Salem Health
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February 18, 2026

The Honorable Rob Nosse, Chair
House Committee on Health Care

RE: Support for HB 4038

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Chair Nosse and Members of the Committee:

Thank you for the opportunity to provide written testimony in support of HB 4038. This bill would have paused the financial penalties built into Oregon's Cost Growth Target program—an important and necessary step as health care providers continue to face significant financial and regulatory challenges.

These penalties are not symbolic. Under the formula adopted by the Oregon Health Authority (OHA), a single penalty could be large enough to threaten the financial stability of medical practices, putting access to care at risk across the state.

Salem Health Hospitals and Clinics is a nurse-led, nonprofit health system serving the mid-Willamette Valley through two hospitals, two urgent care clinics, and a network of primary and specialty care providers. Since the Cost Growth Target program began, we and other health systems across the state have been held responsible for cost growth while facing mounting financial pressures that jeopardize our ability to maintain access to care.

Even as we continue to provide quality care, associated reimbursement continues to decline. As a Lean organization, Salem Health continually solves for operational excellence and long-term financial sustainability. However, with the provisions of H.R. 1 continuing to roll out through 2031, additional flexibility is essential for us to continue meeting the needs of our communities.

We are increasingly concerned about the accuracy and utility of the data used to administer the Cost Growth Target program. After years of working directly with OHA, it has become clear that the current data structure does not reliably reflect true cost trends at the provider level or identify what is actually driving health care spending.

I recently served on the OHA workgroup responsible for recommending the basis of an updated cost growth target. After extensive discussion among a broad group of stakeholders, an overwhelming majority recommended a new methodology that would have initially resulted

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in an aspirational target of 4.75 percent. Despite this clear consensus, the state ultimately adopted a much lower target of 3.75 percent—a decision advanced by a small minority and adopted without explanation.

Aspirational targets can be valuable. But this target is both unachievable and paired with steep financial penalties. To complicate matters, the data we receive from OHA has never matched our internal data. We have become accustomed to seeing discrepancies in the number of patients attributed to Salem Health—an issue that persists year after year.

Insurers use three different methods to attribute patients to providers: member selection, contract arrangements, or utilization. Insurer data has proven to be historically inaccurate, and we do not automatically receive data on the method by which each insurer attributed patients to Salem Health. Also not included in these datasets is information on where the patient received care. We have contacted our larger insurance partners; and they decline to share their underlying data so we can accurately identify cost drivers.

The Authority's risk adjustment methodology considers only age and sex. This is out of step with industry standards, which use detailed claims data to more accurately understand patient health needs and cost drivers. Nationally renowned independent actuarial experts we engaged have confirmed that OHA's data cannot be used to reliably identify true cost drivers and that its risk adjustment approach is inconsistent with national practices.

Current program design also creates a perverse incentive for providers to shed patients with complex medical needs because the associated costs will drive up cost growth. This cannot be the intent of the legislature. It is certainly not aligned with OHA's health equity goals or Salem Health's mission.

Unless OHA changes its penalty structure, its approach to combining provider data, its aspirational target, and its risk-adjustment methods, providers subject to this program could face penalties so significant that some may be forced to close.

Labor represents more than half of every dollar Salem Health spends. Our dedicated staff are essential to our mission and to the safe, high-quality care we provide. The remaining portion goes to supplies, services, and fees. While Lean practices help us operate efficiently, many of the major cost drivers in health care are outside the control of health systems, particularly those of our size.

Given these realities, the current Cost Growth Target structure is unlikely to achieve the state's goal of bending the cost curve. As Oregon's health systems work to maintain access to

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care while implementing H.R. 1, HB 4038 would have provided important and timely relief. Most importantly, it would have allowed time to revisit and improve the Cost Growth Target program so it better reflects the intent behind its creation. It would have offered essential flexibility as we prepare for H.R. 1 while continuing to meet the health care needs of the communities we serve.

Sincerely,

James K. Parr
Executive Vice President of Operations,
Chief Financial Officer