

OHSU as a Public Corporation:

Launching a period of growth and programmatic excellence

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After more than 15 years as a public corporation, OHSU has discovered some truths about the benefits – and limitations – of this new model. The shift from state agency to public corporation can offer the tools to foster innovation, growth and remarkable quality improvements. If the right factors are present, the transformation can also leverage significantly more

mission from public dollars. But there is an end point. Even with a leaner, more entrepreneurial institution, public missions still need predictable and sufficient public support. We have learned the public corporation model can unleash excellence, but it is not a panacea.

Since becoming a public corporation, OHSU has grown and expanded its services significantly – it educates 147 percent more students; treats 208 percent more patients; and brings in 450 percent more annually in research grants. OHSU has been able to do all of this despite steady decreases in the amount of general fund dollars it receives. The key to our success has been the freedom to plan strategically and invest to create a world-class clinical enterprise, which has substantially supported the development of outstanding education and research programs. Yet our over-reliance on revenues from patient care operations creates its own challenges, particularly in an era of cost containment pressures through health care reform.

It's hard to remember what OHSU was like 20 years ago. There were pockets of quality in research and education, but nothing like the widespread excellence of today. Back then, researchers scrambled desperately for inadequate lab space. The health care facilities were cramped and out-of-

date. Patients came to OHSU primarily if they were too sick or too poor to go anywhere else. In 1985, state legislators introduced a bill to close OHSU Hospital because it was too costly to the state.

Like any great undertaking, OHSU's evolution featured a cast of thousands – faculty, staff, community leaders, generous donors – as well as hard work and smart decisions. Yet little of that work would have been possible without the vision of the Oregon Legislature and Gov. Kitzhaber, who in 1995 approved legislation to change OHSU's governance structure from state agency to public corporation. This was a foundational change on which OHSU's subsequent growth and success was built.

Today, OHSU is a crown jewel in the state's economy, bringing hundreds of millions of dollars a year into the state through research grants; students in the health care professions; and patients seeking care not available in their own states. OHSU is a much larger yet leaner, more entrepreneurial institution with widespread excellence: nationally ranked education programs and world-class research and patient care programs.

To understand how becoming a public corporation changed OHSU, this report explores a number of essential questions: What was OHSU like before the change? What conditions made change necessary? What alternatives were considered? What benefits has the change in governance status brought? What does the future hold?

The challenge of change

Like most academic health centers across the country, OHSU has long relied on its clinical enterprise to generate revenues to help underwrite losses incurred by educational programs, safety net care and community outreach – as well as to support research. In the early 1990s, this was increasingly challenging.

The following observation from 1995 suggests a turbulent health care system not unlike today:

"America's health care system is undergoing dramatic change. New medicine, new equipment and new methods are improving how we deliver care. At the same time, the need to control costs has helped create a dynamic marketplace, one that demands intense competition as well as innovative collaboration. In this environment there is one inescapable fact of life – those that cannot be responsive and efficient, and those unwilling to embrace change, will simply not survive. That is the reality OHSU now faces. Being a public university with a patient care mission does not make OHSU immune to the sweeping changes and increased competition that are part of today's health care industry. In fact, quite the opposite is true. Cuts in state support mean that, more than ever before, OHSU's survival depends on its ability to compete in the marketplace."

The emergence of managed care in the early 1990s hit OHSU very hard. OHSU Hospitals and Clinics were ill-equipped to compete for revenues with private sector health care providers who had neither: 1) the regulatory burdens associated with being a state agency nor 2) the price differential that comes with subsidizing public service missions. Managed care penetration rates in Oregon were among the highest in the country, and the Portland market in particular had become extremely price-competitive.

OHSU was caught in a web of regulations and procedures that were designed for traditional government activities, but had little to do with conducting biomedical research or providing state-of-the-art patient care in a competitive environment. As one of eight public universities and colleges governed by the State Board of Higher Education (the forerunner of today's Oregon University System), OHSU was subject to administrative and management systems that were primarily designed for large undergraduate institutions like Oregon State University and Portland State University – as well as some systems designed for state agencies. Most, if not all, of the final decision makers in state government had little or no experience in medical education or health care delivery.

Time-consuming approval processes made it difficult to react to the marketplace, or to plan strategically for the future. In 1986, for example, OHSU initiated the process to upgrade its outdated maternity unit. Although OHSU wasn't asking for state funding, bureaucratic delays dragged out the process for years. Finally, in the summer of 1994, construction began. In the meantime, OHSU was forced to send many of its patients to other hospitals, costing OHSU significant revenues.

OHSU worked to increase patient care, gifts, grants and contracts during this time, but our budget was still far too tight to accommodate even essential maintenance – much

less expansion or improvement. At the same time, the Oregon Legislature was reeling from Measure 5 – a 1990 voter initiative that reduced property tax rates and cost the state significant revenues. To their credit, legislators were looking for creative solutions to their budget problems. This gave us the window of opportunity we needed to make the case for change.

Becoming a public corporation

As the 1995 legislative session opened, it was clear that OHSU's future success would depend less on increasing state funding than on gaining the autonomy to make strategic decisions and invest in our patient care facilities. The state wanted to promote OHSU's growth while ensuring Oregonians' sense of ownership by protecting and, if possible, enhancing OHSU's public missions.

Legislators faced three options. The first was to do nothing, which would have left OHSU facing an extended decline. The second was to go totally private, which OHSU rejected for a number of reasons – not the least of which was that public service had always been at the heart of OHSU's identity. The third option was to become a public corporation, a sort of hybrid structure that balanced public accountability and operating flexibility.

It was the public corporation option that the state ultimately approved in the form of Senate Bill 2, in June 1995. SB 2 gave OHSU a streamlined governance structure that allowed us to make independent programmatic and business decisions. In practice, this meant OHSU would operate more like a business, answerable to its own board of directors and accepting fiduciary responsibility for its own actions. At the same time, OHSU reaffirmed its commitment to continue to partner with the state to meet important public service missions.

Freedom in decision making allowed OHSU to establish competitive procurement processes with external vendors (rather than state agencies or state-prescribed vendors) that were more cost-efficient and more responsive to customer needs. OHSU had previously been restricted to dealing with state-approved vendors, or, in many cases, actual state agencies, such as the State Printing Office. Additionally, the implementation of annual budgeting allowed us to respond more quickly to marketplace conditions and tailor our priorities strategically. We also reformed our accounting system to a more business-oriented process that allows for capitalization and depreciation.

Restructuring at OHSU in the wake of SB 2 (**see Table 1**) created a number of operational efficiencies internally. The combined savings were significant and allowed OHSU to absorb a \$17 million cut to its biennial appropriation (as part of the public corporation agreement) without cutting programs.

Table 1. SB 2 – Benefits of OHSU restructuring

New Flexibility	Results
Access to capital markets	OHSU has issued a series of bonds relying on its own good faith and credit, using the proceeds to upgrade facilities and marketplace competitiveness
Removal of state personnel rules	Realized efficiency savings through establishment of an OHSU Human Resources Department; consolidated tasks previously housed under several state agencies; converted entire institution to one biweekly payroll
New rules for contracting and purchasing	OHSU now able to seek competitive bids from private sector rather than being restricted to state vendors, e.g., State Printing Office
Annual budgeting	Allows OHSU to respond more quickly to marketplace conditions and tailor priorities, funding appropriately
Accounting system reforms	A more business-oriented accounting process allows for capitalization and depreciation
Eliminate bureaucratic approval procedures for strategic decisions	Allows OHSU to develop collaborative partnerships with other health agencies and insurers and to proceed with mergers to improve education and research

Perhaps most significantly, SB 2 made it possible for OHSU to access the bond market on its own faith and credit, which allowed us to make targeted capital investments in education, research and patient care. Substantial investments in clinical care in particular have been critical to OHSU's overall financial stability. OHSU has improved its facilities, hired more health care practitioners and clinical researchers and, as a result, attracted more patients and become broadly recognized as a desirable place to receive care.

While SB 2 gave OHSU a high degree of strategic independence, it also retained a great deal of coordination between OHSU and what is now known as the Oregon University System (OUS). OHSU's degree approval and quality assurance process is coordinated with the OUS structure (in addition to internal OHSU review processes and approval by Northwest Commission on Colleges and Universities). The OHSU provost sits on the OUS Provost's Council and represents the OHSU president at all of the OUS board meetings. The OHSU vice president for research also sits on the OUS Research Council and is currently the chair of this body. OHSU staff members meet regularly and engage in collaborative program planning with multiple OUS counterpart councils to coordinate work and programs (e.g. financial aid directors, registrars and directors of diversity).

In addition, OHSU hosts a number of OUS academic programs in our facilities and OHSU programs are hosted by several

OUS campuses. OHSU sponsors joint academic programs with Oregon State University (Doctorate in Pharmacy and MS/PhD in Medical Physics) and Oregon Institute of Technology (BS in Clinical Lab Sciences, Paramedic Education) as well as the unique Oregon Master in Public Health program, a three-way collaboration between OHSU, Oregon State and Portland State. The OHSU School of Nursing has regional campuses housed at Western Oregon University, Southern Oregon University, Oregon Institute of Technology and Eastern Oregon University.

Making OHSU a public corporation did not change its public missions, just how it achieves them. In sum, OHSU:

- Retained its public status and character as being owned by Oregon.
- Remained accountable to the people of Oregon through a board of directors appointed by the governor and confirmed by the Oregon Senate
- Is still subject to laws that apply generally to all public bodies, such as those that assure public accountability and oversight through access to public records, government ethics, secretary of state audit authority, and legislative approval of our general fund budget.

OHSU was released from laws that apply only to state agencies that required duplicate review and approval processes, control over revenue and policy oversight.

The record of success

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 and wise investments. The university has expanded its activities, improved facilities and enhanced its reputation nationally. As Table 2 shows, OHSU has grown significantly while state funding diminished.

In 1995, OHSU’s operating budget was \$499 million, we had 6,500 employees, 1,800 students and earned \$86 million in grant awards. In fiscal year 2010, OHSU’s operating budget was \$1.8 billion, with 13,400 employees, 2,700 students, and \$392 million in grant awards. OHSU is now the largest employer in Portland, with a gross estimated economic impact of almost \$4 billion in output, including \$1.8 billion in personal income and 35,000 jobs across the state.

Table 2. OHSU growth and change

Year	Operating Budget	State Appropriations	Grant Awards	Employees	Students
1975	\$80 million	\$33 million	\$14 million	4,325	1,610
1985	\$190 million	\$38 million	\$18 million	5,200	1,200
1990	\$340 million	\$64 million	\$43 million	6,500	1,536
1995	\$499 million	\$59 million	\$86 million	6,651	1,855
2000	\$882 million	\$56 million	\$168 million	10,100	1,854
2005	\$1.18 billion	\$42 million	\$274 million	11,500	2,511
2010	\$1.85 billion	\$39 million	\$392 million	13,400	2,721

Operational flexibility has allowed us to foster collaboration in the education arena, with community colleges as well as public and private universities. In addition, the public corporation transformation enabled a series of mergers with the Oregon National Primate Research Center (1998), the Neurological Sciences Institute (1998), and the Oregon Graduate Institute of Science and Technology (2001). These mergers have bolstered research and education programs.

Since 1995, OHSU has been awarded \$3.4 billion in research funding, of which \$2.5 billion was from federal sources. It is important to note that the increase in research funding was not achieved in a vacuum—much of this success can be attributed to the Oregon Opportunity, a public-private campaign launched in 2001, with the state issuing \$200 million in bonds that were matched by about \$378 million

in private philanthropy raised by the OHSU Foundation. Yet without becoming a public corporation – without the improvements to health care facilities that made OHSU more attractive to clinical faculty and translational researchers, to name just one benefit – OHSU research might never have been able to embark on the Oregon Opportunity campaign.

The campaign has increased not just the quantity of OHSU research, but the quality as well, and a 2009 audit of the Oregon Opportunity by the Secretary of State’s Office said OHSU had “met or exceeded its specific goals and measurable targets.” OHSU was successful in recruiting 94 scientific investigators between 2002 and 2009, exceeding its original target of 71. Oregon Opportunity recruitments have played a significant role in OHSU’s expanded funding for research – funding which has increased from \$217 million in 2001 to \$392 million in 2010, helping OHSU to climb up the NIH rankings. In fact, the cumulative awards received by Oregon Opportunity recruits alone totaled \$226 million in the first eight years, surpassing the public investment of \$200 million.

OHSU is today a national leader in neuroscience, infectious disease/immunology, cancer, stem cell research, and has emerging strengths in cardiovascular disease and stroke, diabetes/metabolism research, imaging, and aging. OHSU is also a leader in translational research, and was one of the first 12 institutions nationally to receive a \$55 million grant from the National Institutes of Health in 2006 for what became the Oregon Clinical and Translational Research Institute (OCTRI). OHSU was also recently named a Regional Center of Excellence in Infectious Disease by the National Institute of Allergy and Infectious Disease.

OHSU has seen numerous breakthroughs in stem cell research, including the first successful cloned nonhuman primate embryonic stem cells – a finding that tied for first place as *Time Magazine’s* discovery of the year in 2008. Equipment purchased through the Oregon Opportunity helped lead the Advanced Imaging Research Center to breakthroughs in the use of MRI (magnetic resonance imaging) in breast cancer diagnosis.

The Oregon Opportunity also positioned OHSU to be extremely competitive for federal economic stimulus (American Recovery and Reinvestment Act) grants, with \$79.5 million to date in awards and others pending. The Oregon Opportunity helped to set the stage for the \$100 million gift from Phil and Penny Knight leading to the OHSU Knight Cancer Institute in 2008.

Recruitment under the Oregon Opportunity was intended to align research and clinical excellence, and that's exactly what happened. The Oregon Opportunity allowed specialties such as neuroscience, oncology, cardiovascular and orthopaedics to recruit faculty and grow programs. The results of this are illustrated by OHSU's case mix index, a gauge of the complexity of the overall patient caseload, which has climbed from 1.64 in 2004 to 1.83 in 2010 – the highest in Oregon. This is not only the highest patient acuity in Oregon, it is one of the highest measures in the country according to the Council of Teaching Hospitals. OHSU is in the top 10 percent among academic health centers nationally, and AHCs are home to the kind of complex tertiary and quaternary care available nowhere else.

The growth of these clinical programs has allowed OHSU to explore community partnerships with health care systems around the state that don't have the capacity for the kind of specialized care found at OHSU. This is done by providing OHSU physicians to other systems on a regular basis (for example, once a week, twice a month, etc.) or through the expansion of tele-health. One example of a tele-health partnership is with Columbia Medical Center in Astoria, where technology allows OHSU experts to help treat stroke patients as quickly as possible after the event to minimize damage. Another very successful example of telemedicine collaboration exists between Doernbecher Children's Hospital and the Pediatric Intensive Care Unit at Sacred Heart Hospital in Eugene.

OHSU's hospitals also provide the educational platform for 750 resident physicians and fellows and is the major clinical training site for our nursing, medical, physician assistants, pharmacy, dental and other health professional students.

Today, our educational programs receive national recognition. Our School of Medicine is nationally recognized for its patient-centered curriculum and emphasis on rural rotations. One of the statistics that we are most proud of is our medical school being ranked 11th in the country by *Annals of Internal Medicine* for meeting our social mission to the state, measured by the percentage of graduates who practice primary care, work in underserved areas or who are underrepresented minorities. In the recently released *US News & World Report* rankings of America's best graduate schools for 2012, our programs in Family Medicine, Primary Care, and Rural Medicine were ranked second, third and fifth, respectively. Our Physician Assistant program was ranked sixth in the country.

US News ranked our overall Nursing Masters Program seventh nationally and our programs in Midwifery, Gerontological Nursing, and Family Nurse Practitioner are ranked first, fourth and sixth respectively. In addition, the Oregon Consortium of Nursing Education (OCNE), a partnership between OHSU and eight Oregon community colleges, is unprecedented in the

United States and is increasingly viewed by health care and nursing education leaders as a model that could be adapted to achieve similar goals across the country. While we highlight these programs in nursing and medicine, the quality of all of our 42 degree and certificate programs is extremely high.

OHSU's growth and success – and our excellence in education, research and patient care – are dependent on our own debt financing through revenue bonds. And the way OHSU earns the credit rating to afford and attract bond buyers is through its independent governance, asset and finance control, along with nimble, flexible board leadership that is focused on OHSU missions. Our ability to manage that process was ratified in 2010 when Standard & Poor's upgraded OHSU's bond rating to A, a two-notch upgrade rarely awarded even in a strong economy.

While a great deal of individual work went into the growth and quality of programs listed above, it is safe to say that little of our progress would have been possible without the foundational change to public corporation status.

On balance, OHSU believes the public corporation transformation has been a very positive development for the institution. The primary benefits have been: 1) the ability to operate more efficiently and strategically and 2) the ability to access capital markets to invest in clinical facilities. Those investments led to a world-class clinical enterprise, which in turn has substantially supported the development of outstanding education and research programs.

Of course the transformation has not been without difficulties. The rapid change of administrative systems was difficult for all, and the culture shift on campus has taken a while to take root. Fifteen years in, the culture shift is in many ways still ongoing.

What does the future hold?

The prevailing model for funding academic health centers like OHSU, in which the clinical system significantly cross-subsidizes the education, research and community outreach missions, is increasingly under duress. Factors include the chronic under-funding of education, systemic gaps in research capitalization, and cost containment pressures in health care reform. In addition, those academic health centers that have historically received substantial public funding have seen that support erode as state budgets have trended downward in recent years. Philanthropy is an important source of funding for AHCs as well, though institutions with large endowments were more adversely hit by the global market downturn than those with small endowments. It is also worth noting that philanthropy is generally not effective in alleviating the strains on operating budgets in the short term. It is most effective as a long-term strategy with donors

Table 3. Funds transferred from OHSU clinical activities to support the university

	Actual FY07	Actual FY08	Actual FY09	Actual FY10	Actual FY11
Hospital Support	\$42,701,220	\$40,839,735	\$55,054,285	\$72,091,570	\$86,177,381
Faculty Practice Plan Support (MEIF)	\$12,242,745	\$13,235,286	\$15,544,693	\$15,870,538	\$16,218,000
TOTAL	\$54,943,965	\$54,075,021	\$70,598,978	\$87,962,108	\$102,395,381
% CHANGE		-1.6%	30.6%	24.6%	16.4%

giving to capital projects and endowments.

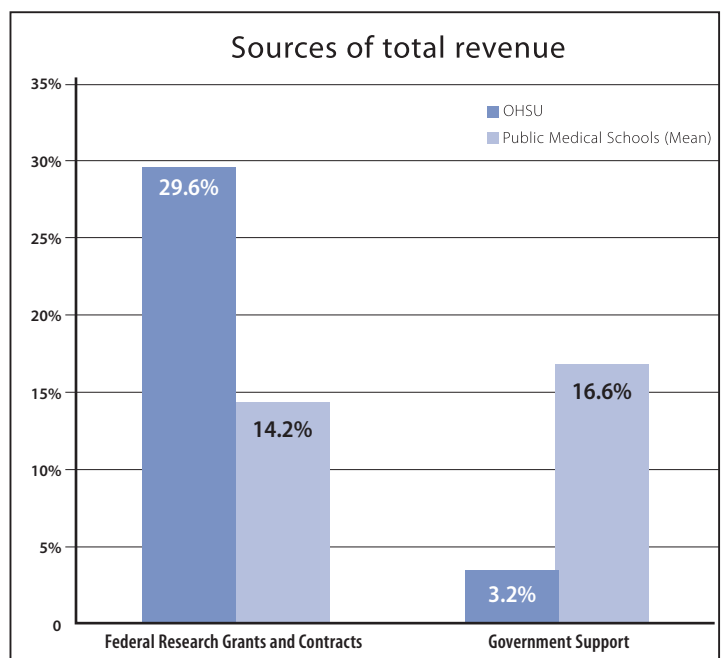
Moving forward, academic health centers – which already operate with much lower margins than community hospitals – are likely to be hard pressed to maintain their current commitment to research and education without new sources of funding. Because of its relatively small endowment and low levels of state support, OHSU is in many ways ahead of the curve in its strategic planning relative to other AHCs. Our circumstances have forced us to be more innovative administratively. OHSU has become more disciplined and entrepreneurial, and is working to ensure that the programs and services we provide for the public benefit are of the highest quality programmatically and financially sustainable. We used to take on a new program if it could break even – now we need programs to contribute something back to OHSU. We have also begun to partner more with other universities and health care providers to leverage scarce resources.

The public corporation transformation has succeeded at OHSU in large part because it freed us to create a world-class clinical enterprise, which has supported the development of world-class education and research programs. As shown in Table 3, the amount of the transfer from the clinical mission to the university has been growing rapidly for years. Today, clinical support of the education mission is well above the state appropriation.

OHSU has run its hospital “hot” for several years. We have operated at or above capacity for extended periods, aggressively pushed employee productivity, and deferred investment in clinical facilities and equipment – all in the name of supporting the other missions. With cost containment one of the primary drivers of health care reform efforts, academic health centers like OHSU must find new

sources of revenue to support education and research as well as re-investment in the clinical enterprise. Put simply, the scope of financial support to the university displayed above will not be possible in the future.

OHSU already operates with very little cushion – we are a leader among public academic health centers for efficiency and leveraging resources. Table 4 shows OHSU is well above the mean among public AHCs in research funding as a percentage of overall funding, and well below the mean for state support. In fact, OHSU is above the 90th percentile for research funding and below the 10th percentile for state support.

Table 4. OHSU sources of funding compared with other academic health centers

Taking these factors in combination – high reliance on clinical revenues, growing pressure for cost containment, a high proportion of research funding and a low level of state support – one can begin to see that there are very few (if any) financial levers remaining for OHSU to push. The fact is that OHSU's public missions will continue to require public dollars, or they will be vulnerable to reduction or closure.

Since becoming a public corporation, OHSU has given the state more and more bang for its buck. In 1995, OHSU's annual budget was \$499 million, of which \$59 million came from the state. Today, OHSU's annual budget is \$1.8 billion, of which \$39 million comes from the state. We have maximized the benefit of the public corporation and exhausted the opportunities for efficiency available through the flexibility of our governance status. We can no longer squeeze the hospital to fund education and research. Further investment will be necessary to meet the growing demand for OHSU programs and services.

Conclusion

The public corporation has been a huge success for OHSU and for Oregonians. Gov. Kitzhaber and the Oregon Legislature should take pride in what has been achieved: 1) in the vision to pursue the public corporation status, 2) in the greatly expanded services and programs that OHSU offers for the benefit of Oregonians, and 3) in the wise stewardship of public resources OHSU represents. The demand for OHSU services is higher than ever, and public missions will always require public funding. With OHSU's transformation as proof of what's possible, we hope that the partnership between OHSU and the state of Oregon continues to grow.

Appendix 1. What is an academic health center?

There are more than 100 academic health centers nationwide, each with significant regional and sometimes national impact. Not every AHC is the same, but the term typically refers to a university that contains: 1) a medical school plus additional health professions schools or programs such as dentistry, nursing, pharmacy, public health and allied health; 2) extensive biomedical research programs; and 3) one or more affiliated hospitals or health systems.

AHCs educate tomorrow's health care professionals and leaders. We are vital providers of patient care, from basic to advanced care, and offer comprehensive primary care as well as cutting-edge specialty treatment. In our hospitals and clinics, we tend to handle a disproportionate share of safety net care and provide complex tertiary and quaternary care available nowhere else in the state or region.

Our research portfolios generate new ideas, leading to new treatments, therapies and cures. AHCs also tend to have a significant local and regional economic impact, and are often the biggest employer in a community (e.g., Johns Hopkins is the biggest employer in Baltimore, and OHSU is the biggest employer in Portland).

As the mission of academic health centers differs from community hospitals and other health systems, so does the operating model. We have one foot in academia and one foot in the highly competitive world of health care delivery. This is unique in graduate and professional education. Business schools do not manage large corporations. Law schools do not manage comprehensive law firms. Yet academic health centers include the largest, most complex medical centers in the world.

Many staples of high-quality clinical care were developed and perfected in academic health centers, including intensive care units for newborns; new and better treatments for diabetes, cancer, and heart disease; new technologies, such as joint replacements, that improve quality of life; and organ and bone marrow transplantation. With the most highly trained health care providers and research scientists, and the best facilities in the world, AHCs have served as hubs of innovation that have transformed the delivery of health care and dramatically improved its quality.

The key to the success of academic health centers is the presence of multi-talented faculty participating in all of our missions. Many are at once a teacher, a health care provider, a researcher and often a thought leader in their field. Only in academic health care does the best education, research and care come together this way.



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