HCMO Notice Question 15 - Exhibit 3:
Summary of Anticipated Costs and Inflationary Impacts in Current OHSU Financial Projections

Cost Drivers of [redacted] Projection
July 29, 2024

Major Cost Drivers: Pre-Pandemic & Post-Combination

Variable	Pre-Pandemic	Post-Combination	Change
CPI inflation	1.5%	[redacted]	[redacted]
Wages	3.0%	[redacted]	[redacted]
Benefits	5.0%		
Total compensation	3.5%		
Rx & medical supplies	5.0%	[redacted]	[redacted]
Other services & supplies	2.5%	[redacted]	[redacted]
Average unit cost	*3.5%*	[redacted]	[redacted]
Commercial rates	4.0%	[redacted]	[redacted]
Government rates	2.5%		
Average patient care rates	3.3%		
Average academic rates	2.0%	[redacted]	[redacted]
Average unit revenue	*2.9%*	[redacted]	[redacted]
Unit revenue – unit cost gap	*-0.6%*	[redacted]	[redacted]

Prior to the pandemic, OHSU's annual increase in patient care payment rates averaged about 3.3% per year, slightly below the State's sustainable cost growth target of 3.4%. Adding the average growth rates of academic revenues (grants, gifts, tuition and State support) at 2.0% lowered OHSU's average increase in revenue per unit of output to 2.9%. (Units of output are a cost-weighted average of hospital admissions adjusted for complexity, outpatient and physician services; students taught; and research performed.) While this was above CPI inflation at about 1.5% per year, it was below the average increase in unit costs at 3.5%--a figure driven by wage growth, health & pension costs, and pharmacy & medical supply inflation.

To offset the -0.6% gap between unit revenues and unit costs, OHSU grew total activity (units of output as defined above) by about 5% per year both to serve the needs of Oregonians and to spread fixed costs across a larger base. As a result, total revenues and expenses (units of activity times unit revenue or unit cost) increased by about 8% per year, maintaining operating margins (operating revenues in excess of expenses) at industry-standard 4% levels—margins that were needed to invest in our people, programs, places and things, and to sustain continued growth of OHSU's missions as Oregon's only public health sciences university and academic health center.

Since the pandemic began in early 2020, consumer prices have increased in a step function to 15% above the prior trend. Workers naturally want incremental wage increases to cover their families' higher costs of living. In addition, there is increased demand for nurses and other skilled healthcare staff. OHSU has invested $175m per year in front-line caregivers, about half from higher than prior-trend wages and half in number of staff per patient, consistent with collective bargaining agreements, market conditions, and Oregon's new hospital staffing law.

Payment rates from commercial and government insurers, as well as from grants and tuition, have not kept up with the step-function increase in costs. As a result, OHSU's operating income has fallen from a gain of $175m in FY19 to a loss of $(100)m in FY24. Legacy has seen a similar decline in earnings, once one-time asset sales are removed.

Going forward, we assume a CPI inflation rate of [redacted] or about [redacted] points higher than pre-pandemic levels. This is somewhat higher than the bond market's implied inflation rate calculated by comparing interest rates on inflation-projected (TIPS) treasury notes to regular treasuries (about 2.3% for the next decade), but inflation has remained higher for longer than generally predicted, so conservatism on inflation pressures is warranted.

Compared to the 1.5% increment in general inflation, [redacted] Pharmacy & medical supply inflation, recently peaking as high as 10%, [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]. Given OHSU's recent experience reducing 500 positions through 300 layoffs and elimination of 200 budgeted but vacant positions, [redacted]

[redacted]