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The Economic Externality that OHSU's Acquisition of Legacy Health Imposes on Oregon Taxpayers and Consumers

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Introduction

This Issue Brief addresses a specific question related to Oregon Health & Science University's (OHSU) proposed acquisition of Legacy Health (Legacy): to what extent will the financial implications of the acquisition impact Oregon taxpayers and consumers? If OHSU's acquisition results in a financial loss in the near and medium term—an outcome that seems plausible given Legacy's recent losses and OHSU's commitment to borrow $1 billion to finance asset improvements[1]—will OHSU rely on Oregon's general fund, explicitly or implicitly, to bridge a portion of the financial gap? On the other side, if OHSU's acquisition results in a financial benefit to the hospital system, would those financial gains reduce the degree to which OHSU currently relies on Oregon's general fund for support? The answer to these questions is important because, unlike a merger or acquisition involving two private organizations, this acquisition involves a public corporation that has received considerable state and federal funding.[2] The impacts can, therefore, extend beyond healthcare consumers in the Portland area and include Oregon taxpayers generally, especially if the acquisition falls short of OHSU's publicly-stated expectations.[3]

OHSU's status as a public corporation is at the heart of the matter.[4] OHSU has been a public corporation for 30 years, established by then Governor Kitzhaber in 1995. Governor Kitzhaber recently described OHSU's public corporation status in the following way: OHSU's public corporation status

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[1] According to an OHSU Health Care Market Oversight (HCMO) filing fact sheet on the acquisition, "Legacy Health has absorbed significant and unsustainable operational losses" over the past five years and "OHSU will commit to expenditures on capital projects of approximately $1 billion." OHSU also states that, "the integrated public university health system projects short-term operational losses through 2028 (most of which are driven by factors other than the combination [of OHSU and Legacy] …" (OHSU. (2024). "HCMO filing fact sheet." Portland, OR: OHSU. https://www.ohsu.edu/sites/default/files/2024-09/HCMO-Filing-Fact-Sheet.pdf.)

[2] In 2024 alone, for example, OHSU received $72.9 million in state appropriations and $104.5 million from a FEMA public assistance program. OHSU receives additional public funding "as part of the Intergovernmental Transfer (IGT) partnership with the State of Oregon, which helps secure major funding for the Oregon Health Plan and covers a percentage of the cost of care for Medicaid and other low-income patients. Reflected in operating revenues, this support was $293 million and $331 million in fiscal years 2024, and 2023, respectively." (Oregon Health & Science University Financial Statements and Supplementary Information. (2024). Portland, OR: OHSU, https://www.ohsu.edu/sites/default/files/2024-12/ohsu-financial-stmt-audited-fy24.pdf.)

[3] OHSU states that, while it expects short-term operational losses through 2028, these losses will be, "more than offset by an increase in the integrated public university health system's net worth." OHSU further states that, "This increase is driven by the capital commitment, economic efficiencies and improved financial performance associated with this combination." (OHSU. (2024). "HCMO filing fact sheet." Portland, OR: OHSU. https://www.ohsu.edu/sites/default/files/2024-09/HCMO-Filing-Fact-Sheet.pdf.)

[4] OHSU describes itself as, "a public corporation and Oregon's only comprehensive academic health center that provides education and direct health care to Oregonians, and that conducts medical research. By statute, OHSU is required to exercise its corporate power in a way that 'best promotes the public welfare of the people and the state of Oregon'." OHSU describes Legacy Health as, "a local nonprofit health system with a mission of 'good health for our people, our patients, our communities and our world'." (OHSU. (2024). "HCMO filing fact sheet." Portland, OR: OHSU. https://www.ohsu.edu/sites/default/files/2024-09/HCMO-Filing-Fact-Sheet.pdf.)

"sought to balance public accountability with operating flexibility. It gave the institution the ability to make independent programmatic and business decisions, answerable to its own Board of Directors, while still retaining its commitment to partner with the state to meet important public goals."[5] The relationship between OHSU and the State has served Oregon's citizens well over the years, especially by providing much-needed care to vulnerable populations.

The lines are blurred, however, between OHSU's commitment to meet its existing public goals and its ability to meet these same goals after it absorbs Legacy's patient population. If OHSU's obligations to the State are expanded along with its expanded (vulnerable) patient population from the acquisition, then one could reasonably expect that the State would increase its own commitment as part of its partnership with OHSU. Such an expanded commitment on the part of the State, however, is essentially a taxpayer subsidy to fund OHSU's acquisition of Legacy Health. Further, from an Oregon taxpayer standpoint, how does this implicit subsidy compare with the potential benefit to Oregon taxpayers if the acquisition, as argued by OHSU, results in synergies that lead to a financial gain to OHSU over the medium and longer term? This Issue Brief addresses these questions. We start with a description of OHSU's current status as a public corporation.

OHSU Is a Public Corporation that Receives Financial Support from Oregon's General Fund.

One important attribute of OHSU's public corporation status is that OHSU receives funding from the state through the general fund. Over the past five years, OHSU has received a total of $260 million from Oregon's general fund. Between 1995, when OHSU became a public corporation, and 2024, OHSU's annual support from the State has ranged from $30 million (2013) to $73 million (2024) (**Figure 1**). OHSU has received support in every year in which it has operated as a public corporation.

In return for receiving support from the general fund, OHSU is committed to certain public goals, as noted above. OHSU describes its public mission as follows: "As part of its multifaceted public mission, OHSU strives for excellence in education, research and scholarship, clinical practice and community service. Through its dynamic interdisciplinary environment, OHSU stimulates the spirit of inquiry, initiative and cooperation among students, faculty and staff."[6] Oregon's investment in its partnership with OHSU has been fruitful along many dimensions. Within 15 years of being formed, OHSU reported that, "The results of the public corporation transformation have been dramatic. OHSU has saved millions by streamlining operations and brought in millions more through prudent business decisions

[5] Kitzhaber, J. (2024). "Is the proposed acquisition of Legacy Health by OHSU in the best interest of Oregonians?" https://blog.johnkitzhaber.com.
[6] Oregon Health & Science University. (2025). "OHSU Vision, Mission and Values." Portland, OR: OHSU, https://www.ohsu.edu/about/ohsu-vision-mission-and-values.

and wise investments. The university has expanded its activities, improved facilities and enhanced its reputation nationally."[7]

So, while one main takeaway is that OHSU has received funding from Oregon's general fund, another takeaway is that this money, and the restructuring allowed under OHSU public corporation status restructuring, has been worthwhile. The partnership between OHSU and the State will almost certainly be impacted if OHSU acquires Legacy, given the financial considerations involved and Legacy's current patient mix.

The Acquisition of Legacy Health Entails Financial Risks for OHSU.

OHSU's proposed acquisition of Legacy comes with three clear financial risks: 1) Legacy has recently operated at a loss; 2) OHSU has agreed to purchase Legacy's capital assets and borrow $1 billion to finance asset improvements; and 3) Legacy's patient population consists disproportionately of individuals who require subsidized care.

Legacy Health operated at a loss in 2023.

First, in 2023, Legacy Health experienced operating losses of $15 to $20 million per month.[8] Further, as noted by Legacy, "Legacy has fallen short of our goal of achieving a 3% operating margin in all but one of the past seven years."[9] Legacy's margins, while less than their 3 percent goal from 2017 to 2022, were based on revenues that were rising consistently over this time period (**Figure 2**). In 2017, Legacy's revenues were $1.97 billion. By 2022, Legacy's revenues increased to $2.56 billion. In terms of magnitudes, between 2017 and 2022, Legacy's annual net income from operations ranged from $31 million (2022) to $79 million (2020). In fact, from 2010 to 2022 Legacy's net operating income was positive and never fell below $30 million.

The extent to which Legacy's 2023 losses are representative of Legacy's long-term trajectory are the matter of some debate. According to OHSU, "Over the last five years, Legacy Health has absorbed significant and unsustainable operational losses … Legacy lost $96 million in the fiscal year ending March 31, 2024."[10] In contrast, according to researchers at Brown University, Legacy's financial health

[7] Oregon Health & Science University. (2011). "Public Corporation Report." Portland, OR: OHSU, https://www.ohsu.edu/sites/default/files/2018-07/OHSU-Public-Corp-Report.pdf.
[8] Kitzhaber, J. (2024). "Is the proposed acquisition of Legacy Health by OHSU in the best interest of Oregonians?" https://blog.johnkitzhaber.com.
[9] Legacy Health. (2024). "Legacy Health: Our Financial Crisis." Portland, OR: Legacy Health.
[10] OHSU. (2024). "HCMO filing fact sheet." Portland, OR: OHSU. https://www.ohsu.edu/sites/default/files/2024-09/HCMO-Filing-Fact-Sheet.pdf.

is considered "strong" per Standard & Poor's metrics, due to its 180 days of cash on hand.[11] The researchers also point out that Legacy's investment portfolio is worth $1.3 billion and this portfolio yielded returns exceeding $400 million between 2019 and 2024, plus other assets and an overfunded pension.

It is also worth noting that OHSU experienced its own operational challenges in 2024 (**Figure 3**). According to OHSU's financial statements, "In fiscal year 2024, OHSU had an adjusted operating *loss of $(97) million* compared to an adjusted operating income of $53 million in fiscal year 2023."[12] [Emphasis added.] Further, according to OHSU's financial statements, "The University and the Foundation programs and operations are funded through various sources … For example, state appropriations and FEMA grants are considered nonoperating revenues, but they fund operating expenses and compensate for lost operating revenues."[13] In 2024, OHSU reported receiving $72.886 million from state appropriations and $104.486 million from FEMA ("FEMA public assistance program").[14] This state and federal funding, which is uncertain going forward, masked OHSU's operational challenges in 2024; absent this funding, OHSU would have operated at a loss.

Whether OHSU's acquisition is necessary for Legacy to avoid a financial collapse is less important than understanding the general situation that OHSU's acquisition of Legacy entails financial risk. If Legacy's near-term financial shortfalls are indicative of what OHSU will absorb in the near term, then OHSU's acquisition implies that its finances in the near term will be lower than they otherwise would be without the acquisition. If Legacy's near-term financial shortfalls are indicative of long-term financial shortfalls, then OHSU's financial could be impacted in both the near term and the longer term. In both cases, Oregon taxpayers could be impacted by the acquisition.

OHSU has agreed to finance $1 billion in capital expenditures.

Another important aspect of the acquisition is how OHSU will finance its purchase of Legacy's capital assets and its promised capital expenditures. According to the filing documents, OHSU will "take on $1 billion in debt to finance capital expenditures across the integrated public university health system."[15] It may well be true that these capital expenditures can be viewed as an investment in OHSU's health

[11] Rooke-Ley, H., Brown, E.F., King, J., and Arnold, D. (2025). "Brown University and American Economic Liberties Project Submission to the Oregon Health Authority Regarding the Proposed Merger Between Oregon Health & Science University and Legacy Health." Providence, RI: Brown University.
[12] Oregon Health & Science University Financial Statements and Supplementary Information. (2024). Portland, OR: OHSU, https://www.ohsu.edu/sites/default/files/2024-12/ohsu-financial-stmt-audited-fy24.pdf.
[13] Ibid.
[14] Ibid.
[15] OHSU. (2024). "HCMO filing fact sheet." Portland, OR: OHSU. https://www.ohsu.edu/sites/default/files/2024-09/HCMO-Filing-Fact-Sheet.pdf.

system, and that these expenditures will result in an increase in the system's net worth. Still, as a practical matter, the financing of $1 billion is an expense in the near term. This financing cost could exacerbate other financial risks associated with the acquisition.

Legacy's patient mix consists predominantly of individuals who require subsidized care.

Finally, a key consideration is why, operationally, Legacy has experienced low margins. One factor is that Legacy's patient mix is concentrated on Medicaid and Medicare patients (**Figure 4**). Legacy itself reports that 70 percent of its patients are "insured through government sponsored plans, representing the highest share in the region."[16] Five out of ten Legacy patients are reported to receive Medicare and two out of ten Legacy patients are reported to receive Medicaid. Just three in ten Legacy patients are commercial or self pay. In terms of revenue, Legacy's Medicare patients have accounted for 25 percent to nearly 40 percent of revenue from 2011 to 2024. Over this same period, Legacy's Medicaid patients have accounted for just under 20 percent of revenue to nearly 30 percent of revenue. Legacy's high ratio of Medicare and Medicaid patients is one reason why Legacy has been experiencing financial strain.

The fact that the portion of Legacy's patient population that requires subsidized care is higher than that of OHSU's current patient population, means that OHSU's patient mix will change after the acquisition, in a way that will require OHSU to provide a higher portion of subsidized care. One result is that OHSU's financial system after the acquisition will be strained for the same reasons that strain Legacy's current operations.

The important takeaway is that the financial implications of OHSU's acquisition of Legacy are not limited to Legacy's current operational performance or the acquisition of Legacy's physical assets. The financial impact to OHSU is a function of the mix of patients that OHSU will inherit from Legacy relative to OHSU's current patient population.

Taken together—Legacy's recent operational losses, OHSU's commitment to take on $1 billion in debt, and Legacy's patient mix—it is logical for OHSU to report expected losses following the acquisition through 2028.[17] How will these losses be absorbed?

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[16] Legacy Health. (2024). "Legacy Health: Our Financial Crisis." Portland, OR: Legacy Health.

[17] OHSU states, "Although the integrated public university health system projects short-term operational losses through 2028 (most of which are drive by factors other than the combination), these losses are more than offset by an increase in the integrated public university health system's net worth." (OHSU. (2024). "HCMO filing fact sheet." Portland, OR: OHSU. https://www.ohsu.edu/sites/default/files/2024-09/HCMO-Filing-Fact-Sheet.pdf.)

Oregon Taxpayers and Consumers Would Implicitly Subsidize a Financial Shortfall from the Acquisition.

The operational losses that are expected to occur in the three years following the acquisition, plus any additional ones that are not projected by OHSU, would need to be covered in one of three ways: 1) by increasing revenues; 2) by decreasing expenditures (including improvements in operational efficiencies); or 3) by borrowing. Regarding expenditures, the synergies that OHSU touts when it comes to operational efficiencies, are likely to be realized in the medium or long term, and that is what OHSU indeed expects.[18] Borrowing can bridge a financial gap in the short term, but borrowing costs above and beyond the $1 billion that OHSU is already committed to borrowing would likely need to be financed at higher rates than OHSU would otherwise pay.[19] Borrowing might cover financial shortfalls in the near term, but it also comes with a direct cost (interest payments). Borrowing for the near term can also exacerbate finances in the medium and longer terms as interest compounds and the principal eventually needs to be paid.

Raising revenues, therefore, seems like the most feasible option. At the risk of oversimplifying, revenue is equal to price times quantity of units sold, plus any outside sources of revenue. OHSU could increase revenues by increasing the prices it charges to insurers, private and government, as well as healthcare consumers for the types of healthcare it delivers. OHSU could, conceivably expand services as well, though expanding services improves the bottom line only when coupled with gains in efficiency. External sources such as grants and subsidies are another source of revenue, especially for a healthcare system. To the extent that grants and subsidies come from the State, these sources of revenue involve Oregon's taxpayers, Oregon's healthcare consumers, or both.

OHSU could rely on general fund revenues to cover post-acquisition financial shortfalls.

One subsidy that OHSU receives as a public corporation is funding from Oregon's general fund. OHSU's access to general fund revenues has been consistent over time, between $30 million and $45 million from 2005 through 2022. In the last two years, OHSU's payments from the general fund have increased to $63 million in 2023 and $73 million in 2024. These general fund revenues are intended to support OHSU's public goals, as noted above. An outstanding question is how these stated public goals might change with OHSU's acquisition of Legacy's mix of patients. One realistic expectation is that OHSU's public goals will be expanded along with its expanded number of patients, especially those requiring subsidized care. It is also, then, reasonable to assume that OHSU will require additional payments from

[18] Again, OHSU expects losses from operations through 2028. (OHSU. (2024). "HCMO filing fact sheet." Portland, OR: OHSU. https://www.ohsu.edu/sites/default/files/2024-09/HCMO-Filing-Fact-Sheet.pdf.)
[19] Notably, if such a rate was to be subsidized by the state, this subsidy would be paid for by Oregon taxpayers.

the general fund to meet these expanded goals. While perhaps not directly stated as such, OHSU could implicitly rely on Oregon's general fund to help cover post-acquisition financial shortfalls.

Any expanded draw from the State's general fund by OHSU has a direct impact on Oregon taxpayers, as taxpayer revenue is what funds Oregon's general fund.[20] One implication, for example, is that taxpayers in Baker City would be subsidizing OHSU's acquisition of Legacy in Portland.

OHSU could raise costs for patients to cover post-acquisition financial shortfalls.

Another way to increase revenues is to increase prices, or the cost of care. The healthcare market is not a perfectly competitive market, so increasing prices for healthcare is not as straightforward as increasing prices in other types of markets. If Walmart needs to increase revenues for the coffee it sells in response to an increase in cost, Walmart can do so directly by increasing prices on its shelves. Healthcare markets are very different from perfectly competitive ones, for many reasons. One reason is the presence of insurance. Healthcare markets are also characterized by asymmetric information, where the healthcare provider oftentimes knows more about what treatment a patient needs than the patient does themselves. Few patients, therefore, have an understanding of the prices they are facing when seeking care. Even if they did, for some healthcare purchases (e.g., urgent care), prices are irrelevant to whether healthcare is provided in the moment. Whereas a Walmart consumer can choose not to buy coffee after seeing the shelf price, a healthcare consumer cannot opt out of ambulatory services when found unconscious, no matter what the price is. All's to say, traditional economic approaches to markets, with consumers and producers operating with full information and responding to prices, do not apply to healthcare markets.

That said, in contrast to healthcare consumers (demand side), healthcare providers (supply side) do understand the costs they are facing and how these costs can be covered by the prices they charge. If OHSU's acquisition of Legacy increases OHSU's costs, OHSU can charge higher prices for its services to cover these costs. Importantly, these prices are not traditional shelf prices; rather they are price schedules, which are used as a benchmark, routinely discounted, for the provision of services. The relationship between billed charges and paid charges can be complicated but, in the end, these higher prices are passed on the consumer in one form or another, such as through higher premiums, higher deductibles, higher copays, or any combination of the three, or even in other ways.

[20] Oregon's Secretary of State reports: "The General Fund is largely made up of personal and corporate income taxes collected by the Oregon Department of Revenue. The personal income tax makes up the largest share of General Fund revenue. It accounts for 81.6% of projected gross revenue for the 2023–25 biennium. Other sources make up the remainder. The largest of these other revenue sources are corporate income tax, insurance tax, estate tax and revenues related to the liquor sales." (Oregon Secretary of State. (2025). "Oregon Blue Book, Government Finance, State Government." Salem, OR: State of Oregon. https://sos.oregon.gov/blue-book/Pages/facts/finance-state.aspx#:~:text=The%20General%20Fund%20is%20largely,the%20Oregon%20Department%20of%20Revenue.)

These costs are oftentimes covered through hospital systems' charity care policies for eligible low-income patients. In such cases, the hospital system will need to recover these costs using alternative means, including charging higher prices for those individuals who are able to pay. Economists often use the phrase, "there is no free lunch," and the healthcare market is no exception. When costs are unable to be paid by the patient, such as the case with charity care, *someone* needs to cover these expenses for the healthcare provider. This core issue holds for healthcare acquisitions as well. If OHSU will be incurring additional expenses due to its acquisition of Legacy's financially vulnerable population, its commitment to borrow $1 billion for capital improvements, or its willingness to cover Legacy's operations shortfalls, someone will need to cover these expenses.

Indeed, the literature has documented how mergers and acquisitions in healthcare markets have increased costs to consumers. A systematic review of 37 studies from 1990 to 2024 on horizontal integration (HI) and vertical integration (VI) in the U.S. healthcare system found that more than 90 percent of studies with information on prices reported price increases and more than 80 percent of studies with information on costs found no change or increases in costs.[21] The authors note that, "Spearheaded by strategies to control costs and improve quality, the consolidation of healthcare systems has evolved through mergers and acquisitions (M&A). Theoretically, an integrated healthcare system provides value (quality/cost) by reducing cost through elimination of redundancies, and addition of gains in efficiencies of staffing, supply chain and human resources."[22] Based on their meta-analysis, the authors conclude: "… the M&A activity associated with HI and VI has not resulting in consistent and significant improvements in price, cost/spending, or quality associated with the delivery of healthcare in the United States.[23]

OHSU could reduce access and quality to cover post-acquisition financial shortfalls.

Another way that OHSU could address the expected near term financial shortfall from the acquisition of Legacy is to lower expenses. Increases in efficiency are a justification for the acquisition, and such a justification in an all-else-equal environment can be strong. The catch, however, is whether the all-else-equal condition holds. If a market becomes concentrated, as the Portland healthcare market post-acquisitions most certainly will be (**Figures 5a and 5b**), OHSU will arguably have increased market

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[21] Bhagwan, B., Way, D. P., Hoyt, D., & Ellison, C. E. (2024). "Systematic Review of Integration Strategies Across the US Healthcare System: Assessment of Price, Cost, and Quality of Care." *Journal of the American College of Surgeons*. https://doi.org/10.1097/XCS.0000000000001229; see, also, Rooke-Ley, H., Brown, E.F., King, J., and Arnold, D. (2025). "Brown University and American Economic Liberties Project Submission to the Oregon Health Authority Regarding the Proposed Merger Between Oregon Health & Science University and Legacy Health." Providence, RI: Brown University.
[22] Bhagwan, B., Way, D. P., Hoyt, D., & Ellison, C. E. (2024). "Systematic Review of Integration Strategies Across the US Healthcare System: Assessment of Price, Cost, and Quality of Care." *Journal of the American College of Surgeons*. https://doi.org/10.1097/XCS.0000000000001229, p. 3.
[23] Ibid, p. 17.

power, and the ability to alter the healthcare market in this area. Patients currently have a choice between Legacy and OHSU, and this choice keeps both healthcare systems in check. If one system attempts to scale back its provision of care or raise prices, patients can switch to the other provider. This threat of switching forces both providers to keep up their standards of care at the lowest price possible. OHSU's acquisition of Legacy will remove this market force and leave patients with no viable alternative if OHSU's quality or cost of care falls short. In this new market environment, OHSU could increase prices after the acquisition with little market resistance.

OHSU's influence on the Portland healthcare market after the acquisition is not limited to prices. OHSU can also reduce expenses any number of ways, by reducing access to care and quality of care. The "cost" that consumers might pay might not be measured in dollars, for example. Increased costs can come in the form of fewer provider locations, requiring more travel time and less access, and fewer providers, requiring longer wait times to receive care and longer wait times on the day of service. Quality of care could also be impacted in many other ways, including the type of care received and the attention received by providers. An entire literature has documented the multitude of ways that mergers and acquisitions have impacted access to care and quality of care.[24] With these impacts, healthcare equity is also negatively impacted.

What is clear is that any financial shortfall from OHSU's acquisition of Legacy will be, at least in part, borne by Oregon taxpayers and Oregon healthcare consumers.

The Potential Financial Upside to Oregon Taxpayers and Consumers Does Not Match Their Implicit Subsidy.

One remaining question is whether, from the perspective of Oregon taxpayers and consumers, the downsides of a potential financial shortfall from the acquisition are outweighed by the potential upside of gains in efficiencies. The answer is almost certainly no.

OHSU would unlikely reduce the taxpayer burden in the event of a post-acquisition financial gain.

One notable observation about OHSU's payments from the general fund is that these payments have been consistent over time, and by and large disconnected from OHSU's financial performance. Specifically, while OHSU's revenues and net income have fluctuated over time, OHSU's reliance on the

[24] Bhagwan, et al. (2024) found that more than 75 percent of studies in their meta-analysis reported no change or reductions in quality. See: Bhagwan, B., Way, D. P., Hoyt, D., & Ellison, C. E. (2024). "Systematic Review of Integration Strategies Across the US Healthcare System: Assessment of Price, Cost, and Quality of Care." *Journal of the American College of Surgeons*. https://doi.org/10.1097/XCS.0000000000001229; see, also, Mariani, M., Sisti, L. G., Isonne, C., Nardi, A., Mete, R., Ricciardi, W., Villari, P., De Vito, C., & Damiani, G. (2022). Impact of hospital mergers: A systematic review focusing on healthcare quality measures. *European Journal of Public Health*, 32(2). https://doi.org/10.1093/eurpub/ckac002.

general fund is more or less unchanged, with the notable exception of a spike in the last two years. So, on the one hand, OHSU has not relied on the general fund to cover its shortfalls in the past. On the other hand, however, OHSU has not reduced its reliance on the general fund when its finances have been strong (e.g., 2015 and 2016).

A logical takeaway is that OHSU will continue to draw from the general fund even if the acquisition of Legacy results in a financial gain. If so, Oregon's taxpayers would not be compensated for taking on the risk of the acquisition if things do turn out positively.

Taxpayers would likely subsidize the acquisition if the result is a financial shortfall to OHSU, but would not receive commensurate financial benefits if the result is a financial gain to OHSU.

OHSU would unlikely lower costs to patients in the event of a post-acquisition financial gain.

Can consumers expect lower costs in the event of a financial gain from the acquisition? While cost reductions are possible in theory, the evidence suggests that healthcare costs are not reduced in the wake of a merger or acquisition. Moreover, the evidence even suggests that the *growth* in healthcare costs is not even slowed in the wake of a merger or acquisition. While Oregon healthcare patients are likely to see increases in costs if the acquisition strains OHSU's resources, Oregon's healthcare consumers are unlikely to see lower costs if the acquisition results in a financial gain to OHSU.[25]

OHSU would not necessarily improve access and quality in the event of a post-acquisition financial gain.

Finally, what would be the likely impact on healthcare access and quality if the acquisition results in a financial gain to OHSU? On this topic, the question of magnitudes becomes important. It is likely that OHSU would reinvest at least a portion of its financial gains into its healthcare system.[26] The real question is how much. Would the increases in services and access to care in the event of a financial gain be commensurate with the decreases in the event of a financial strain? Here again, the evidence suggests an asymmetric relationship. Any improvements from a financial gain are unlikely to counter any reductions from a financial loss. So, from an expected value standpoint, Oregon's healthcare consumers are unlikely to be better off following the acquisition.

[25] See footnote 21; see, also: Rooke-Ley, H., Brown, E.F., King, J., and Arnold, D. (2025). "Brown University and American Economic Liberties Project Submission to the Oregon Health Authority Regarding the Proposed Merger Between Oregon Health & Science University and Legacy Health." Providence, RI: Brown University.

[26] When commenting about its 2023 "break-even" budget, OHSU reported: "The $4.8 billion break-even budget is in contrast with previous years, when operating margins were reinvested into the university's health care, research, and education missions." (Oregon Health and Science University. (2023). "OHSU adopts break-even budget." Portland, OR: OHSU, https://news.ohsu.edu/2023/06/23/ohsu-adopts-break-even-budget.)

Economic Externalities Can Help Explain the Apparent Inconsistency of OHSU Providing More Subsidized Care while Improving Its Financial Situation.

A recent study by researchers at Brown University and the American Economic Liberties Project states, "… if the central justification for the merger is that Legacy is on the brink of collapse, it is incompatible for the merged entity to both serve more Medicaid patients and turn Legacy's financial situation around."[27] The logic of this argument appears to be that OHSU cannot both improve its financial situation and increase the amount of subsidized care that it provides. From OHSU's perspective, however, such an outcome might be possible, if the additional costs are covered by Oregon's taxpayers or passed on to Oregon's healthcare consumers.

The impact of the acquisition on Oregon taxpayers is an example of an economic externality—an impact from production, either positive or negative, that is imposed on an outside party.[28] A classic example of an externality is a manufacturer that disposes waste in a river upstream from a farmer. The manufacturer's activities negatively impact those of the farmer, whose crops are adversely affected (and likely negatively impact the surrounding population as well). If the manufacturer took into account the costs that it is imposing on the farmer, it would reduce or eliminate its discharges into the river. In this case, the manufacturer's pollution of the river is analogous to the economic fallout from OHSU's acquisition of Legacy. Whereas the manufacturer is imposing a cost on the farmer, OHSU is imposing a cost on Oregon taxpayers. And just as the manufacturer would pollute less if it took into account the costs it is imposing on the farmer, OHSU might not proceed with the acquisition if it did not have the financial backstop of Oregon taxpayers or of Oregon's healthcare consumers.

Negative externalities can be addressed in many ways—by regulating a producer, by imposing fines on a producer, by taxing a producer, or by reaching a market-based solution in which the producer works with the affected party to achieve a mutually-agreeable outcome. With the exception of regulation, which appears to be especially weak in this case,[29] the traditional solutions to the externality problem associated with OHSU's acquisition do not appear to be in place.

In cases where externalities exist, producers making decisions based on their own revenues and costs will have production methods that are not socially optimal. The reason is that producers are not taking

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[27] Rooke-Ley, H., Brown, E.F., King, J., and Arnold, D. (2025). "Brown University and American Economic Liberties Project Submission to the Oregon Health Authority Regarding the Proposed Merger Between Oregon Health & Science University and Legacy Health." Providence, RI: Brown University.

[28] Mankiw, G. (2024). *Principles of Microeconomics*. Boston, MA: Cengage Learning.

[29] Oregon Health & Science University. (2011). "Public Corporation Report." Portland, OR: OHSU, https://www.ohsu.edu/sites/default/files/2018-07/OHSU-Public-Corp-Report.pdf; see, also, Rooke-Ley, H., Brown, E.F., King, J., and Arnold, D. (2025). "Brown University and American Economic Liberties Project Submission to the Oregon Health Authority Regarding the Proposed Merger Between Oregon Health & Science University and Legacy Health." Providence, RI: Brown University.

into account the full impact of their behavior. In the case of OHSU's acquisition of Legacy, OHSU is not taking into account the full cost—private and social—associated with the acquisition. The full cost, in particular, would account for the potential negative impacts to Oregon's taxpayers and healthcare consumers. Once these externalities are taken into account, it is questionable whether OHSU's acquisition of Legacy is socially optimal.

Conclusion

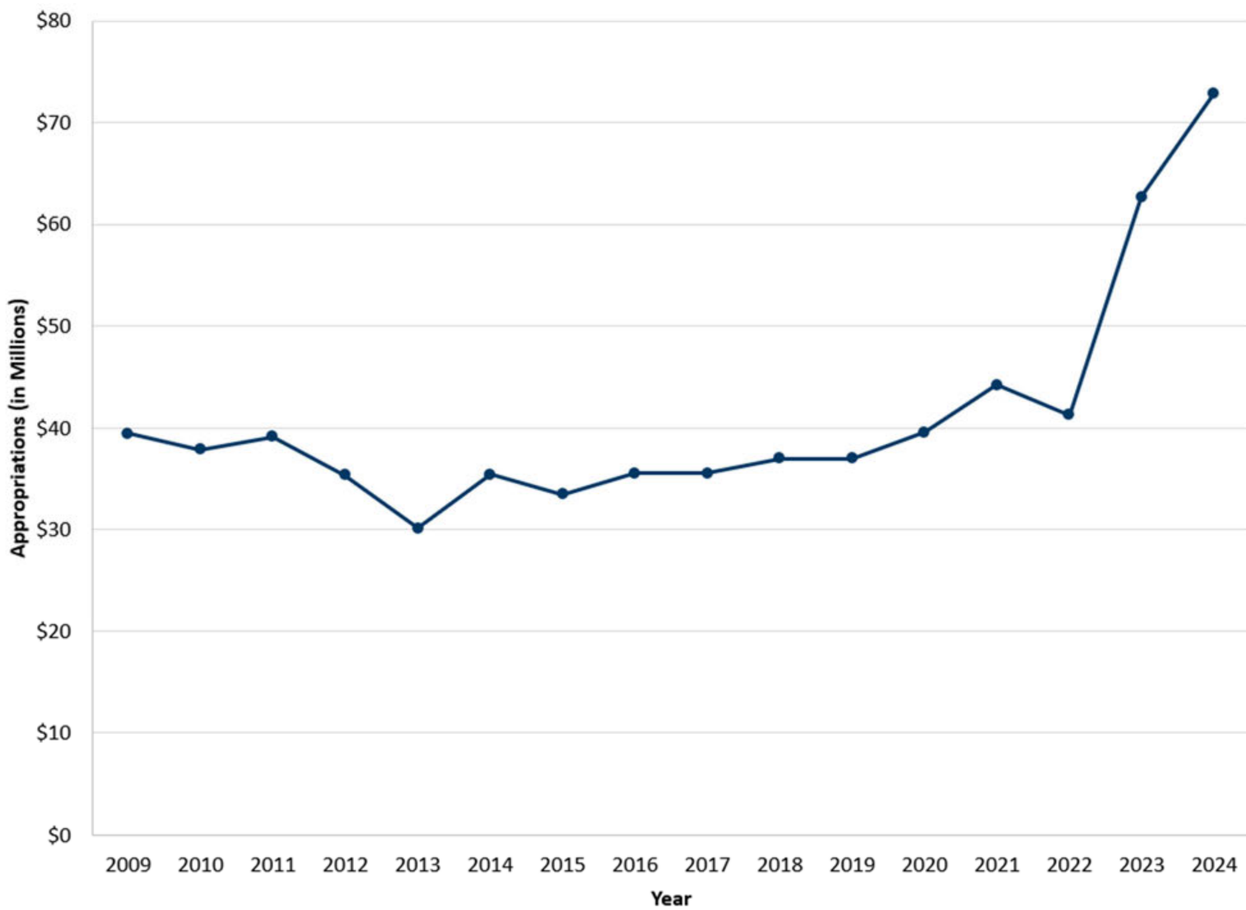
OHSU's proposed acquisition of Legacy Health raises many questions. Questions about market concentration are central, as with any merger or acquisition of this magnitude. The concern is that market forces might be compromised if too few producers remain in the wake of the merger or acquisition. Without the discipline of market forces, the producers that do remain can take advantage of their market power—by restricting output and raising prices—to the detriment of consumers. In this case, if an OHSU-Legacy entity controls a substantial share of the Portland healthcare market, it can leverage this market power in a myriad of ways, such as by raising healthcare prices, lowering quality, limiting access, or negatively impacting healthcare equity, harming Portland's healthcare consumers in the process.

This Issue Brief addresses another question related to the OHSU-Legacy acquisition. OHSU is a public corporation that receives funding from Oregon's general fund. As such, how will Oregon taxpayers and Oregon healthcare consumers be impacted by any financial loss or gain resulting from the acquisition? The acquisition clearly entails financial risks for OHSU. Legacy has recently operated at a loss, OHSU has agreed to borrow $1 billion to finance improvements in assets, and Legacy's patient mix consists predominantly of individuals who require subsidized care. Even OHSU expects to incur financial losses for the next three years. All signs indicate that Oregon taxpayers and healthcare consumers would be implicitly subsidizing any financial shortfall. Further, the potential upside to Oregon taxpayers and healthcare consumers does not match this implicit subsidy. OHSU's proposed acquisition of Legacy, therefore, imposes an economic externality of Oregon's taxpayers and Oregon's healthcare consumers.

More needs to be learned about the degree to which OHSU's status as a public corporation is being leveraged to facilitate its acquisition of Legacy Health, and how this leveraging will impact Oregon's taxpayers and healthcare consumers.

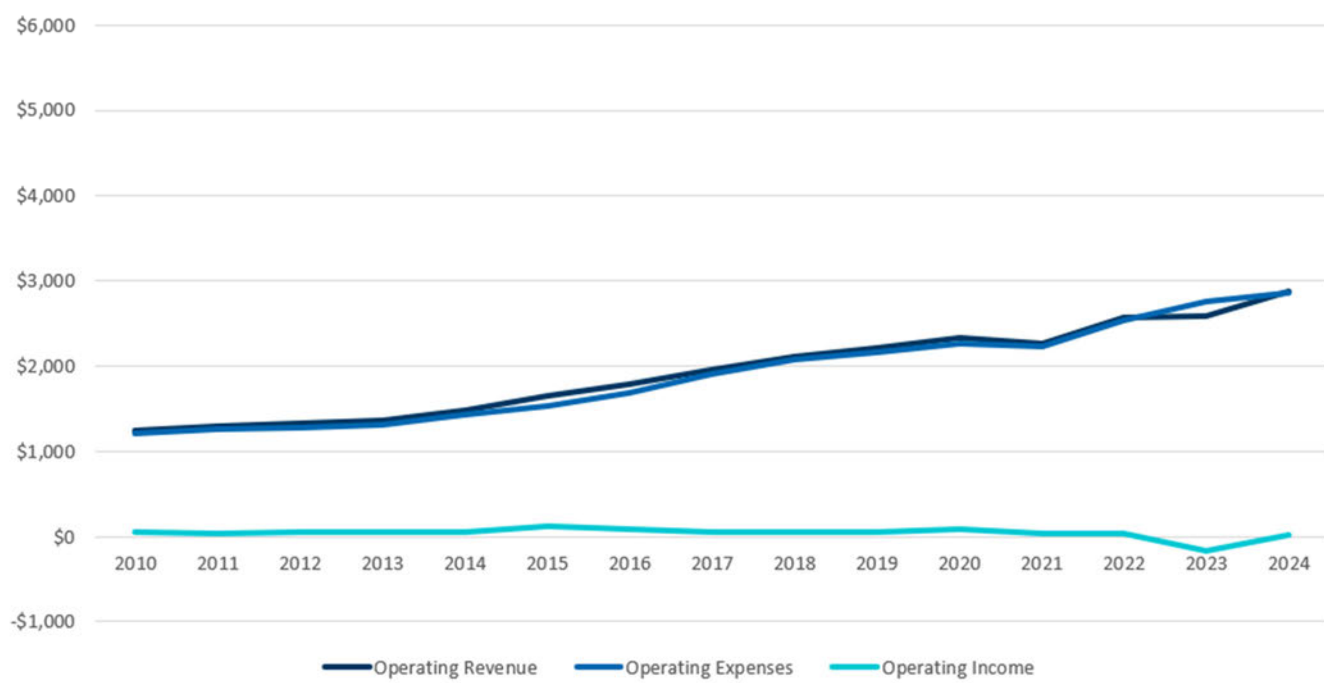
Exhibits

Figure 1: Annual State Appropriations to OHSU, 2009 to 2024



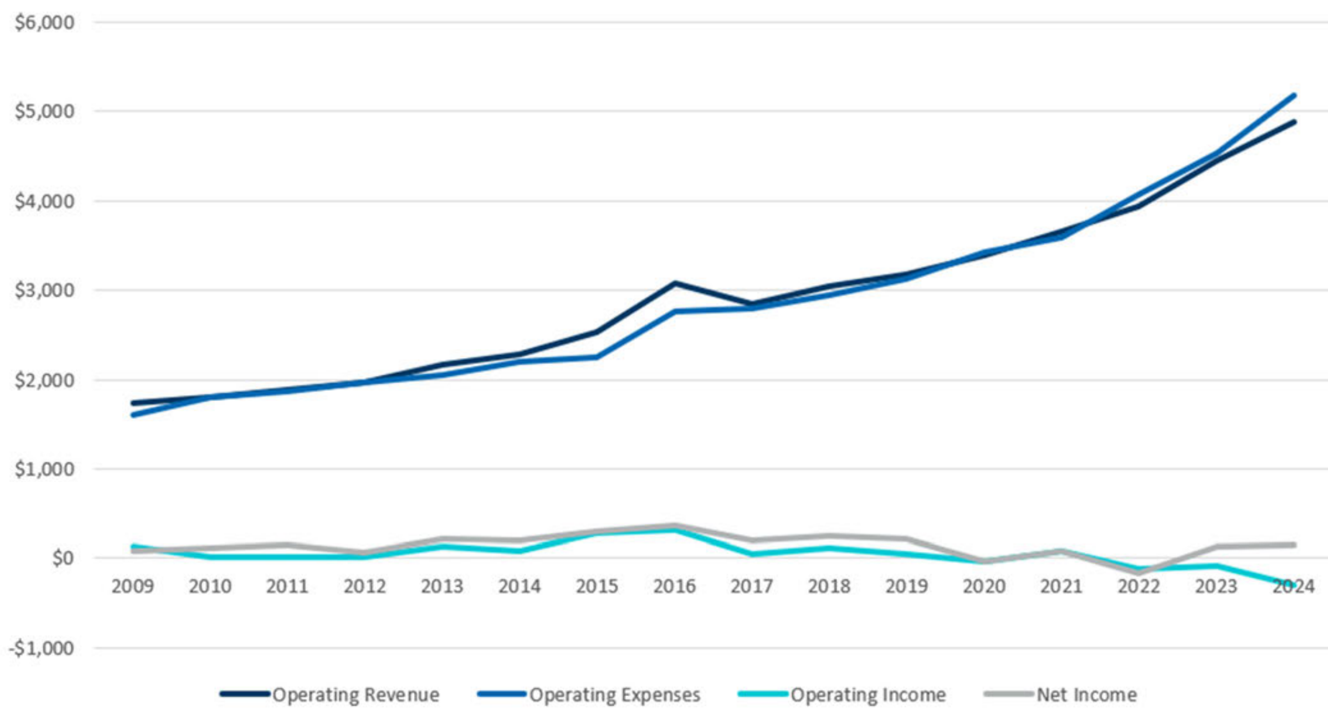
Sources: Oregon Health & Science University Financial Statements. (2009-2024). Portland, OR: OHSU (https://www.ohsu.edu/sites/default/files/2018-07/OHSU-Public-Corp-Report.pdf, p.4;https://www.ohsu.edu/sites/default/files/2018-08/FY13OhsuFinancialStmtAudited.pdf, p.6; https://www.ohsu.edu/sites/default/files/2018-08/FY14OhsuFinancialStmtAudited_0.pdf, p.6; https://www.ohsu.edu/sites/default/files/2018-08/ohsu-financial-stmt-audited-fy15.pdf, p.6; https://www.ohsu.edu/sites/default/files/2018-08/ohsu-financial-stmt-audited-fy17.pdf, p. 5; https://www.ohsu.edu/sites/default/files/2018-08/FY12OhsuFinancialStmtAuditedl.pdf, p. 4; https://www.ohsu.edu/sites/default/files/2019-04/20190405_OHSU%20BOD%20Meeting%20Docket.pdf, p. 18; https://www.ohsu.edu/sites/default/files/2022-06/2021%20Fact%20Book%20Final.pdf, pg. 51; https://www.ohsu.edu/ sites/default/files/2018-08/2009_Fact_Book.pdf, p.53; https://www.oregon.gov/oha/HPA/ANALYTICS/HospitalDocuments/FY10%20AFS%20Oregon%20Health%20&%20Science%20University%20Hospital.pdf, p. 17; https://www.ohsu.edu/sites/default/files/2024-12/ohsu-financial-stmt-audited-fy24.pdf, p. 8; https://www.ohsu.edu/sites/default/files/2021-11/ohsu-financial-stmt-audited-fy21.pdf, p. 6).

Figure 2: Operating Revenue, Expenses, and Income, Legacy Health, 2010 to 2024 ($millions)



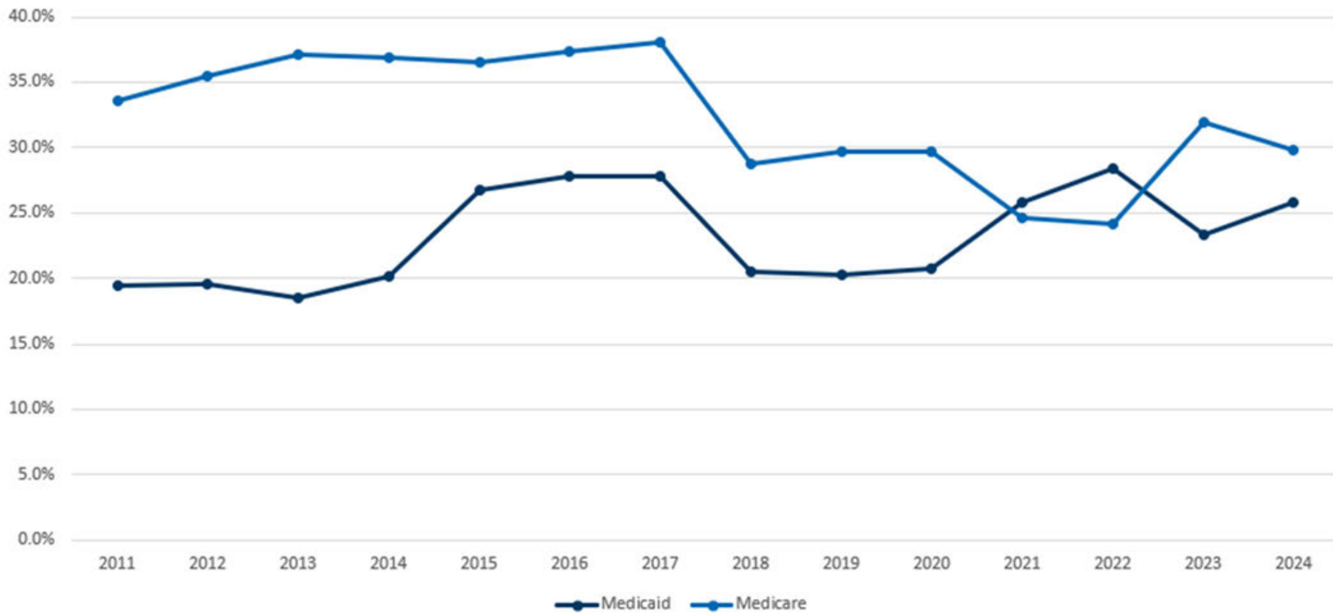
Sources: Legacy Health Consolidated Financial Statements and Other Financial Information. (2010-2024). Portland, OR: Legacy Health (2010-2011, 2012, 2013: https://dfr.oregon.gov/business/reg/insurer/ mergers/Documents/ pacificsource-legacyhealth-exhibit-09.pdf, pp. 5, 69, 128; 2014-2015: https://www.oregon.gov/oha/HPA/ANALYTICS/HospitalDocuments/ FY15%20AFS%20Legacy%20Health%20System.pdf, p. 5; 2016-2017: https://www.oregon.gov/ oha/HPA/ ANALYTICS/HospitalDocuments/FY17%20AFS%20Legacy%20Health%20System.PDF, p.5; 2018-2019: https://www.oregon.gov/oha/HPA/HP/HCMOPageDocs/038-Exhibit-4-Legacy-Health-Audited-Financials-FY-2019-2023.pdf, p. 4; 2020: https://www.oregon.gov/oha/HPA/HP/HCMOPageDocs/039-SuppMaterials-I-Legacy-Financial-Statements-2020-and-2019.pdf, p.4; 2021-2022: https://www.oregon.gov/oha/HPA/ANALYTICS/ HospitalDocuments/FY22%20AFS%20Legacy%20Health%20System%20Legacy%20Emanuel%20Med%20Ctr.pdf, p. 4; 2023-2024: https://www.oregon.gov/oha/HPA/ANALYTICS/HospitalDocuments/ FY24%20AFS%20Legacy%20Health%20System%20Legacy%20Emanuel%20Med%20Ctr.pdf, p. 4).

Figure 3: Operating Revenue, Expenses, and Income, and Net Income, OHSU, 2009 to 2024 ($millions)



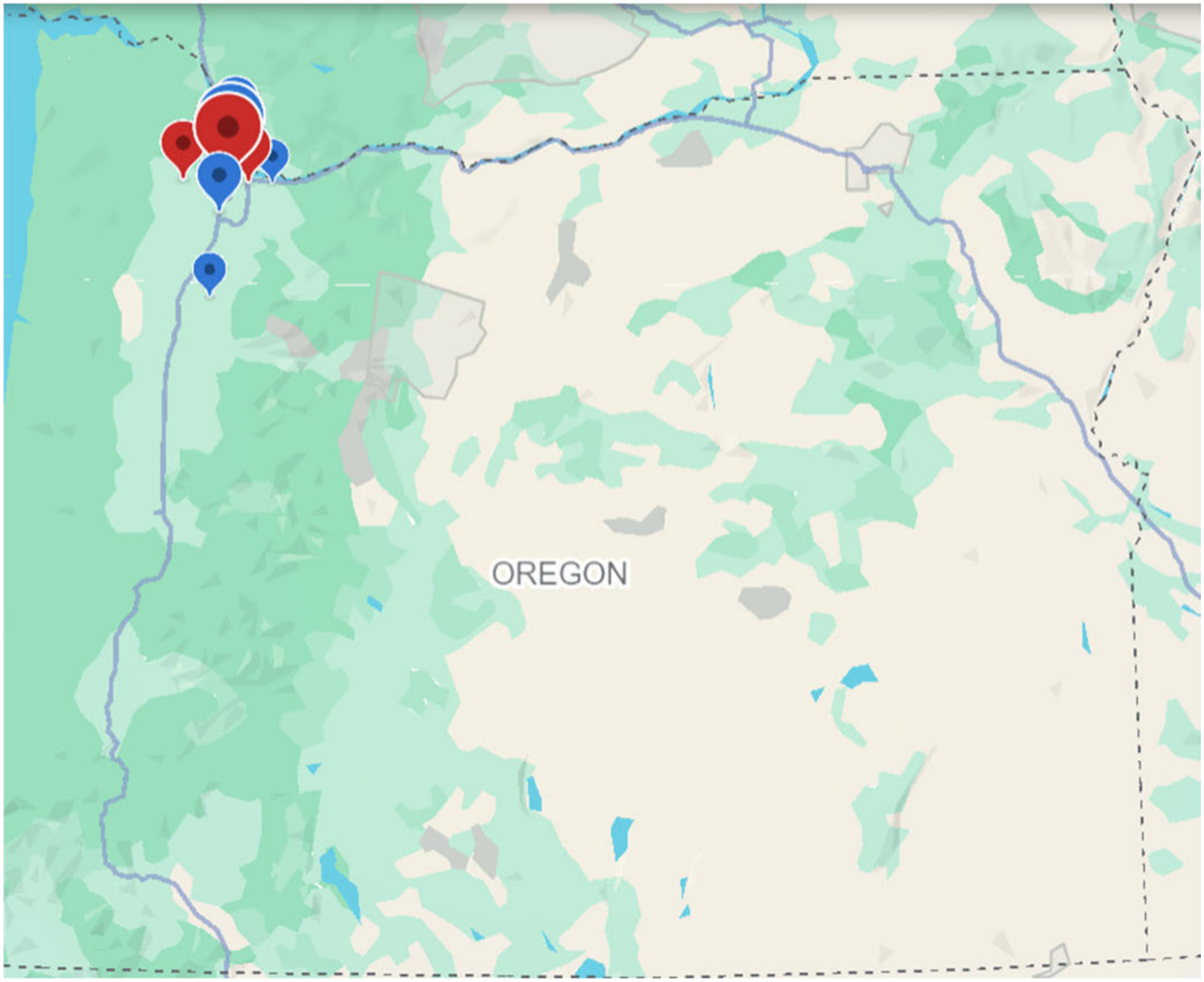
Sources: Oregon Health & Science University Financial Statements and Supplementary Information. (2009-2024). Portland, OR: OHSU (2009: https://www.oregon.gov/oha/HPA/ANALYTICS/HospitalDocuments/FY10%20AFS%20Oregon%20Health%20&%20Science%20University%20Hospital.pdf, p. 17; 2010: https://www.oregon.gov/oha/HPA/ANALYTICS/HospitalDocuments/FY11%20AFS%20Oregon%20Health%20&%20Science%20University%20Hospital.pdf, p. 17; 2011-2012: https://www.ohsu.edu/sites/default/files/2018-08/FY12OhsuFinancialStmtAuditedl.pdf , p.20; 2013-2014: https://www.ohsu.edu/sites/default/files/2018-08/FY14OhsuFinancialStmtAudited_0.pdf, p. 22; 2015-2016: https://www.ohsu.edu/sites/default/files/2018-08/ohsu-financial-stmt-audited-fy16.pdf, p. 27; 2017-2018: https://www.ohsu.edu/sites/default/files/2018-11/ohsu-financial-stmt-audited-fy18_0.pdf, p. 29; 2019: https://www.ohsu.edu/sites/default/files/2020-11/ohsu-financial-stmt-audited-fy20.pdf, p. 35; 2020-2021: https://www.ohsu.edu/sites/default/files/2022-06/2021%20Fact%20Book%20Final.pdf, p. 47; 2022-2024: https://www.ohsu.edu/sites/default/files/2024-12/ohsu-financial-stmt-audited-fy24.pdf, p. 8).

Figure 4: Percentage of Legacy Health Revenue Derived from Medicare and Medicaid Patients, 2011 to 2024



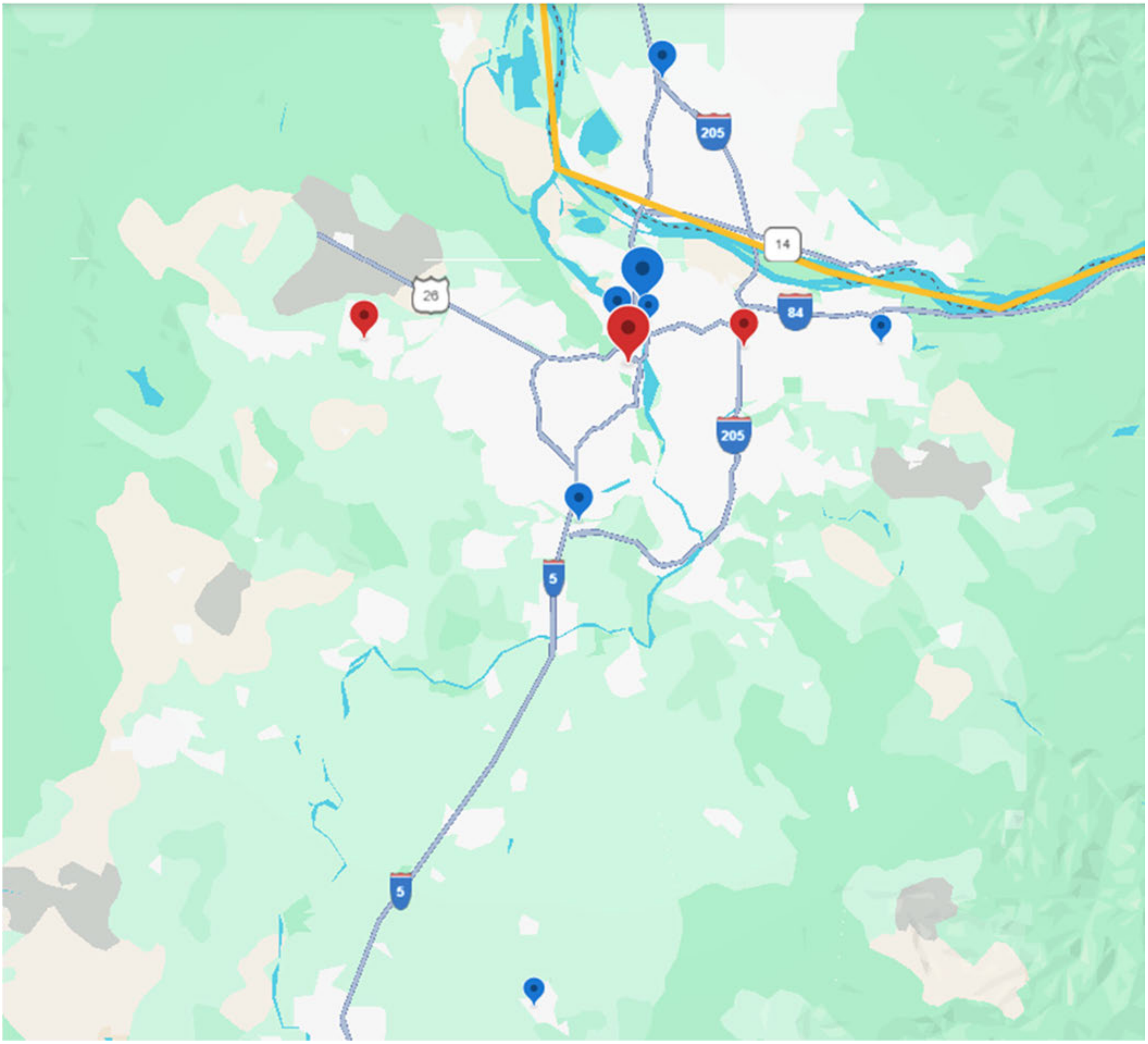
Sources: Legacy Health Consolidated Financial Statements and Other Financial Information. (2010-2024). Portland, OR: Legacy Health (2010-2011, 2012, 2013: https://dfr.oregon.gov/business/reg/insurer/mergers/Documents/ pacificsource-legacyhealth-exhibit-09.pdf, pp. 5, 69, 128; 2014-2015: https://www.oregon.gov/oha/HPA/ANALYTICS/HospitalDocuments/FY15%20AFS%20Legacy%20Health%20System.pdf, p. 5; 2016-2017: https://www.oregon.gov/ oha/HPA/ANALYTICS/HospitalDocuments/FY17%20AFS%20Legacy%20Health%20System.PDF, p.5; 2018-2019: https://www.oregon.gov/oha/HPA/HP/HCMOPageDocs/038-Exhibit-4-Legacy-Health-Audited-Financials-FY-2019-2023.pdf, p. 4; 2020: https://www.oregon.gov/oha/HPA/HP/HCMOPageDocs/039-SuppMaterials-I-Legacy-Financial-Statements-2020-and-2019.pdf, p.4; 2021-2022: https://www.oregon.gov/oha/HPA/ANALYTICS/HospitalDocuments/FY22%20AFS%20Legacy%20Health%20System%20Legacy%20Emanuel%20Med%20Ctr.pdf, p. 4; 2023-2024: https://www.oregon.gov/oha/HPA/ANALYTICS/HospitalDocuments/FY24%20AFS%20Legacy%20Health%20System%20Legacy%20Emanuel%20Med%20Ctr.pdf, p. 4).

Figure 5a: Location of OHSU and Legacy Health Hospitals, Statewide Map



Sources: Oregon Health & Science University. (2025). Locations and Directions. Portland, OR: OHSU. http://www.ohsu.edu/visit/locations-and-directions; Legacy Health. (2025). Doctors and Locations. Portland, OR: Legacy Health. https://www.legacyhealth.org/Doctors-and-Locations?Latitude=&Longitude=&SearchType=LOCATIONS&keyword=&ActiveLocationTypeFilter=&services=&ZipCode=&Radius=5&PageNumber=1&PatientAge=&Specialties=&Language=&Gender=&Locations=&IsLHPMember=&OpenWeekends=undefined&Open24Hours=undefined.

Figure 5b: Location of OHSU and Legacy Health Hospitals, Portland Region Map



Sources: Oregon Health & Science University. (2025). Locations and Directions. Portland, OR: OHSU. http://www.ohsu.edu/visit/locations-and-directions; Legacy Health. (2025). Doctors and Locations. Portland, OR: Legacy Health. https://www.legacyhealth.org/Doctors-and-Locations?Latitude=&Longitude=&SearchType=LOCATIONS&keyword=&ActiveLocationTypeFilter=&services=&ZipCode=&Radius=5&PageNumber=1&PatientAge=&Specialties=&Language=&Gender=&Locations=&IsLHPMember=&OpenWeekends=undefined&Open24Hours=undefined.

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