

OPTN Finance Committee

Meeting Summary

April 21, 2023

WebEx

Brad Kornfeld, Chair

Dale Smith, Chief Financial Officer

Introduction

The OPTN Finance Committee met via WebEx teleconference on 4/21/2023 to discuss the following agenda items:

1. Fiscal Year 2023 YTD OPTN Financials
2. Fiscal Year 2024 OPTN Budget Discussion
3. OPTN Reserves Discussion

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

Brad Kornfeld, Treasurer and Chair of the OPTN Finance Committee, welcomed everyone to the meeting and provided an overview of the agenda. Dale Smith, UNOS Chief Financial Officer, will present on the March Year to Date (YTD) financials, the FY24 budget, and discuss the reserves and revisit the reserves policies.

1. Fiscal Year 2023 YTD OPTN Financials

Mr. Smith explained that the committee is going to review the first half of the fiscal year 2023 financial performance, a summary of the preliminary conversations for the fiscal year 2024 budget for discussion and guidance by the committee, and a preliminary conversation about the current approach to minimum levels of cash and investments.

Mr. Smith walked through the Statement of Financial Position as of March 2023 which showed that the balances were in line with typical months. He then walked through the March YTD OPTN operating expenses and explained that the 10.9% variance is higher than ideal and that a variance within 3% is more in line with the goal. The most difficult type of expense to forecast and budget for is Purchased Services, which is under budget by \$2.2M. A list of the largest variances in Purchased Services were presented. Most of the variances are due to timing and the expectation is that the expenses will catch up by the end of the fiscal year.

A committee member asked whether the class-action lawsuit, which named UNOS specifically, would be covered by the OPTN or only UNOS. Jason Livingston, UNOS Chief Legal Officer & General Counsel responded that because UNOS is being sued in its role as the OPTN, the legal expenses are OPTN expenses. The committee member then stated that although the YTD legal expenses are under budget due to lower-than-expected liver litigation costs, the legal fees will probably increase. Mr. Livingston agreed and stated that the FY24 budget will include an estimate for legal expenses.

A committee member asked if any of the budgeted Purchased Services expenses should be deferred given that the FY23 OPTN Patient Registration Fee will likely not get approved and the lower FY22 fee will be billed for the remainder of the year. Mr. Smith replied that this was a possibility. The FY23 fee

request packet had been resubmitted to HRSA, and HRSA had requested additional details. Mr. Smith explained that he had requested a meeting with HRSA leadership to answer any questions they had, rather than go back-and-forth with the fee submissions and requests for more information. He thought that if the request was not approved within the next month, it is likely that it won't be approved this fiscal year.

The committee member then asked if the OPTN Registration Fee, once approved, would be retroactive. Mr. Smith explained that the fee would be prospective only and Mr. Kornfeld confirmed that the fee change would not be retroactive. A committee member commented that they thought the OPTN has incurred a large shortfall with no chance of recouping those funds. They suggested the committee discuss ways to fill the gap. Mr. Smith agreed and stated that the committee will meet three or four times over the next several months. Mr. Kornfeld stated that in previous meetings the committee had discussed using excess operating funds to cover the shortfall or to pull back on expenses. The committee had been in agreement that it was important to honor the commitment to the transplant community and continue to move forward with the planned projects.

Mr. Smith walked through the accounts receivable aging and highlighted that the majority of the aging balances are 30 days or less. March had the highest waitlist registrations of any month in OPTN history, which would account for some of the increase in the receivables balance. The committee also discussed the OPTN cash position as of March 31, 2023. It was highlighted that although the reserve balance is under the minimum threshold, it was more than offset by the excess of the minimum threshold within the operating account.

Mr. Smith then shared the waitlist registration number as of March 2023 and presented the breakdown of the shortfall. The total shortfall was \$2.5M; \$106K of the shortfall was due to 112 fewer registrations than budgeted, and the other \$2.4M of the shortfall was due to billing the FY22 fee rather than the FY23 budgeted fee. A committee member commented that the committee needs to agree how the \$2.4M shortfall will be funded, whether from the excess operating funds or deferring expenses. The committee member suggested that the shortfall be projected to the end of the fiscal year so the committee can reassess the shortfall then, so they know how much of an adjustment may be needed.

A committee member asked whether the higher registrations in March were an outlier or if the higher registrations will continue and potentially offset some of the shortfall. Mr. Smith explained that March is historically one of the top months of the year for registrations and registrations typically level back out in other months. He agreed to consult the Research department to understand why March typically sees a higher number of registrations.

2. Fiscal Year 2024 OPTN Budget Discussion

Mr. Smith presented the budget guidelines and highlighted that a complicating factor in discussing the guidelines is that details of the future OPTN contract are unknown. HRSA has released a modernization initiative and stated that they want to bring in more competition, so it is difficult to predict what the budget may be next fiscal year. The fiscal year 2024 budget is currently based on what is known and will be adjusted as more information about the contract becomes available. One guideline for the 2024 budget is to be relatively flat compared to the fiscal year 2023 budget. A committee member asked about the changes in the budget in terms of personnel and whether the 5% merit increase the company plans to distribute to employees includes a cost of living adjustment or if that would be a separate increase. Mr. Smith replied that the 5% merit increase includes the total anticipated increase, both merit and cost of living.

A committee member commented on the government's proposal to increase funding available for organ transplantation. Mr. Livingston explained that the increased funding mentioned by the government was

not necessarily for the OPTN. Any change to the National Organ Transplant Act (NOTA) would require congressional approval, including for funding greater than \$7M and would require them to approve the funding be appropriated to the OPTN. Both changes would likely be difficult and time consuming. Mr. Smith explained that the organization's approach is to typically budget conservatively, obtain justification for any new requests, and to have a list of priorities when it comes to spending. The committee member agreed with the approach and encouraged a conservative approach to budget so any surprises would likely be favorable. Mr. Livingston agreed that a conservative approach was appropriate due to the uncertainty and timeframe involved with the changes.

A committee member asked that when they discuss being "flat to budget" which budget this was in reference to, the approved budget or the budget with the fee that has still not been approved. Mr. Smith explained that he was referring to the proposed FY23 budget due to the fact that the OPTN's work is focused around that number. The committee member thought that assurance from HRSA regarding the FY24 budget was necessary before moving forward to repeat delays that occurred with the FY23 budget.

Mr. Kornfeld stated that the OPTN was looking at a \$5M shortfall this year and they don't want to repeat this next year and end up with a \$10M shortfall. He explained that the approach to this year's budget was to begin the process earlier to have more discussion and involvement from both the committee members and HRSA. He stated that the more involvement and feedback the committee receives from HRSA, the better the budget and process will be. A representative from HRSA requested that any questions and concerns be summarized in an email so they could follow up with their colleagues who were not in attendance.

A committee member suggested the committee consider both best and worst case scenario budgets given the uncertainties with the fee being approved. Mr. Kornfeld thought that having a Plan A and Plan B budget would be difficult because of the current unknowns. The government plans to divide up the contract but is unsure how many ways it could be split and how the current contractor would be involved. Another complicating factor is whether or not there will be any additional funding available. The committee member clarified their suggestion and stated that the soonest a new contract could be awarded would likely be early 2024, so therefore the committee could assume that the current OPTN contract will continue for at least 6 months longer. Mr. Smith suggested the committee compile their priorities for the budget and could approve or reject the options based on the projected registration fee.

Some of the main factors being considered in the budget were explained to the committee. The first was personnel expenses. It was noted that the current budget includes a 5% merit increase; the company is still experiencing a competitive job market, especially for Software Engineers. The department budgets include vacancy rates which align with the reality that most departments are usually not fully staffed. A second factor is ICD-10, which refers to the 10th revision of the International Statistical Classification of Diseases and Related Health Problems. The OPTN is not using the most current ICD terminology and this project would align with the ICD-10 format. The third factor is Enterprise Data Management, which has been a focus for HRSA, and could require some relatively large expenditures in the next budget. The fourth is IT operations, which includes increasing cloud platform support and certification for the Federal Risk and Authorization Management Program (FedRAMP) and is considered the "gold standard" for cloud-based services for government contractors. When HRSA made changes to the contract requirements earlier in FY23, FedRAMP certification was a requirement; they subsequently removed that requirement, but receiving the certification is still under consideration. The fifth is IT security. HRSA has requested more oversight over IT security of member hospitals, which could potentially involve site visits. The sixth major factor under consideration in the budget is Member Quality and the potential need for additional expertise to support the Membership & Professional Standards Committee (MPSC).

A committee member asked if this funding was going to site visits, to which Mr. Smith explained that site visits are continuing, but additional resources are for other oversight functions and analysis conducted by the Member Quality team.

The committee then discussed the FY24 budget timeline. During this conversation, a committee member suggested additional touchpoints with HRSA to receive feedback throughout the budget process. They asked that the committee have a formal touchpoint with HRSA, including senior leadership within the agency, prior to submitting the budget to the Board of Directors for approval, in order to reduce the likelihood of presenting a budget with a proposed fee that HRSA would not approve. Mr. Kornfeld explained that as members of the Finance Committee, representatives from HRSA are strongly encouraged to participate during calls and provide feedback.

3. OPTN Reserves Discussion

The committee discussed the OPTN reserves bylaws, which state the minimum funds required and how the funds can be accessed or used. A three month reserve for operating expenses is a standard norm that was discussed throughout the presentation, and between both the reserve account and operating account, the OPTN has five months of reserves for operating expenses. A committee member asked who set the requirement for the OPTN to contain a minimum of two months of operating expenses in the OPTN operations account. Mr. Smith explained that based on research, it appears to be a recommendation set by the Finance Committee and was not within OPTN bylaws. He further stated that when the requirements were set, the OPTN budget was much smaller so the reserve requirements were much smaller. With a budget of approximately \$72M, the reserve requirements have grown to be \$30M. Mr. Smith commented that everyone he has talked to about non-profit reserves has explained “reserves” as cash that is available and can be accessed without requiring enormous effort and hurdles to surmount.

Mr. Kornfeld thanked everyone for the participation. He reminded everyone that changes to the reserve bylaws would require approval by the OPTN Board of Directors.

Attendance

- **Committee Members**
 - Andrea Tietjen
 - Bradley Kornfeld
 - Jeff Orlovski
 - Robert Goodman
 - Stuart Sweet
- **HRSA Representatives**
 - Adriana Martinez
- **UNOS Staff**
 - Anna Messmer
 - Dale Smith
 - David Klassn
 - Jason Livingston
 - Matt Rowland
 - Morgan Jupe
 - Susie Sprinson