

OPTN Finance Committee

Meeting Summary

March 9, 2023

WebEx

Brad Kornfeld, Chair

Dale Smith, Chief Financial Officer

Introduction

The OPTN Finance Committee met via WebEx teleconference on 3/9/2023 to discuss the following agenda items:

1. Welcome and Introductions
2. Recap from the February 16, 2023 Meeting
3. Fiscal Year 2023 OPTN Reforecasts
4. Proposed 2023 OPTN Budget and Fee

The following is a summary of the Committee's discussions.

1. Welcome and Introductions

Brad Kornfeld, Finance Committee Chair and OPTN Treasurer, started the meeting by welcoming committee members. He explained that the goal of this session was to continue discussion of the FY2023 OPTN Registration Fee. He explained that the committee had requested that OPTN contractor staff conduct in-depth analysis of projected expenses and present a range of expected operating costs for the committee to consider. Mr. Kornfeld reminded the committee that HRSA has not approved the FY 2023 proposed fee, so the 2022 rate is still being utilized. This has resulted in approximately \$500,000 per month lower billings to OPTN members than what was budgeted.

2. Recap from the February 16, 2023 Meeting

Mr. Dale Smith, UNOS Chief Financial Officer, started by summarizing the background of the OPTN FY23 budget and fee. Mr. Smith explained that the OPTN contractor staff performed an in-depth analysis to determine both high and low forecasts along with rationale. Mr. Smith recapped the discussion from the previous meeting in which the committee had shown a preference for maintaining the fiscal year 2023 budget and either crediting the \$4.6M forgiven PPP loan to the OPTN and using the budgeted fee of \$944, or using the 2022 fee of \$868 and supplementing the shortfall with funds from the OPTN operating account.

A committee member asked for confirmation that HRSA is not going to approve the use of the \$4.6M PPP loan as a credit. Mr. Smith explained that in the proposed budget, the PPP loan is removed from the fee calculation. A HRSA Representative, confirmed that it is unlikely HRSA would approve having the PPP loan credited to the OPTN under any circumstances. Mr. Smith explained that due to federal regulations, the \$4.6M PPP funds must be returned to the government. The two options of crediting the amount back to the government, are to HRSA or to the Small Business Association. Both organizations have stated that there is not a process of returning the amount. For the purposes of this conversation, the PPP credit is off the table and will not be factored into the OPTN budget or fee. A representative from HRSA explained that the loan must be returned to the government and it is unlikely HRSA would allow the loan to be credited to the OPTN. Mr. Smith shared that Jason Livingston, UNOS General Counsel, is

collaborating with HRSA to determine if there is a way to provide the funds to HRSA without crediting it to the OPTN. A committee member asked why one of the budget options that was proposed, included the crediting the PPP loan to the OPTN. Mr. Kornfeld explained that the two options the committee considered previously both involved honoring the commitment to the transplant community by keeping the budget at the originally approved amount; the difference was how the OPTN would account for the \$4.6M for the budget. Mr. Smith explained that the budget options presented at the previous meeting included crediting the PPP loan to the OPTN because at that point, it seemed to still be an option.

The Treasurer reminded the committee of the objective of the meeting, which was to vote on an OPTN budget and registration fee, and suggested they move away from discussing how the OPTN would reimburse the government for the forgiven PPP loan. Mr. Smith walked through a slide that displayed the fiscal year 2023 OPTN budget broken down by large expense categories and assumptions that went into the budget.

3. Fiscal Year 2023 OPTN Reforecast

Mr. Smith presented the reforecasts and explained that most OPTN expenses go towards personnel expenses. The other large categories are purchased services, meetings & travel, and IT & telecom. These were the four areas where the most time and attention was spent. He explained that purchased services had been under budget mostly due to timing of billables, with projects starting later than expected. The meetings & travel category is projected to underspend because at the time the budget was prepared, airline, fuel, and hotel costs were higher than actual costs when spent.

A committee member asked whether the proposed budgets included sufficient resources to retain personnel to and mitigate the turnover rates. Mr. Smith confirmed that he believes they do. OPTN Leadership has discussed compensation and retention and factored that in to the proposed budget. Mr. Smith explained that a complicating factor would could be the OPTN contract rebid. If the RFP creates additional uncertainty with employees, then turnover may increase. Mr. Kornfeld stated that he has had several conversations with Alex Tulchinsky, Chief Technology Officer, and Mr. Tulchinsky has told him that uncertainty about the 2023 budget and the contract rebid have been factors in some of the turnover within IT. A representative from HRSA commented that they receive an email about every new hire and departure within the OPTN contractor and that the turnover rate within IT has been an issue for the past decade. Mr. Smith commented that they have seen higher turnover rates within the UNOS Software Engineering Department, which is harder to replace than other IT positions due to competition in the market. Tony Ponsiglione, UNOS Chief People Officer, commented that the turnover rate within IT is equivalent to the rest of the organization.

Mr. Smith presented the high budget forecast and assumptions. The high forecast was a little less than \$1M (1.3%) over the original budget. The high forecast was based on successful hiring and retention of employees, well attended in-person meetings and meeting prices remaining flat, travel increases seen during the summer, and purchased services projects. Purchased services includes an assumption of increased expenses related to a unilateral OPTN contract modification that HRSA implemented and will require additional work. A committee member asked what a unilateral contract modification meant and whether this meant HRSA implemented additional requirements without additional funding to account for this additional work. Mr. Smith explained that HRSA has the ability to modify tasks and deliverables, and the OPTN Contractor has requested additional funding for this work. A representative from HRSA explained that the OPTN Contract has broad tasks and HRSA submitted a change outlining more specificity regarding those tasks. The OPTN Contractor has submitted a request for equitable adjustment and is currently under negotiation.

Mr. Smith presented the low forecast and assumptions. The low forecast was approximately \$3M (-4.2%) under the original budget. The low forecast was based on the possibility that employee turnover continues with hiring challenges, that in-person meetings are not well attended and have lower prices, and purchased services are delayed and unable to complete their work within the fiscal year or within budget.

4. Proposed 2023 OPTN Budget and Fee

Mr. Smith explained the proposed FY 2023 OPTN Budget and Registration Fee. The new recommendation was to keep the original budget amount of \$72M, use OPTN operating funds of \$4.6M in place of the \$4.6M of PPP funds, and keep the OPTN Registration Fee at the original proposed amount of \$944. He explained that the \$72M budget is the right budget but he also did not like to set a precedent of rebudgeting because of budget forecasts. Mr. Smith noted that the use of OPTN operating funds has been done in the past and should not be considered negative.

Mr. Smith presented the OPTN's cash balance as of February, which showed that after deducting \$4.6M from the excess funds, there would still be \$1.5M remaining in excess of the minimum threshold. He then presented the shortfall of \$1.9M which is due to the continued billing of the fiscal year 2022 fee of \$868, instead of the proposed and budgeted 2023 fee of \$944. He explained that the reason he was only recommending using \$4.6M and not immediately proposing using the remaining \$1.5M was because based on the current shortfall, the excess balance will be used by the end of the year anyway.

Mr. Smith referenced the high estimate forecast, which he believes is more accurate than the low forecast. He noted that the savings in some areas are essentially being repurposed to areas with higher expenses. He expressed his opinion that when the savings are as small as what is being forecast, leadership should have the ability and flexibility to repurpose the money without seeking approval. However, when the amounts are significant, the committee should be consulted prior to the money being repurposed from what it was budgeted for.

A committee member commented that the proposed budget did not take into account that a lower fee had been billed for the first half of the fiscal year. The \$944 fee would not be enough to make up the shortfall that has already been incurred. They stated that not raising the fee higher to make up the shortfall and instead using operating funds was reasonable, but that the committee should be explicit about its intentions. They also stated that the proposed budget was a reaffirmation of the committee's commitment to the work that the transplant community has requested, and has suggested using operating funds in place of the PPP loan credit. Mr. Smith agreed that using the operating funds allowed them to keep the OPTN fee at \$944 instead of having to raise it.

A committee member asked whether there was explicit guidance that governed how to manage excess operating funds at the end of a fiscal year. For example, are they expected to use those funds in the subsequent year budget. And if there is not guidance, should the committee develop the guidance to provide clarity. Mr. Smith agreed that this was an important topic for a future meeting as well as a reevaluation of the minimum balance of two months of operating expenses in the operating account and three months of operating expenses in the reserve account. As the OPTN budget grows larger, the question remains whether it makes sense to keep five months of operating expenses sitting in the bank. Mr. Kornfeld stated that the budget is much larger than it was when those bylaws were set up years ago. He agreed that once the budget and fee issues are resolved, it would be prudent for the committee to revisit those policies.

Two committee members who were unable to join were able to view the presentation in advance and then provide their feedback for the rest of the committee to hear. One committee member stated that it would be beneficial for the organization to lock in some of the savings from the first five months of the year

rather than use reserve funds that may be needed in the future. The committee member also asked whether there was work currently being done by the OPTN Contractor that could be outsourced for cost savings. Mr. Kornfeld agreed that it would be possible to lock in some of the savings, which could help meet the funding issues. The other absent committee member questioned whether the high estimate were feasible given the results from the first five months of the year. They suggested a more flexible budget that could allow for increases and decreases in expenses that worked in tandem with the registration fee. A committee member stated that it was important for the committee to explicitly discuss and reaffirm the priorities that were in the budget.

When Mr. Smith presented the high estimate forecast, a committee member agreed that allowing leadership to repurpose money based on the changing needs of the OPTN is logical. The committee member asked about the OPTN's savings in areas such as facilities and those labeled other direct and what the plan for these savings is. Mr. Smith responded that facilities savings was mostly from capital expenditures the company saved on this year

Mr. Kornfeld stated that they have been hearing repeatedly from the transplant community that they want the OPTN to do more. He believes it is important for the Finance Committee to figure out a way to resolve the budget while still honoring the OPTN's commitment to the transplant community. They expressed their support in using excess operating funds to allow for the OPTN to honor their commitments. A HRSA representative agreed that using excess operating funds was appropriate under the current circumstances and asked if the high forecast captured all of the potential expense increases from the contract modification. Mr. Smith replied that to the best of the OPTN's ability, they captured all of the foreseeable expenses in the forecast. A committee member stated that they believed the proposed budget was a middle ground between the high and low forecasts and took into account that we will not recoup all of the shortfall because of the lower registration fee for the first half of the year. The committee member's opinion was that the proposed budget was a reasonable compromise given all of the different asks being made of the transplant community to move things forward. Another committee member highlighted the prudence of the proposed budget, taking into account that the PPP credit was not an option and substituting this with excess operating funds.

The Treasurer suggested the committee vote on the budget. Clarification was made that the committee was voting on the original budget amount with some expense categories being higher and some lower. A representative from HRSA requested that the OPTN fee recommendation that would be submitted to HRSA include a rationale for the changes to the budget.

Next Steps:

The committee will vote via email and if the vote is unanimously approved, then the Finance Committee's recommendation will be presented to the OPTN Board of Directors. If the Board approves the proposed budget and fee, the revised proposal will then be submitted to HRSA.

Conclusion:

Mr. Kornfeld stated that it was the 19th anniversary of him donating a kidney to his father. He expressed his sincere appreciation for the work that everyone within the transplant community does everyday.

He thanked the committee for their participation and continued work.

Mr. Kornfeld concluded the meeting.

Following the meeting, the revised budget was unanimously approved via email.

Attendance

- **Committee Members**
 - Barry Massa
 - Bradley Kornfeld
 - Robert Goodman
 - Stuart Sweet
- **HRSA Representatives**
 - Christopher McLaughlin
 - Mesmin Germain
- **UNOS Staff**
 - Alex Tulchinsky
 - Anna Messmer
 - Dale Smith
 - Matthew Rowland
 - Michael Letson
 - Morgan Jupe
 - Susie Sprinson
 - Tony Ponsiglione