For hospitals, COVID-19 has created an unprecedented environment of financial upheaval and uncertainty. Many, if not most, hospitals have experienced a significant level of financial damage, but are struggling to quantify the extent of that damage and how it will extend into the future.

The path to recover from that damage is equally unclear, as hospitals seek to answer questions about the continuing trajectory of the virus, the return of nonurgent surgical cases, availability of emergency funding, the state of the economy, and changes in consumer demand.

A common fallacy about fighting the financial effects of COVID-19 is that it's necessary to wait for the current uncertainty to clear before developing the financial foundation of an essential recovery plan. On the contrary, the level of uncertainty requires immediate steps to develop the very best and most nuanced financial plans that organizations have ever had so that organizations can regain financial control over their healthcare system.

The uncertainty precludes a strictly linear process. Rather, organizations will go through a continuous cycle of assessment, quantification, and planning as more is learned about the internal and external environment.
Assess the Financial Damage

Assessing the financial damage involves determining the volume and revenue loss; the unbudgeted expenses; and the effects on profitability, liquidity, and capital position. This is an ongoing process as more information becomes available.

**Volume and Revenue Factors**
- *Nonurgent cases*: Volume decline and accompanying revenue loss
- *COVID-19 cases*: Level and duration of demand
- *ED Volume*: Decline in utilization

**Expense Factors**
- *Workforce*: Increases to meet spikes in need, premium pay, and additional staff sick leave
- *Supply chain*: Supply shortages and a spike in supply costs
- *Emergency preparedness*: Command center and related expenses
- *Capacity Implication*: Short-term expansions or conversions

**Balance Sheet and Cashflow Factors**
- *Collections*: Slower processing of claims, reduced volume of point-of-service collections
- *Invested assets*: Impact to valuation and performance of investments
- *Liquidity needs/access*: Requirements for cash flow relief
- *Covenants*: Possible compliance concerns
- *Capital structure*: Disruption to existing liability portfolio
- *Pension exposure*: Declining interest rate and related pension liability
- *Debt capacity*: Borrowing capacity to fund strategic, routine, and opportunistic needs

**ASSESS THE FINANCIAL DAMAGE: KEY ACTIONS**
- Refine baseline expectations for FY2020 results based on YTD performance through February (pre-COVID)
- Quantify one-time expense items
- Develop near-term operating and cash flow projections to inform short-term liquidity needs and any debt covenant concerns
Model Demand Changes

Any planning for financial recovery requires organization to model the path of COVID-19 and patients’ willingness to return to the organization, and how those factors are likely to affect the resumption of nonurgent surgical cases. With that foundation, organizations can build scenarios that show related movement of revenue, the relationship between revenue scenarios and plans to manage expenses, and other strategies that will take the organization through the next year. This is a rolling process as more is known about factors such as virus trajectory, regulatory environment, patient preferences, and the economic environment.

To begin, four broad scenarios of the virus’ path can be used to begin the modeling process:

- **Scenario 1—Optimistic: A quick recovery.** COVID-19 cases peak by mid to late April, decline moderately into May, decline sharply through the summer, and through the winter, fall, and spring will fall to near zero.

- **Scenario 2—Pessimistic: A long slog.** The surge of COVID-19 cases extends through May, then declines slowing through the summer, fall, and winter, with a small number of cases persisting next spring.

- **Scenario 3—Second Wave: Secondary surges.** COVID-19 cases peak in mid to late April and then have another, smaller peak in the fall, followed by a relatively steady decline.

- **Scenario 4—New Normal: Seasonal surges.** A relatively sharp decline in cases after April, but another peak next winter and fall, at roughly the time of the original outbreak.

The next page illustrates how these scenarios can correlate to surgical volume.

**MODEL DEMAND CHANGES: KEY ACTIONS**

- Develop rolling assumptions for post-COVID operations (timing and level of recovery, adjustments to planned strategies)
- Include the potential for additional outbreaks in the future, resulting in additional revenue and expense disruption
Resumption of Surgical Volume: When and How Much

These four charts illustrate timing for the return of scheduled procedures under each of the four scenarios.

The dark blue line shows COVID-19 volume, indexed to 100. The light blue line illustrates the percent of scheduled procedures performed versus expected 2020 volumes if COVID had not occurred.

Scenarios are illustrative and will be specific to an individual hospital and market.

These models also will require regular updating as more information about the virus's path is available.

ILLUSTRATION

- **Optimistic**
- **Secondary Surge**
- **Long Slog**
- **Seasonal Surges**

= COVID-19 cases;  = Scheduled procedures
Quantify the Gap

The financial and strategic plans of most organizations aim to close a gap between a current and desired level of financial performance. The financial damage of COVID-19 creates a new and far larger gap that needs to be precisely quantified. This gap is a moving target, as hospitals will likely be caring for unknown volumes of COVID-19 patients for some time to come, and dealing with patients’ safety concerns about returning for care, which will continue to affect operations, non-COVID volumes, and revenue.

This gap will be very different for each organization, depending on its pre-COVID financial position, the presence of COVID cases, and other factors such as the state of the local economy.

For example, organizations that, before the virus, were operating with marginal profitability and relatively weak balance sheets will need an understanding of the exact current and expected financial gap in order to make precise financial decisions that will best serve the hospitals and their communities in the short and long run.

Organizations that came into the virus stronger financially, many of which are larger systems, need to quantify the financial gap in order to position themselves for whatever funds that may be available from third-party sources, inform spending plans, and communicate near-term decisions to leadership and other constituents. In addition, a financially strong organization that has gone from a robust, positive operating margin to a significant negative operating margin—a realistic scenario—will likely face an intense short-term scramble for liquidity.

QUANTIFY THE GAP: KEY ACTIONS

- Develop scenarios to represent potential incremental COVID impacts on operations
- Use recent volume and revenue decline to inform magnitude of near-term disruption
- Compare the expected financial damage of the pandemic relative to previous long-range plan
Begin Closing the Gap

Next, organizations need to figure out how to close a gap that is far larger than their original financial plans contemplated.

Organizations will be very interested in third party resources to close this gap, including Medicare accelerated payments, federal healthcare provider funds, and funds from the CDC, FEMA, and the Treasury Department. Although these funds will be an important part of hospital financial recovery, they will not cover lost revenue, they can be hard to access and slow to be paid, and they ultimately will not make hospitals financially whole.

Organizations will need to determine whether existing performance improvement plans are still feasible, whether they can be accelerated, and the degree to which they will close the financial gap.

Organizations will need to look at temporary cost measures such as furloughs, compensation adjustments, and reductions in 401(k) funding.

They will also need to consider substantial reductions to their capital budgets, including the need to postpone or cancel certain large initiatives.

This is an important part of the financial recovery process, but organizations need to recognize that in very few cases will these steps be sufficient to close the large and unprecedented financial gap created by COVID-19.

BEGIN CLOSING THE GAP: KEY ACTIONS

- Identify potential amounts and timing from disaster relief programs
- Incorporate temporary measures such as furloughs, compensation adjustments
- Incorporate longer-term performance improvement initiatives with implementation and results
- Define and quantify potential service reorganization (telehealth, remote back-office workers, etc.)
- Identify ranges of uncertainty associated with interventions
Rework the Strategic-Financial Plan

With the impact of COVID-19, most organizations will find that their existing strategic and capital plans are no longer financially feasible. In addition to doing the very best to close financial gaps, hospitals will need to both revise their strategic objectives and look differently at their portfolio of strategic investments.

There needs to be a real precision in this exercise as the virus continues its path. Organizations need to model the relationship between their scenarios and volume, revenue, strategies, and capital plans. With such modeling, organizations can be ready to act depending on how the pandemic evolves and how both organizational revenue and expenses are impacted on month-to-month and even week-to-week bases.

This financial recovery plan is required in order to develop answers to key strategic questions for the post-COVID environment:

What will the hospitals’ new capital structure need to look like? How will care delivery change in the near-term and longer-term? Will ambulatory care accelerate? Will spikes in telehealth be permanent? If so, how will organizations enhance these capabilities? How will changes in demand affect the clinical workforce? For administrative staff, will work-from-home arrangements continue? How will these changes affect real estate needs? How will the organization’s cost structure need to change to accommodate near-term and longer-term shifts in revenue? How have strategic priorities shifted? What new strategic investment opportunities exist? What partnerships would enhance an updated plan? How has the tolerance for risk changed?

REWORK STRATEGIC-FINANCIAL PLAN: KEY ACTIONS

- Where the gap can’t be fully closed, refine priorities: capital investment decisions and sequencing of strategic and operating initiatives
- Revisit allocation of capital dollars
- Assess timing and necessity of initiatives for consistency with rebuilding capital capacity and anticipated market changes
- Evaluate range of new opportunities as markets are reorganized
- Understand longer-term risks and implications of resetting financial targets
- Rebalance capital structure
The Imperative of Action

The financial recovery plan requires data capture, demand modeling, data analysis, and scenario planning that is very likely more sophisticated than any most hospital organizations have ever undertaken.

This planning needs to be done immediately. Where there are options to close this new financial gap, organizations need to get started right away to determine what the options are. Where there are changes in how healthcare is delivered, organizations need to map out those complex changes as soon as possible.

This planning also needs to be continuously revisited and updated throughout the recovery process. These efforts need to be part of a coordinated, data-driven recovery plan.

Coming out of COVID-19, the hospitals and health systems that thrive will be those that can perform two incredibly difficult tasks at the same time. First, hospitals will need to battle the immediate patient-care, workforce, supply, and financial demands of the pandemic. At the same time, successful organizations will begin the task of planning for the future.

Organizations that emerge successfully from the financial upheaval of COVID-19 will not wait until the chaos and uncertainty abate. They will recognize that uncertainty will be with us for months and possibly years. These organizations are stepping up and moving toward very sophisticated financial planning that will underpin their recovery plans. And they will be ready to put their recovery plans into action at the earliest possible moment.

This kind of timely, orderly, continual, financially grounded organizational thinking will make the difference between organizations that find themselves in a long slog toward an uncertain outcome, and those that emerge quickly and successfully, ready for the post-COVID world.
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