Covid-19: Prudent Financial Management for Healthcare Organizations

In tandem with the unprecedented front-line health challenges of COVID-19, healthcare organizations are either already experiencing or are bracing for the economic impact brought on by the virus. While much remains uncertain, leaders can proactively manage economic disruption by leaning on financial management practices proven to be effective in periods of crisis.

Preservation and survival of organizations during COVID-19 will be dependent on their ability to maintain cash and liquidity. Significant volume declines are expected and are occurring for elective surgeries, physician office visits, ambulatory care centers and referred ancillary services.

In response, two of the most important steps leaders can take right now are to conserve cash and conduct cash flow analyses and contingency planning for multiple scenarios.

The following are key guidelines to review and act on to help healthcare organizations prepare for and endure the inevitable economic stresses brought on by COVID-19.

Develop cash flow projections to assess and guide needed immediate actions. Leaders must have a firm grasp and understanding of the consequences of moderate and significant downside scenarios and of the following questions related to their organization:

- What are break-even revenues currently?
- How can the break-even point be lowered without adversely impacting operations?
- How long can the organization sustain the current cash burn (i.e., net cash usage)?
- What if there is significant decline for four to six months?
- At what loss of volume and liquidity level should the organization take drastic actions to enable sustainability of the organization and its long-term mission?
- What needs to be management's response to survive?

The trajectory of COVID-19 in the U.S. remains unknown; however, timelines in countries such as Italy provide some indication of severe-case scenarios. Cash flow modeling should focus on a range of volume declines from moderate to significant downside scenarios. Leaders should prepare rolling 13-week and 26-week cash flow projections with detailed forecasts of receipts and expenditures and longer-term cash flow projections, so leaders can focus on pinch points, cost reduction and deferral actions.

Carefully track COVID-19 expenses. Understanding the impact of added COVID-19 expenses may be critical later in securing federal funding or other assistance. Expenses tell an important part of the story of COVID-19's impact on organizations. In the course of maintaining business operations, COVID-19 expenses should be closely tracked, including extra labor costs, labor shortages due to self-quarantine, actual illness or family issues, protective gear and other related supplies.

Maintain liquidity and access to capital. Access to liquidity tightens in a crisis. When a borrower is in default of covenants, a lender may freeze existing lines of credit or require paying down debt. Consider moving quickly to draw on currently available lines of credit and pursue additional lines with existing or alternative lenders, even at a higher cost of debt. Pursue deferred debt repayment terms and seek to limit or defer measurement of covenants.

Requests for county, state and federal loans and grants should also be considered based on financial projections. Don't wait until the organization is 30 days from exhausting liquidity to ask for help.

Realistic cash projections and modeling should paint a clear picture of an organization's sources and uses as well as its covenant compliance.

Consider the following actions:

- **Don't delay lender conversations.** Take the initiative to begin dialogue with lenders right away if problems are anticipated and work to resolve issues before they become critical. Outline lender, vendor and key stakeholder communication plans, carefully scripting messages to each group.

  Cash projections and modeling should reveal whether an organization will breach covenants or otherwise be unable to meet debt service, vendor and scheduled construction project payment requirements. Evaluate lender relationships, collateral positions and potential lender options and actions (e.g., acceleration of debt, sweeping cash, foreclosure and forced sale).
- **Delay nonessential projects.** Defer capital expenditures, and slow or defer construction projects and any other major expenditures without immediate or rapid return on investment (ROI).
- An exception during this time would be the costs of enabling expansion of telehealth and virtual care services. As organizations and patients rush to telehealth options, telehealth and virtual care services can help stem losses from volume declines in regular office visits, wellness checks and other ambulatory services, including the postponement of elective surgeries across the country.
- **Take action to maintain timely billing and collections.** Consider where there are opportunities to accelerate revenue or cash flow or to negotiate additional flexibility in managed care contracts.
- Unique to COVID-19, huge swaths of the healthcare workforce are now in virtual work environments or are out of work for personal reasons, threatening productivity and shrinking the capacity of an organization's billing and revenue cycle businesses. Organizations will benefit from real-time analysis of their workflows, moving from monthly to daily checkins and increased triage and prioritization of the highest-value tasks.
- **Take action with major payors.** Now is the time to leverage payor-provider relationships. Seek to move to periodic interim payments (PIP), based on historical fee-for-service claims, until COVID-19 subsides. Additionally, all parties can benefit from removal of administrative barriers, including denials, referrals, authorizations, timely filing and reporting. Define how the organization will be paid for telehealth and other work not previously performed.

- **Align cost and volume.** Determine available staffing levels against potential impact on staff for COVID-19. Aligning physician and staff levels, vendor costs and payment terms to the actual and anticipated volume levels will be necessary for sustainability. Active discussions and negotiations to align expenses and extend payment terms with vendors to maintain a reliable supply chain are necessary to continue business and preserve liquidity.

- **Know the organization's capacity.** Maintain compliance and be realistic about staffing as well as bed and ventilator capacity. Attempting to care for patients beyond existing and sustainable capacities will only exacerbate financial issues and threaten patient safety. The most prudent action for an organization and its patients may be to acknowledge when the organization is at capacity.

- **Communicate with stakeholders.** Develop communication plans regarding the organization's financial situation to each key stakeholder, including physicians, employees, vendors, consumers and donors. Don't overlook the potential of keeping open communication with donors. People look for ways to help in times of crisis. Community and consumer communication are key as well. Currently, the public is exposed to a large amount of information regarding federal guidelines for suspension of elective surgeries and procedures. To prevent misinterpreting information and to continue all possible revenue streams, consumers need to know what parts of the organization's operations are open for business beyond COVID-19 response.

As in any challenging environment, the key to a successful outcome requires a comprehensive and realistic understanding of the issues that an organization may face and the timely implementation of an action plan to deal with the various headwinds before a situation worsens.

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