April 16, 2024

To: Members, OHSU Finance & Audit Committee

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

Re: Materials for April 24th Meeting

Enclosed is a presentation on financial results and budget planning for next Thursday's public meeting of the Finance & Audit Committee, to be held at 3:30 pm PT.

The FY25 March YTD operating loss is $(71.5)m or an average of $(7.9)m per month. On a straight-line basis this annualizes to a full year loss of $(95)m or a -1.7% operating margin, roughly in line with last year's performance. Through nine months, revenues are up $422m or 11.5% while expenses are up $405m or about 11%, for a $17m improvement in adjusted operating income compared to third quarter last year.

The FY26 budget plan outlined here is pre-Legacy and pre-federal changes from the new administration, making no estimate of possible impacts to Medicaid, NIH or other federal funds. The plan aims to cut this year's estimated loss in half to $(45)m and keep the negative operating margin below -1%. Key strategies are 12% revenue growth with continued focus on services required to treat cancer and other complex diseases, while keeping growth in total compensation expense to 10%.

While over time we must scale OHSU's missions and services to the resources available, more budget reductions than targeted here would result in excessive damage now. Although falling short of a balanced budget, the FY26 plan showing progress toward a sustainable financial position over time. Given the planned deficit, OHSU can fund fewer capital projects and will draw down cash balances otherwise intended for future investment.

A final budget will be proposed for consideration in June.

OHSU

OHSU Onward: FY25 March YTD Results & FY26 Preliminary Budget Plan

OHSU Finance & Audit Committee / April 24, 2025

Introduction to March Results & FY26 Plan

- This document presents FY25 financial results through March and the preliminary budget plan for FY26.
- March YTD operating loss is $(71.5)m or $(7.9)m per month. On a straight-line basis this annualizes to a full year loss of $(95)m or a -1.7% operating margin, roughly in line with last year's performance.
- Next year's budget plan aims to cut this loss in half and keep the negative operating margin below -1%. A final budget will be proposed for consideration in June.

OHSU Income Statement (millions)	FY24 Actual*	FY25 Adj Budget*	FY25 Mar Annualized	FY26 Prel Budget	FY26 Prel / FY25 Ann
Operating revenues	$5,035	$5,462	$5,458	$6,127	12.3%
Salaries & benefits	3,172	3,390	3,390	3,731	10.1%
Rx, supplies & services	1,705	1,809	1,900	2,160	13.7%
Depreciation & interest	255	270	264	281	6.6%
Total expense	5,133	5,469	5,553	6,172	11.1%
Operating income	$(97)	$(7)	$(95)	$(45)	-52.8%
Operating margin	*-1.9%*	*-0.1%*	*-1.7%*	*-0.7%*	
EBITDA margin	*3.1%*	*4.8%*	*3.1%*	*3.9%*	
**FY24 includes $43.5m in prior-year Medicare 340b recovery and $18.1m in RIF-related costs originally budgeted in FY25.*					

Introduction to FY26 Plan (continued)

- The FY26 budget plan outlined here is pre-Legacy and pre-federal changes from the new administration, making no estimate of possible impacts to Medicaid, NIH or other federal funds.
- To be fair and more realistic, budget targets are prepared from a hybrid base:
  - Actual performance trended forward for Healthcare + School of Medicine (HC+SoM), which are running behind budget.
  - Approved budget for Provost and Chief Research Officer (CRO) areas, central administration, and other institutional costs, which are running better than budget.
- Key strategies are 12% revenue growth with continued focus on services required to treat cancer and other complex disease, while keeping salary & benefit growth to 10%.
- To hold the operating margin within -1% margin loss, we are also:
  - ➢ Keeping general pay increases for faculty and managers to 2%, with each one percentage point equivalent to approximately 50 employees in Unclassified Administrative and faculty roles.
  - ➢ Pay for performance against productivity benchmarks in all three missions.
  - ➢ Significant scrutiny on position control and management.
  - ➢ Holding vacancies and securing supply chain and other savings across OHSU.

Introduction to FY26 Plan (continued)

- Tuition increases of no more than 2% and the Tuition Promise for all eligible programs.
- Employee benefits are not reduced.
- While over time we must scale OHSU's missions and services to the resources available, more cuts than targeted here would result in excessive damage now.
- Thus, we are planning for a $(45)m or -0.7% deficit next year in order to preserve as many jobs as possible and avoid widespread layoffs.
- Although falling short of a balanced budget, the FY26 plan does reduce last year's actual and this year's estimated losses of about $(95)m or -1.7% in half, showing progress toward a sustainable financial position over time.
- Given the planned deficit, OHSU can fund fewer capital projects and will draw down cash balances otherwise intended for future investment:
  - The annual capital budget is $130m, down from $150m several years ago.
  - We complete the Vista Pavilion (IPA) and design the ED expansion but delay the Perinatal Addition until a funding path for that $425m project becomes clear.
  - As a result, cash is forecast to decline $(181)m assuming 6% investment return.

FY25 March YTD Dollar Change from Prior Year

- The broadest way of looking at FY25 Q3 financial results is to compare dollars of revenue and expense to the prior year.
- Through 9 months, revenues are up $422m or 11.5% while expenses are up $405m or about 11%, for a $17m improvement in adjusted operating income.
- This analysis excludes last year's one-time recovery of 340b Medicare revenue.

OHSU Operating Income (millions)	FY24 Mar YTD	FY25 Mar YTD	Dollar Change
Operating revenue	$3,672	$4,094	$422
Operating expense	3,760	4,165	405
Adjusted operating gain (loss)	$(88)	$(71)	$17
One-time 340b recovery	*44*		
Total operating gain (loss)	*$(44)*		

$(31)M Variance from Budget by Major Area

- Through March, OHSU's total operating loss is $(31)m off budget. The budget spread in Q4 requires a steep climb in earnings—gains of nearly $12m per month.
- Like other tables here, these variances are adjusted for $18m in severance & other RIF costs originally budgeted in FY25 but in the end accrued in June 2024. Half of this amount was in Healthcare and half in other University institutional accounts.
- Healthcare + School of Medicine are lagging target consistent with impact of HB3320 presumptive screening for financial assistance to patients plus higher AHP partner support and staffing costs.
- All other areas of the University have favorable budget variances, as does the Strategic Initiative budget due to slower ramp up of program spending.

FY25 Q3 Budget Variance*	(millions)
Healthcare	$(46.8)
School of Medicine	(31.3)
Subtotal - HC + SoM	(78.1)
Provost Areas	5.4
Chief Research Officer Areas	0.9
Chief Financial Officer Areas	5.9
Other Central Administration	2.5
Subtotal - Other Operating Areas	14.8
Contingency & Strat. Initiatives	29.0
Other Institutional Accounts	(0.3)
Restricted (Grant) Funds	(1.4)
Depreciation & Interest	5.1
Total Improvement from Budget	$(30.9)
**Budget adjusted for $18.1m in severance & other RIF costs accrued into June 2024.*	

Spread of FY25 Results by Quarter

- Besides seasonality, the FY25 budget spread shifts from a loss to a gain with the redeployment of beds, ORs and diagnostic capacity toward complex, AHC-level care.
- The actual trend in earnings is downward. In Q1, OHSU had an operating loss of $(9)m compared to a budgeted loss of $(30)m.
- By Q3, the operating loss grew to $(38)m compared to a budget of +$4m, with the budget variance flipping from a +$21m in Q1 to $(42)m in Q3.
- The last quarter of the year is budgeted for a gain of $34m or nearly +$12m per month. This would require reversing the recent monthly trend of $(11)m in November, $(11)m in December, $(22)m in January, $(19)m in February, and +$3m in March.
- March's small gain reflects very strong activity of +9% over budget.

FY25 Budget Spread by Quarter (millions)

	Adjusted FY25 Budget*				FY25 Actual				Actual -
	Revenue	Expense	Gain (Loss)		Revenue	Expense	Gain (Loss)		Budget
Q1	$1,324	$1,354	$(30)		$1,328	$1,338	$(9)		$21
Q2	1,353	1,367	(14)		1,368	1,392	(24)		(10)
Q3	1,369	1,366	4		1,397	1,435	(38)		(42)
Q4	1,416	1,382	34						
Total FY25	$5,462	$5,469	$(7)						$(31)

FY25 Q3 Loss at $(71.5)M with -1.7% Margin

March YTD - 9 Months (millions)	Last Year Adjusted	Budget Adjusted	FY25 Mar Actual	Actual - Budget	Actual / Last Year
Net patient revenue	$2,505	$2,799	$2,786	$(12)	11.2%
Medical contracts	137	156	147	(9)	7.4%
Healthcare other revenue	187	160	220	60	17.6%
Subtotal - clinical	2,829	3,114	3,153	39	11.5%
Grants & contracts	429	446	443	(3)	3.2%
Gifts applied	84	98	98	(0)	17.0%
Tuition & fees	62	64	64	(0)	3.0%
Non-healthcare other revenue	51	39	51	11	-1.0%
Subtotal - academic & other	626	647	655	8	4.7%
Subtotal - State support	218	285	285	0	30.7%
Total operating revenues	3,673	4,047	4,094	47	11.5%
Salaries & benefits	2,325	2,532	2,542	11	9.3%
Rx & medical supplies	729	802	867	65	18.9%
Other services & supplies	516	550	558	7	8.1%
Depreciation & interest	190	203	198	(5)	4.3%
Total operating expenses	3,760	4,087	4,165	78	10.8%
Adjusted operating income	(87)	(41)	(71)	(31)	0
Adjustments made*	44	(18)	0	18	
Total operating income (loss)	$(44)	$(59)	$(71)	$18	

**$43.5m 340b recovery in last year and $18.1m RIF cost in this year's budget booked in June.*

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Broad-Based Gains Across Patient Volume Metrics

Patient Activity Mar YTD - 9 Months	FY24 Last Year	FY25 Budget	FY25 Actual	Actual / Budget	Actual / Last Year
Inpatient admissions	20,623	20,393	21,668	6.3%	5.1%
Average length of stay	7.02	7.00	6.90	-1.4%	-1.7%
Average daily census	490.4	492.0	501.4	1.9%	2.2%
Day / observation patients	35,636	37,205	38,322	3.0%	7.5%
Surgical cases	27,487	28,593	28,621	0.1%	4.1%
Emergency visits	41,536	41,074	44,300	7.9%	6.7%
Ambulatory visits	891,963	904,562	929,027	2.7%	4.2%
Casemix index (CMI)	2.48	2.50	2.55	2.0%	2.8%
Outpatient share of activity	57.9%	58.4%	59.2%	1.4%	2.2%
CMI/OP adjusted admissions	121,540	122,594	135,581	10.6%	11.6%
Rate-adjusted gross charges	5,851	6,314	6,583	4.3%	12.5%

Healthcare Growth Against Budget & Last Year

- Services to meet AHC-level demand are growing the fastest, with +15% actual activity growth compared to +6% budgeted (aqua line).
- The FY25 budget plan aims to meet patient needs better by allocating more physical and staffing capacity (such as beds & ORs) to cancer care and other complex subspecialty programs unique to Oregon's only AHC.
- Growth in imaging, lab & other professional services is up but not yet as much as planned. Improving capacity, access and throughput in these services is a major focus.

Mar YTD Volume Growth by Service Area (FY25 / FY24)	% of Hosp. Charges	Budgeted Growth	Actual Growth	Actual vs Budget
Non-hospital pharmacy	28%	4.8%	19.8%	14.3%
Professional (imaging, lab)	17%	8.1%	4.8%	-3.0%
Oncology services	5%	9.4%	27.6%	16.7%
Subtotal - focused growth areas	51%	6.4%	15.0%	8.1%
Surgery & procedural	20%	4.9%	9.0%	3.9%
All other hospital services	29%	12.5%	10.8%	-1.6%
Subtotal - other growth areas	49%	9.4%	10.0%	0.6%
Rate-adjusted gross charges	100%	7.9%	12.5%	4.3%

HB3320: Screening for Financial Assistance

- As described at the January meeting, this new Oregon law requires hospitals to presumptively screen all patients for financial assistance in paying patient due amounts.
- Previously, all patients could apply for assistance, and we provided extensive signage and information on how to do so.
- When crafting the budget, we did not expect HB3320 to have a major impact since OHSU's existing program was seen as a model and the tiers of assistance (write offs of patient due portions based on family income and size) did not change.
- However, the presumptive screening process (using a third-party estimating tool) is currently identifying 64% of patients eligible, compared to 12% under the prior "application" process.
- We recently reviewed State economic data that suggests 57% of all Oregonians would be eligible for hospital financial assistance based on family income and family size.

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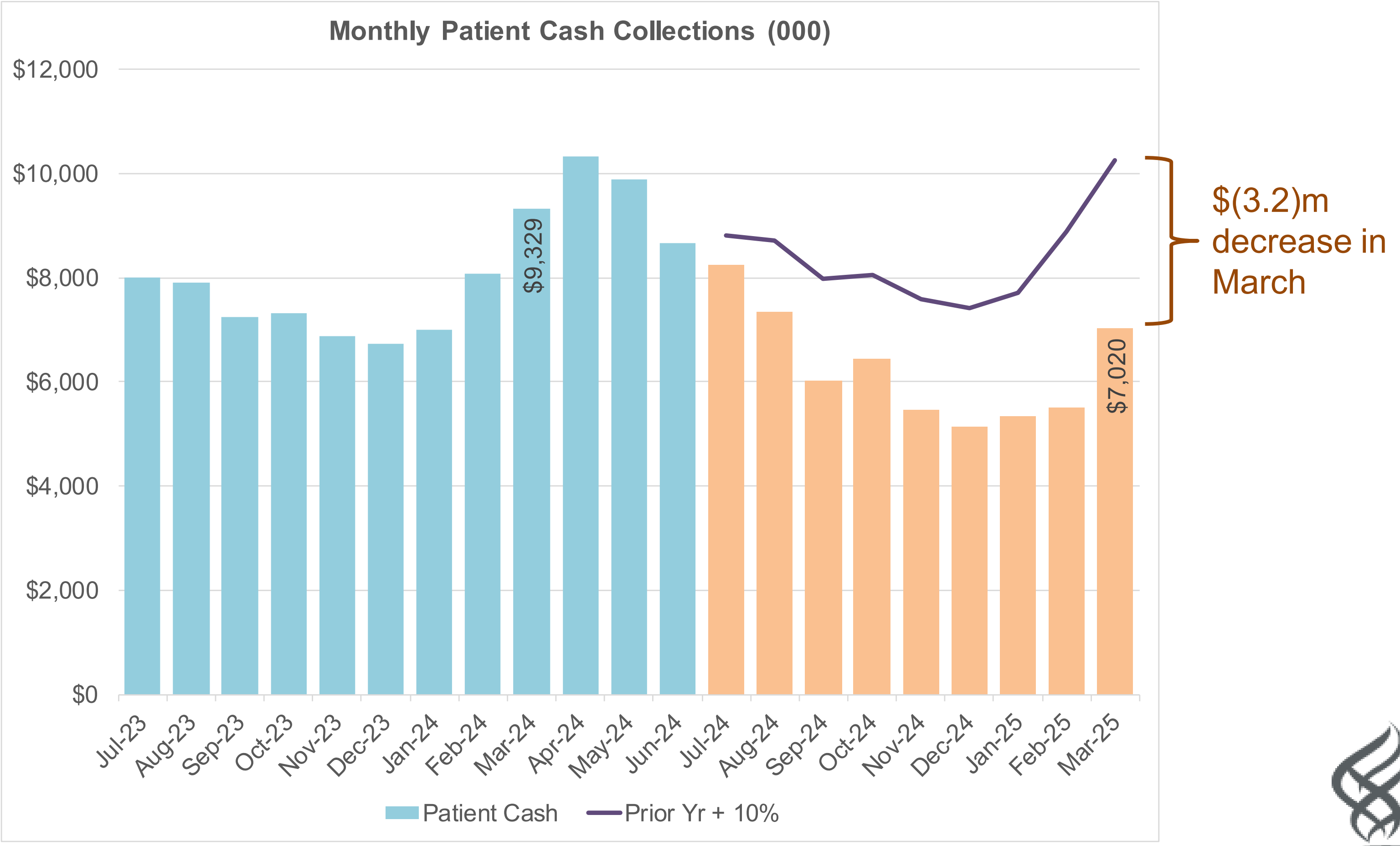
Impact of HB3320 on Patient Cash Collections

We budgeted collections from patients themselves (e.g., copays and deductibles) to follow last year's pattern trended forward with overall clinical revenue growth. Since implementation of HB3320 in July, the gap between actual collections (orange bars) and target (purple line) has grown to over 30% as far more patients are granted assistance.



YTD Change in FTEs and Compensation Costs

- The following chart compares FTEs on OHSU's payroll from last March to this March by major group.
- Note that Unclassified Administrative FTEs are down 285 or -11% (which adjusts for the transfer of some Research staff into this category), AFSCME FTEs are up 58 or about 1%, and ONA FTEs are up 391 or 14%.
- March YTD salaries & benefits are up 9%, the 2% growth in FTEs plus 7% increase in average compensation cost (wages + benefits) per person.
- For comparison, admissions, surgical cases and ambulatory visits are up 4% – 5%.

FTES on Payroll	Mar 2024	Mar 2025	# Change	% Change
AFSCME (most hourly)	7,801	7,859	58	1%
Faculty	2,871	2,932	61	2%
ONA (nurses)	2,735	3,126	391	14%
Unclass Admin (managers)	2,485	2,200	(285)	-11%
Research	1,442	1,554	112	8%
House Officer	967	988	21	2%
All other	406	415	9	2%
Total OHSU FTEs	18,707	19,074	367	2%
YTD compensation (millions)	$2,325	$2,542	$217	9%

Importance of Pharmacy & IGT to OHSU Budget

- The table on the left separates out two key resources—pharmacy services for cancer / other complex care plus IGT funding through the Medicaid program—from all other activity in March YTD results, labeled “base” revenues & expenses here.
- Year over year, base revenues grow 5% while base expenses growth 9%, resulting in a 9-month “base” loss of $(651)m, an increase of $(153)m or 31% from last March.
- The table on the right shows that 78% of this increase reflects Oregon’s hospital staffing and patient financial assistance bills, with the remaining 22% reflecting the ongoing gap between payment rate growth and wage & cost inflation.

Mar YTD Revenue & Expense (millions)	Last Year	This Year	Percent Change
Base revenues*	$2,791	$2,941	5%
Base expenses*	3,289	3,592	9%
Base operating loss**	(498)	(651)	31%
Non-hospital Rx direct margin	245	347	42%
IGT funding	165	233	41%
Rx & IGT gain	410	580	41%
Total OHSU operating loss	$(87)	$(71)	-18%
*Excludes non-hospital pharmacy and IGT activity and for last year only, $43.5m of 340b recovery.			

**Base loss - last year	$(498)
Hospital staffing bill impact	(62)
HB3320 F/A impact	(58)
All other Mar YTD impacts	(33)
Base loss - this year	(651)
Base loss annualized x12/9	$(868)

Cash Off $(310)M with QDP Payment Delay

- OHSU-held cash & investments fell $(310)m through 9 months, largely due to a three-month delay in federal CMS approval of the IGT-QDP program for CY2025 plus the operating loss. We expect the federal QDP approval to be settled in April or May.
- With this delay and higher daily expenditures, days cash on hand fell from 172 in June to 136 in March, well below Fitch medians of 270 days for AA and 205 for A credits.

Balance Sheet			9-Month
(millions)	6/30/24	3/31/25	Change
OHSU-held cash & investments	$1,460	$1,149	$(310)
OHEP construction fund	111	0	(111)
Net property, plant & equipment	2,414	2,545	131
Interest in OHSU Foundation	1,546	1,538	(8)
Long-term debt	(1,336)	(1,336)	1
PERS pension liability	(513)	(513)	0
Working capital & GASB 101	597	655	58
Consolidated net worth	$4,278	$4,039	$(239)
Operating income (loss)			(71)
GASB 101 implementation			(255)
OHSU investment return			79
Grant & gift funded capital			0
Foundation gain (loss)			(8)
Release of surplus note reserve			17
Other non-operating items			(0)
YTD change in net worth			$(239)

FY25 Mar YTD Cash Flow	(millions)
Operating income	$(71)
Depreciation	164
Investment return	79
Construction funds applied	111
Grant & gift funded capital	0
Sources of cash	283
Long-term debt repaid, net	(1)
Capital spending	(295)
QDP approval delay	(226)
Other working capital, net	(71)
Uses of cash	(593)
Net cash flow	$(310)
6/30/24 Days cash on hand	*172*
3/31/25 Days cash on hand	*136*
Fitch Ratings AA median	*270*
Fitch Ratings A median	*205*
(Special Report, August 12, 2024)	

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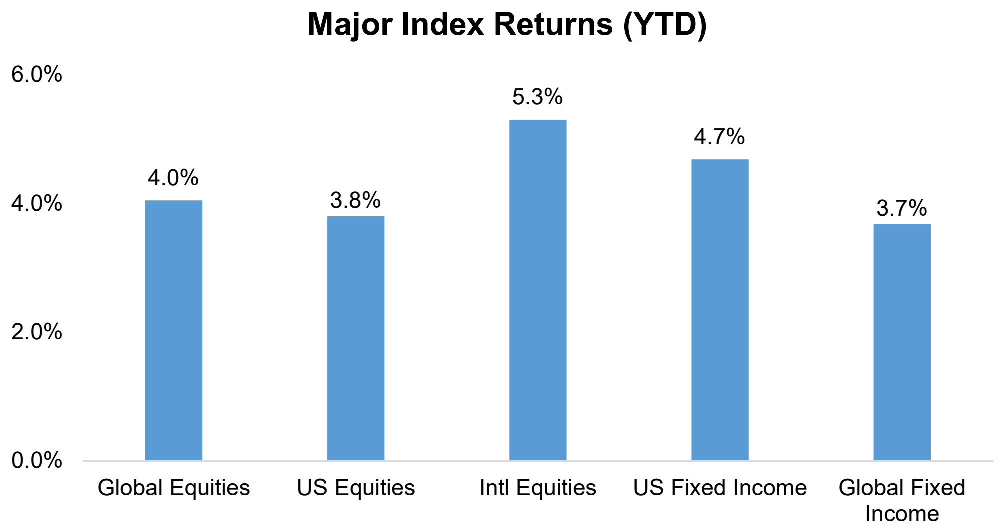
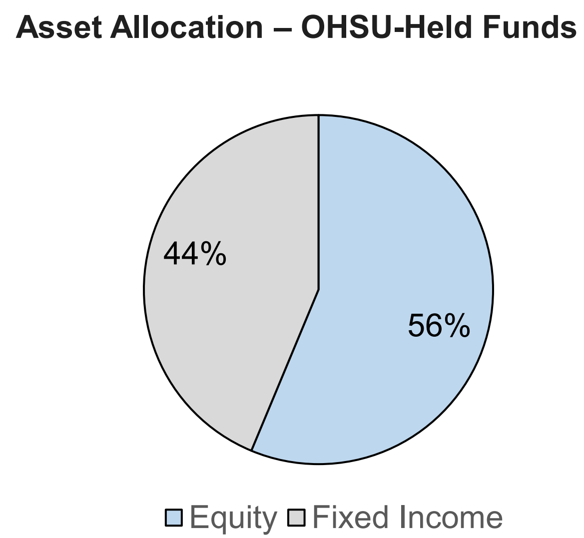
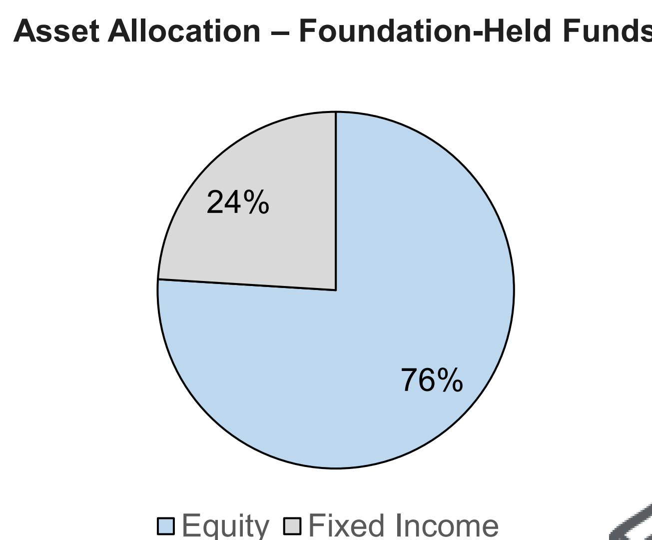
FY25 March YTD Investment Returns Up 4.4%





Asset Pool	6/30/2024 Balance	3/31/2025 Balance	FY25 YTD TR (%)	Benchmark YTD TR (%)
OHSU-Held Funds				
Short-Term Asset Pools	442,811	200,176	4.4%	4.4%
Long-Term Asset Pools	1,150,444	949,118	4.2%	4.2%
Other Asset Pools	113,890	122,930	9.7%	9.7%
Total OHSU Assets	**$1,707,146**	**$1,272,224**	**4.6%**	**4.7%**
Foundation-Held Funds*				
Non-Endowment Asset Pools	186,551	264,661	4.8%	4.6%
Endowment Assets	1,449,688	1,372,447	4.1%	4.9%
Total Foundation Assets	**$1,636,239**	**$1,637,108**	**4.2%**	**4.8%**
Total OHSU Investable Assets	**$3,343,385**	**$2,909,332**	**4.4%**	**4.7%**

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



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Renewal of $100M Line of Credit with US Bank

- OHSU has a line of credit with US Bank for $100 million that expires on April 30, 2025.
- We have had a facility like this with US Bank since 2020, although we have never drawn on it.
- Last fiscal year the Board approved a resolution granting management the ability to renew this type of indebtedness without returning for additional authorization.
- The current US Bank LOC has a facility fee of 8bps or $80k per year, and a credit spread on current short-term benchmark rates of 35bps
- Historically, US Bank has typically provided the most attractive bids with respect to short term liquidity facilities for OHSU.
- Given the pending Legacy Health transaction and for administrative efficiency, we intend to enter direct negotiations with US Bank to renew the existing facility for another year on similar terms, using the authority granted last year.
- Going forward, we may adjust the line of credit as necessary based on our evolving operating and financial environment.

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Fitch Ratings Wire on Early FY24 Hospital Results

- OHSU's Fitch rating is currently AA-, above their median rating, but with a Negative Outlook that indicates a downward trend toward the median.
- Trend in Fitch medians from FY23 to FY24 compared to OHSU results:

  - Median operating margin improved from -0.5% to +1.2%
  - OHSU operating margin declined from +1.2% to -1.9%

  - Median labor costs as a percent of revenue fell from 55.4% to 54.5%
  - OHSU labor costs as a percent of revenue increased from 59.9% to 63.0%

  - Median revenue growth was 9.1%
  - OHSU revenue growth was 10.1%

  - Median days cash on hand were stable at 220 days
  - OHSU days cash on hand fell from 184 to 172 days

  - Median cash to debt improved from 170.2% to 178.5%
  - OHSU cash to debt improved from 144.2% to 158.0%

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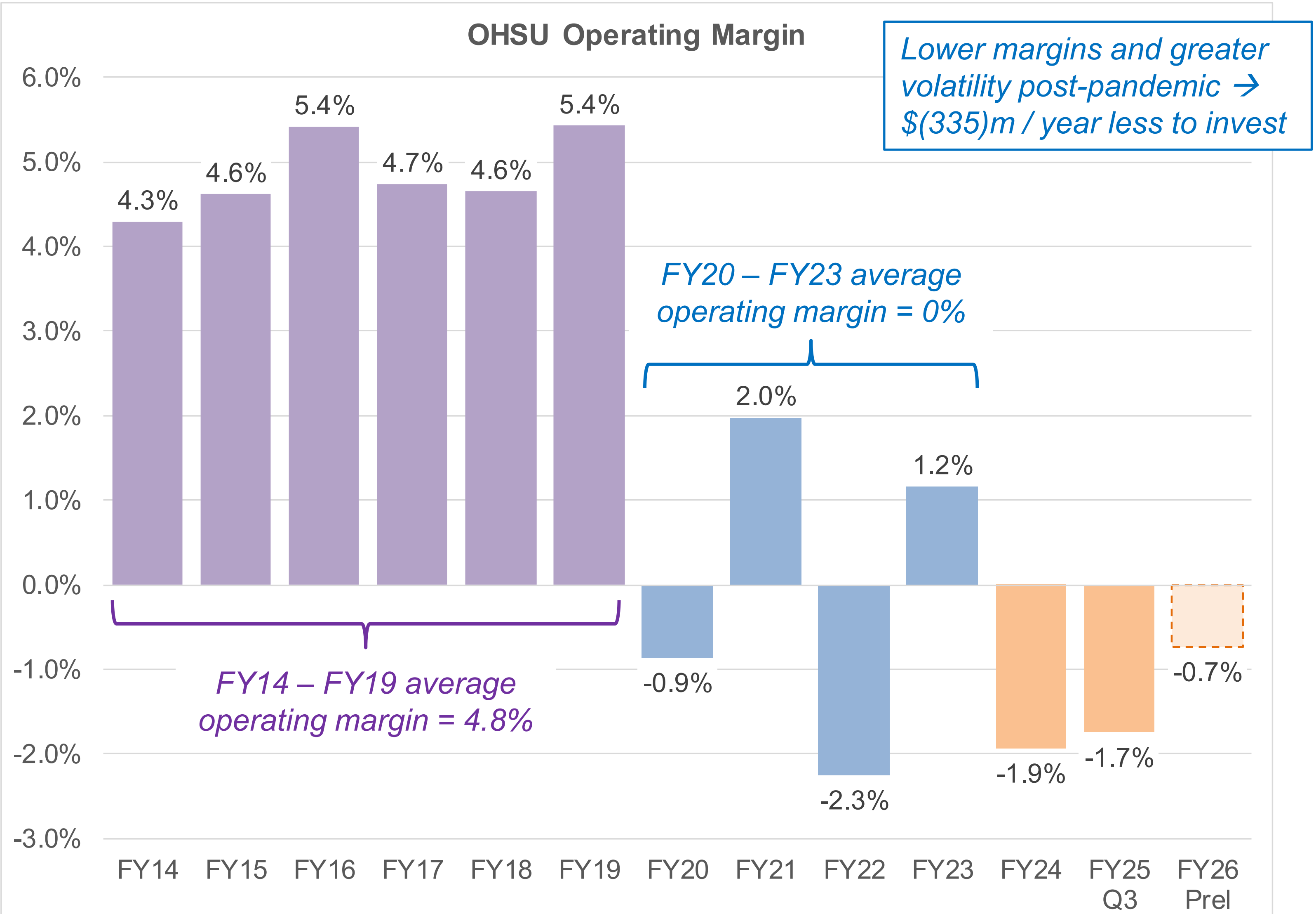
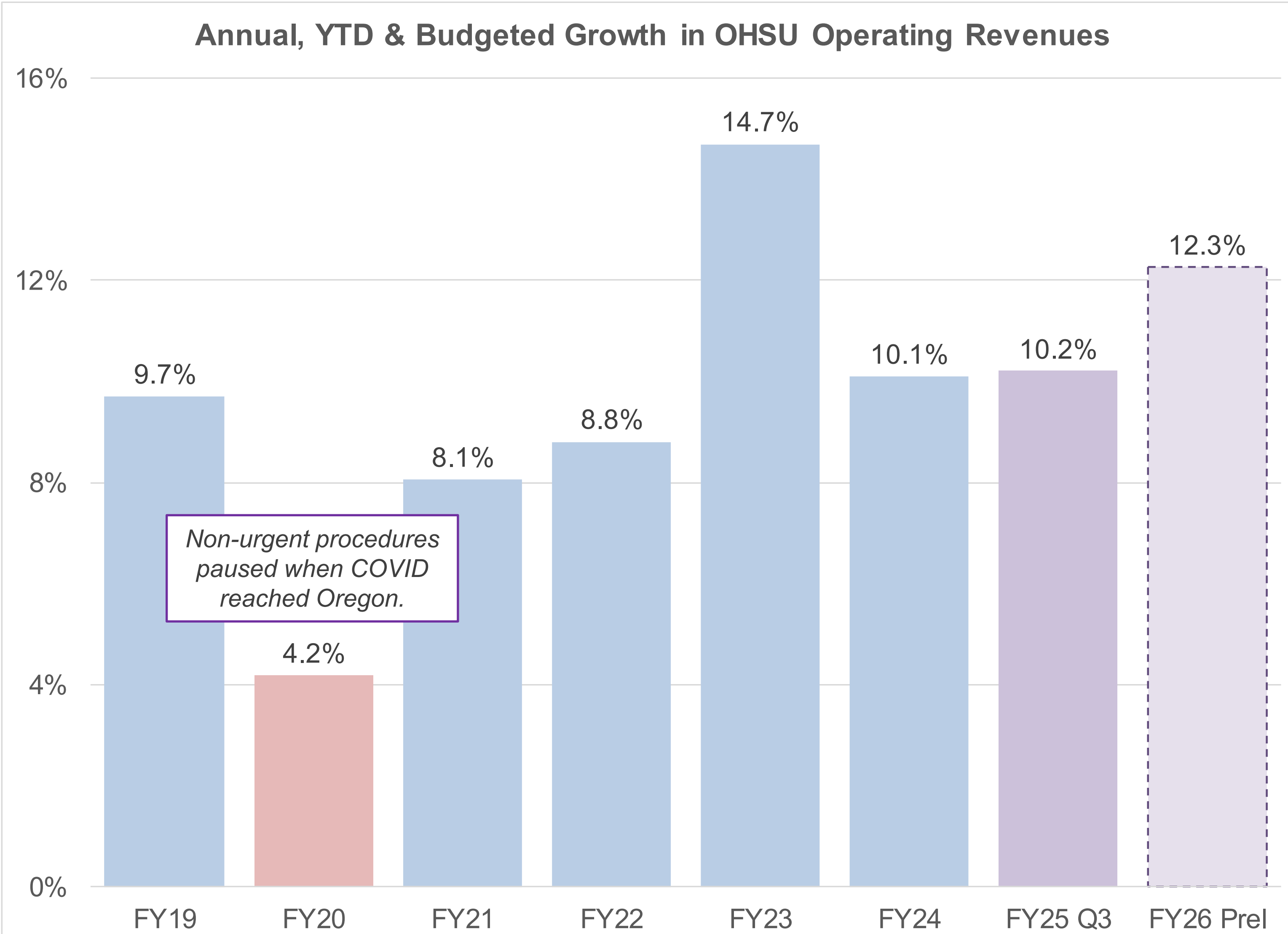
Margin to Invest in People, Programs & Places



Demand for OHSU Missions Remains Very Strong



FY24 includes $43.5m of prior-year Medicare 340b recovery.

Demand for OHSU Care Grows 2x Other Hospitals

- Over 5 years from FY19 to FY24, OHSU's hospital net patient revenue has grown by 62%, twice that of all other Oregon hospitals.
- This reflects the demand for OHSU's unique specialty/subspecialty services as Oregon's academic health center combined with our ability to recruit faculty and build programs.
- These factors resulted in a 2.5% annual increase in case mix or complexity per year.
- OHSU's shortage of adult inpatient beds will be alleviated by the Vista Pavilion / Inpatient Addition and, if approved, the Legacy combination.

Net Patient Revenue	OHSU	All Other	OHSU %		Oregon Hospitals by System		
(millions)	Hospital	Oregon	All Other		Providence	Legacy	Kaiser
FY19 (Jul 2018 - Jun 2019)	$1,762	$11,505	15%		$2,388	$1,596	$703
FY24 (Jul 2023 - Jun 2024)	$2,863	$15,019	19%		$3,136	$1,958	$826
5-year percent growth	62%	31%			31%	23%	17%

Core Assumptions for Rate, Cost Inflation & Volume

- This table summarizes core assumptions for payment rate growth, unit wage & cost inflation (first column) as well volume and variable cost increases (second column).
- If OHSU provided the exact same services across patient care, research and education, in the exact same manner next year as this year, we would expect revenues to grow by a weighted average of 3.4% and expenses to grow by 6.0%.
- Instead, we expect core activity (before special focus to increase complex care above trend) to increase by a weighted average of 4.2% and variable cost (added staff, drugs, and other supplies needed to meet trended higher volume) to increase by 2.8%.
- Trended revenues would increase by a compounded 7.7% but expenses by 9.0%, a gap that would increase losses by a net of $(83)m absent corrective actions.

FY26 Preliminary Budget Assumptions	Rate / Cost Inflation	Volume / Var Cost	Combined Impact
Patient care	4.0%	5.0%	9.2%
Research & education	2.0%	2.0%	4.0%
Total revenues	3.4%	4.2%	7.7%
Salaries & benefits	7.4%	3.2%	10.9%
Rx & medical supplies	5.0%	5.0%	10.3%
Other services & supplies	2.0%	1.6%	3.6%
Depreciation & interest	4.0%	0.0%	4.0%
Total expenses	6.0%	2.8%	9.0%

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Key Dynamics in FY26 Budget Planning

- For HC+SoM, FY26 budget targets start with February YTD annualized, a direct margin (before overhead) of $207m, which itself is $(181)m below budget. (March results, which are somewhat better, were not available when FY26 targets were set.)
- For the rest of the University plus depreciation & interest, FY26 targets start with the original budget, rather than February trended, which would be $76m more favorable.
- This "hybrid" approach is intended to be both realistic and fair, and shown in orange on the revenue & expense table on the next page.
- The gap between 3.4% payment rate growth and 6.0% wage & cost inflation increases the deficit by $(151)m, offset by 4.2% volume growth less 2.8% variable costs that adds a net of $68m, plus $30m of incremental State support, largely from IGT funding at 87% of Medicaid-related costs.
- The hybrid budget base plus the rate & volume trends results in an FY26 "roll-forward" or starting point for FY26 budget work of $(241)m, shown in aqua on the next page.
- Corrective actions against this starting loss include revenue cycle enhancements, reduced losses at partner hospitals, accelerated focus on services that support cancer and other complex care, non-renewal of certain faculty and management positions, and maintaining vacancies and other below-budget spending, offset by $25m in net startup costs for the Vista Pavilion, opening in FY26 Q4.

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Key Dynamics in FY26 Plan (continued)

(millions)	Revenue	Expense	Margin
HC+SoM at Feb YTD trend	$4,453	$4,246	$207
All Other University at budget	936	1,060	(124)
Depreciation & interest		270	(270)
Total OHSU FY25 budget base	5,389	5,576	(188)
Rate growth minus cost inflation	183	334	(151)
Volume growth minus variable cost	234	166	68
Incremental State support	30	0	30
FY26 roll-forward from FY25 base	5,836	6,076	(241)
Vista Pavilion startup costs	0	25	(25)
Revenue cycle improvements	33	5	28
Reduction in partner support	0	(14)	14
Cancer & other complex services	258	128	131
Position reductions - HC+SoM	0	(35)	35
Cost reductions - Other University	0	(13)	13
FY26 preliminary budget	$6,127	$6,172	$(45)

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Over 2 Years Revenue Grows 23% & Expense 20%

OHSU Income Statement (millions)	FY24 Actual	FY25 Adj Budget	FY25 Mar Annualized	FY26 Prel Budget	*2-Yr Growth FY26/FY24*
Net patient revenue	$3,405	$3,802	$3,715	$4,273	*25.5%*
Medical contracts	185	208	196	213	*15.3%*
Healthcare other revenue	256	213	294	346	*35.3%*
Subtotal - clinical	3,846	4,223	4,204	4,832	*25.7%*
Grants & contracts	580	591	590	618	*6.6%*
Gifts applied	121	131	130	124	*2.3%*
Tuition & fees	81	84	85	89	*9.5%*
Non-healthcare other revenue	71	53	67	52	*-26.9%*
Subtotal - academic & other	853	859	873	883	*3.5%*
Subtotal - State support	293	380	380	412	*40.6%*
Total operating revenues	4,991.8	5,462	5,458	6,127	*22.7%*
Salaries & benefits	3,172	3,390	3,390	3,745	*18.1%*
Rx & medical supplies	998	1,079	1,156	1,372	*37.5%*
Other services & supplies	708	730	744	774	*9.4%*
Depreciation & interest	255	270	264	281	*10.1%*
Total operating expenses	5,133	5,469	5,553	6,172	*20.2%*
Adjusted operating income	(141)	(7)	(95)	(45)	*-68.1%*
Adjustments made*	44	(18)	0	0	*-100.0%*
Total operating income (loss)	$(97)	$(25)	$(95)	$(45)	*-53.8%*
***$43.5m 340b recovery in FY24 and $18.1m RIF cost in FY25 budget booked in FY24.**					

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FY26 Budget Targets by Major Area

- FY26 direct margin target for HC+SoM is $348m, which is $(39)m less than the current year's budget but $119m higher that the March run-rate (blue line). This is the largest budget-to-budget variance and drives the $(45)m overall bottom line (red).
- Other operating areas have targets that are close to the current budget and somewhat more expansive than the March run-rate. Holding these positive budget variances into next year will help these areas reach their targets.
- Expense for depreciation, interest & institutional accounts (orange line) is expected to increase next year from the March run-rate as new programs catch up from this year's underspending during their startup periods.

FY26 Budget Targets by Major Area (millions)	FY25 Adj Budget	FY25 Mar Annualized	FY26 Prel Budget	*FY26 Prel - FY25 Bdg*	*FY26 Prel - FY25 Est*
Healthcare +School of Medicine	$387	$229	$348	*$(39)*	*$119*
Provost + education administration	(5)	3	(10)	*(5)*	*(14)*
CRO + research administration	10	11	8	*(1)*	*(3)*
Central administration & support	(178)	(167)	(183)	*(5)*	*(15)*
Restricted (grant) funds	7	5	7	*(0)*	*2*
Operating areas	221	81	170	*(51)*	*89*
Depreciation, interest & institutional	(228)	(176)	(215)	*13*	*(39)*
Total OHSU operating income	$(7)	$(95)	$(45)	*$(38)*	*$50*

FY26 Budget Draws Down $(181)M in Cash

- OHSU-held cash & investments are forecast to fall by $(181)m, largely due to completion of the $650m Vista Pavilion. The $350m in bond funds borrowed in 2021 for this project was fully applied against construction costs as of mid-FY25.
- Investment income of $71m is forecast at a 6% return, but this figure has a 12% standard deviation, so swings of plus or minus $142m would not be unusual.
- $425m Perinatal Addition is delayed in this preliminary plan due to lack of funding.

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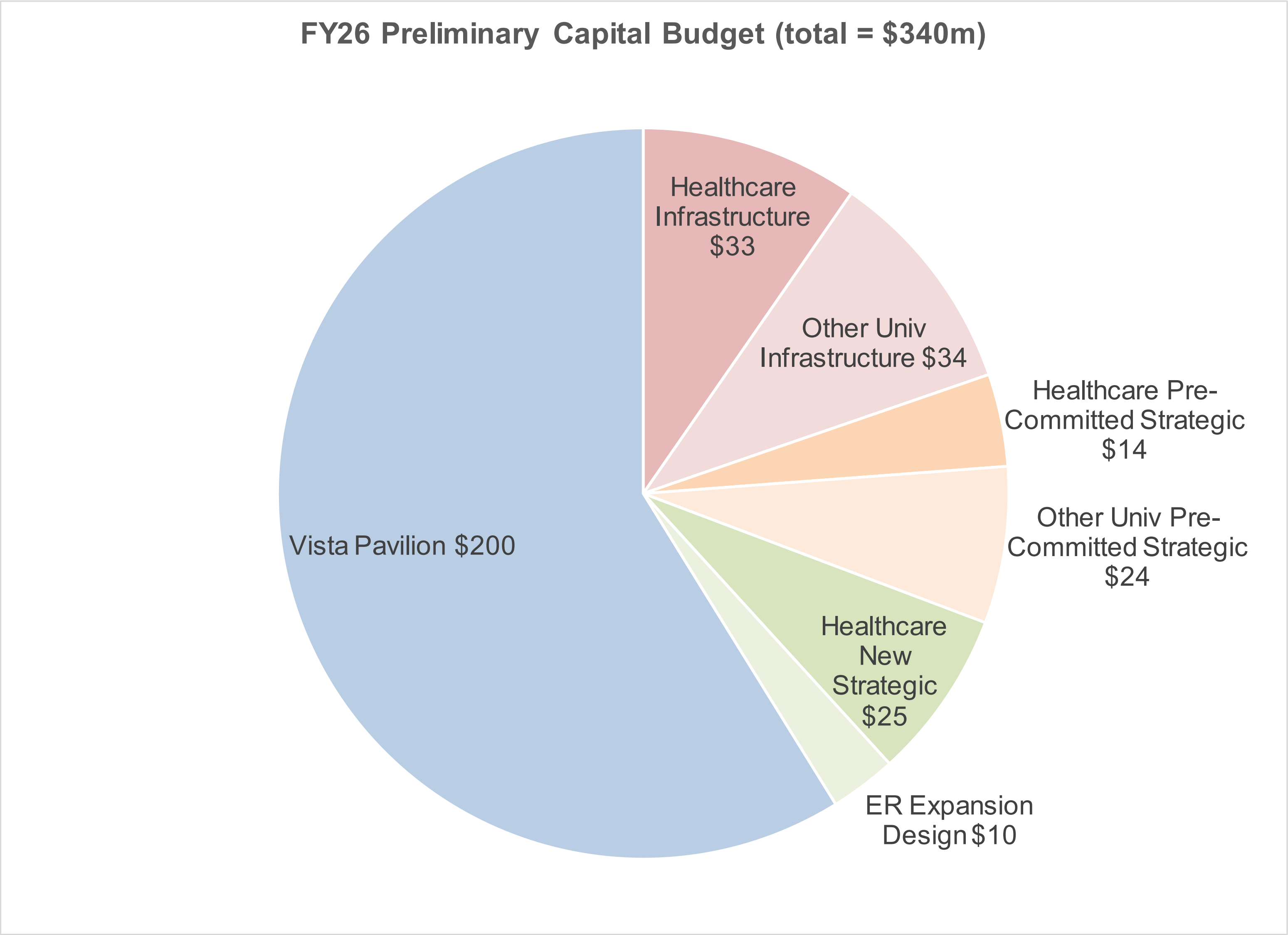
FY26 Cash Flow	(millions)
Operating income	$(45)
Depreciation & interest	281
Investment income at 6%	71
Capital gifts & grants	5
Sources of cash	312
Debt service	(81)
Working capital	(72)
Annual capital spending	(130)
Vista Pavilion (IPA) completion	(200)
ER expansion design	(10)
Perinatal Addition (delayed)	0
Uses of cash	(493)
Sources less use of cash	$(181)

FY26 Capital Projects by Category



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FY26 Preliminary Capital Budget Detail

FY26 Preliminary Capital Budget (000)	OHSU Healthcare	Other University	Total OHSU
Infrastructure			
Infrastructure / replacement	$32,019	$20,583	$52,602
Library materials / Academic areas	774	5,850	6,624
Space committee (relocation & repurposing)	-	-	-
Research equipment replacement	-	750	750
Flexible workspace	-	928	928
School of Medicine equipment replacement	-	400	400
Public Safety and Administration	-	250	250
Institutional contingency / infrastructure	-	5,504	5,504
Subtotal infrastructure / replacement	*32,793*	*34,265*	*67,058*
Strategic priorities - pre-committed			
Parking garage C (ED) infrastructure updates	-	1,100	1,100
PGE feeder utility connection	-	2,000	2,000
Security cameras for parking structures	-	1,000	1,000
Parking garage C - Utility vault upgrade	-	9,800	9,800
Research equipment from grants	-	5,000	5,000
Kronos UKG Dimensions software upgrade	-	1,576	1,576
Marquam Hill nonconforming site improvements	-	1,850	1,850
Partnership project (lease consolidation)	-	1,000	1,000
West Campus drain piping replacement	-	250	250
OR lights, booms & integration replacement	7,043	-	7,043
Mt. Hood cancer infusion clinic expansion	441	-	441
GI Lab relocation (Hatfield 11)	6,420	-	6,420
Subtotal strategic pre-committed	*13,904*	*23,576*	*37,480*

	OHSU Healthcare	Other University	Total OHSU
New strategic priorities			
Doernbecher hybrid OR	$7,785	-	$7,785
Hillsboro Medical Center Neuro expansion	3,000	-	3,000
Vista Pavilion Nutrition Services tray line	8,104	-	8,104
Neuroscience unit expansion (Koehler11)	1,080	-	1,080
Cardiovascular ICU expansion (Koehler 13/14)	3,600	-	3,600
South Hospital A wing air handler upgrade	1,893	-	1,893
Subtotal new strategic priorities	*25,462*	-	*25,462*
Total FY25 annual capital allocation	**72,159**	**57,841**	**130,000**
Vista Pavilion (IPA) completion			200,000
Emergency Department expansion - design			10,000
Total FY26 capital budget			**$340,000**

Multi-Year Projects in Preliminary Capital Plan

Multi-Year Strategic Capital Projects (000)	Total Project*	FY26 Capital Budget	FY27 & Beyond
Healthcare initiatives			
OR lights, booms & integration replacement	$16,086	$7,043	$2,000
Vista Pavilion Nutrition Services tray line	9,000	8,104	896
Neuroscience unit expansion (Koehler Pavilion 11)	3,880	1,080	2,800
Cardiovascular ICU expansion (Koehler Pavilion 13/14)	5,880	3,600	2,280
South Hospital A wing air handler upgrade	9,300	1,893	7,407
.			
Other University initiatives			
PGE feeder utility connection	$8,000	$2,000	$5,772
Marquam Hill nonconforming site improvements	25,780	1,850	24,430
Kronos UKG Dimensions upgrade (timekeeping system)	3,999	1,576	446
Parking garage C (ED) infrastructure updates	9,900	1,100	6,600

**Total project includes prior-year components.*

Conclusion

- In FY19, the last pre-pandemic year, OHSU salaries & benefits were 57.9% of revenues and the operating margin was +5.4%.
- Today, salaries & benefits are 62.1% of revenues and the operating margin is -1.7%, despite strong top-line growth.
  - The increase is compensation as a share of revenue equates to $230m on this year's bottom line.
- This pattern reflects post-pandemic inflation on wages and other costs that is not reflected in payment rates, combined with the financial impact of Oregon's new hospital staffing and patient financial assistance laws—bills we supported and now need to fund.
- Through focus on complex care programs and services unique to academic health centers, holding employees in Unclassified Administrative and faculty roles salary growth low while also eliminating positions, the FY26 plan aims to keep the negative operating margin to below -1%.
- While over time we must scale OHSU's missions and services to the resources available, more cuts than currently planned would result in excessive damage now.
- As a consequence, OHSU can fund fewer capital projects (across infrastructure, strategic initiatives, and major facilities) while still drawing down cash balances otherwise intended for investment in the future.