence** to prevent and detect criminal conduct; and*
- (2) otherwise **promote an organizational culture** that encourages ethical conduct and a commitment to compliance with the law.*

*Such compliance and ethics program shall be **reasonably** designed, implemented, and enforced so that the program is **generally effective** in preventing and detecting criminal conduct. The failure to prevent or detect the instant offense does not necessarily mean that the program is not generally effective in preventing and detecting criminal conduct.*

*- U. S. SENTENCING COMMISSION GUIDELINES MANUAL ( § 8B2.1)*

# Program effectiveness

- Effective programs include, at a minimum, the following 7 elements (also known as “the 7 required elements”):
  1. Written policies & procedures
  2. Program oversight & governance, including:
    - a. oversight by a governing authority
    - b. assignment of overall responsibility to high-level personnel
    - c. delegation of operational responsibility to specific individuals, allocation of resources
  3. Training and communication
  4. Monitoring and auditing
  5. Hotline or other effective reporting mechanism
  6. Disciplinary measures; appropriate corrective action
  7. Prevention: Periodic risk assessment and modification of program to reduce risks
- ...”operational excellence” .... *risk-based approach*

# FY15 Highlights

- **Conflict of Interest:**

- COI POLICY UPDATE

- Updates per university wide task force recommendations include: disclosure of financial interests to patients, gifts, purchasing Col
    - Several current Col policies combined into one comprehensive, updated policy

- CMS SUNSHINE ACT DATA

- Publically available payments from August 2013 to December 2014

- **Environmental Health & Radiation Safety:**

- NEW EHRS DIRECTOR

- Chris Donovan onboarded January 2015

- FIRE DRILLS

- Healthcare fire evacuation drills expanded to non-patient (“business”) areas

# FY15 Highlights

- **Information Privacy & Security:**

- DATA PROTECTION PROGRAM

- Encryption of over 17,500 OHSU owned laptop and desktop computers – *completed*
    - Identification and “whitelisting” of medical devices

- **Research Integrity:**

- INSTITUTIONAL REVIEW BOARD (IRB)

- Designed and launched an eIRB system upgrade for submission and approval of new studies
    - Major revision and update to policies and procedures

# FY15 Highlights

- **Audit and Advisory Services:**

- Recruited and on-boarded 3 new members
- Formulated processes, templates, and risk assessment methodology

- **Clinical Enterprise Integrity:**

- FPP/HOSPITAL INTEGRITY INTEGRATION

- Combined the FPP and Hospital/Clinics Integrity teams under the leadership of a single Clinical Enterprise Integrity Officer in October 2014.
- Integration has enabled program efficiencies through coordinated audits and education for both facility and professional projects and activities.
- In addition, the Clinical Compliance Committee, Faculty Practice Plan Compliance Committee and the Hospital Compliance Committee memberships and goals were combined under one charter and committee (Clinical Integrity Committee), which was adopted in March 2015.



# FY15 Highlights

- **Code of Conduct:**

- 2015 UPDATE

- Completed update to Code of Conduct involving peer reviewers from across OHSU.
    - Memorialized the OHSU Core Values
    - Added sections on Social Media and Constructive Conflict Resolution
    - When possible, phrased overarching principles in terms of specific individual responsibilities to provide practical guidance to OHSU Members

# FY16 Goals

- Roll out of updated Code of Conduct
- Roll out of updated Col policy
- Deployment of annual Integrity Booster + Foundations
- Transition learning management system to Compass
- Major update to Integrity web page (O<sub>2</sub> and .edu)
- New EHRS policy, mission, vision, strategic plan
- Research Integrity system upgrades (eIRB, eIACUC, eIBC)



# 2015 State Legislative Session

# Early Changes Shape the Session

## Change and uncertainty in the first 60 days

- Feb 13 - Governor Kitzhaber announces resignation
- Feb 18 - Kate Brown sworn in as Oregon's Governor

Early passage of democratic priorities – Motor Voter, Cy Pres/Legal Aid, Clean Fuels

# Big Issues of the 2015 Session and Beyond

## Passed during the 2015 session

- Measure 91 implementation (legalization of marijuana)
- Mandatory background checks for gun purchases
- Paid sick-leave
- Free community college
- Ethics reforms

## Expected to return in 2016 or 2017

- Transportation funding
- Minimum wage increase
- State Capitol renovations

# OHSU State Legislative Overview

## 1. General Fund Appropriation

- State appropriation of \$77,332,846 for OHSU for the 15-17 biennium.
- Appropriation represents current service level funding and 2 years of funding for the Scholars for a Healthy Oregon Initiative student scholarship program.

## 2. Knight Cancer Challenge Bonds

- The legislature reauthorized a total of \$200,035,000 in bonding authority for OHSU capital construction projects on the South Waterfront to support the OHSU Knight Cancer Challenge. This included \$198,000,000 in bonding for construction and \$2,035,000 in issuance costs. OHSU must continue to meet reporting requirements.

# OHSU State Legislative Overview (cont.)

## 3. Higher education reforms

- The legislature passed several clean-up bills needed to remove references to the State Board of Higher Education and the Oregon University System from statute including some minor changes to OHSU's enabling statute.
- The Legislature created the Oregon Talent Council to replace the ETIC that will be responsible for funding innovative education collaborations between public universities and industry.

## 4. Medicaid Funding

- The legislature approved a total funds budget for the state's medical assistance programs of \$13,685,020,625. This represents full funding up to the 3.4% per person per year increase cap imposed under Oregon's federal waiver which will expire in 2017.

## 5. Hospital Assessment Extension

- HB 2395 extended Hospital Assessment at its current rate for 4 years through FY 2019 generating approximately \$900M in other funds for the 15-17 biennium to pay for Medicaid services.



# OHSU Policy Legislative Agenda

Passed with strong bipartisan support:

- 1.HB 3041 - Access to Sunscreen in Schools (“OHSU Student Bill”)
  - 2.SB 386 - Researcher Safety Public Records Exemption Sunset Removal
  - 3.SB 684 - Distinguished Faculty Physician License
  - 4.SB 662 - Dental Faculty Licensure Statutory Clean-Up
- OHSU supported the extension of the University Venture Development Fund Tax Credit used to encourage investment in mid-stage research. This bill stalled late in session and did not pass. The tax credit is set to expire at the end of 2015.

Questions?