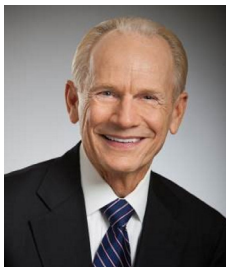
COPE HEALTH SOLUTIONS

Hospital COVID-19 Disaster Funding and Five Things Hospitals Must Do to Prepare

Hospitals, state associations and other stakeholders need to be prepared to address the negative financial impacts associated with the COVID-19 pandemic as it continues to have a widespread impact on our health care system. Many hospitals are likely to experience severe financial challenges, requiring financial assistance from federal, state and local governments in order to continue caring for patients. Although the federal government has taken action to allocate funding to health care organizations, it will be critical for hospitals to prepare appropriately to document the costs and revenue losses related to COVID-19 in order to draw down those funds. In this article, we take a look at these financial impacts and how hospitals should prepare for them.



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The coronavirus crisis is expected to affect hospital earnings negatively[1]

The COVID-19 crisis will challenge the financial sustainability of many hospitals. Labor costs are increasing because of overtime, contract/registry workers, additional sick-time, quarantines and increased paid time off (PTO) as schools close and children stay home. Quarantine impositions are taking a toll rarely experienced in modern times. Supply shortages are causing price increases of 300% to 400% and more.

On the revenue side, hospital activities in higher-margin elective and ambulatory services are declining, with hard-to-discharge patients, such as homeless patients, staying in beds for extended periods and no additional reimbursement. Hospitals' payor mix will be less favorable. Many COVID-19 patients are older and insured by Medicare or Medicaid, resulting in proportionately lower reimbursement rates. Commercially insured patients under age 65 who normally provide higher margins, will now comprise a smaller proportion of a hospital's payor mix during the COVID-19 pandemic.

Increased costs and lower revenues will contribute to cash flow declines. Although some expenses connected to elective procedures will not be incurred, fixed costs will continue. Hospital earnings will deteriorate. Publicly traded health system shares have plummeted in recent weeks as investors react to the COVID-19 pandemic. Moody's Investor's Services is shifting the outlook of nonprofit hospitals downward.[2]

What is the federal government doing?

President Trump signed H.R. 6074, the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 (P.L. 116-113) into law on March 6, 2020. The bill provides $8.3 billion in emergency funding for federal agencies to respond to the coronavirus outbreak. Of the $8.3 billion, $6.7 billion (81%) is designated for domestic response such as vaccine research, state and local response, expansion of telehealth and Small Business Administration loans to entities financially impacted because of the coronavirus.

H.R. 6201, named the Families First Coronavirus Response Act (P.L. 116-127), responds to the growing health and economic crises with provisions for paid sick leave, free testing and expanded unemployment benefits. According to the American Action Forum, H.R. 6201 is expected to cost $183.8 billion.

On March 24, the U.S. Department of Health and Human Services (HHS) announced that $100 million will be awarded to health care systems in preparation for a surge in COVID-19 patients. Approximately $50 million will be distributed to hospitals through hospital associations.

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In response to a letter from the American Hospital Association (AHA), American Medical Association (AMA) and American Nurses Association (ANA), sent to Congress on March 19; approximately $130 billion for hospitals is included in a massive $2.2 trillion economic stimulus package. The Senate and the House have passed this $2 trillion relief package on March 27, 2020. Major provisions in H.R. 748 are:

1. Provide $100 billion to reimburse eligible health care providers (primarily hospitals) for health-related expenses or revenue losses resulting from COVID-19
2. Suspend 2% Medicare sequestration cuts from May 1, 2020 – December 31, 2020
3. Increase in applicable DRG weights by 20% for Medicare COVID-19 patients
4. Delay in payroll tax payments for employers, including hospitals, with a 50% reduction in payroll taxes owed until January 2021. At least 50% of the remaining amount must be paid by December 31, 2021 with the remainder due by December 31, 2022
5. Delay in Medicaid Disproportionate Share Hospital (DSH) cuts to December 1, 2020, with modifications in the reductions
6. Expand the Medicare accelerated payment program during the COVID-19 emergency period
7. Waive the Medicare in-patient rehabilitation facility three-hour rule
8. Waive the requirement that a provider has a prior relationship with a patient before delivering telehealth services
9. Limit liability under federal and state laws for volunteer health workers during the emergency
10. Allow for the sharing of certain medical records with initial patient consent

Details of the final relief package will be available soon. The President has indicated he will sign the bill as soon as it reaches his desk. Implementation should begin immediately, although rules governing the distribution of funds may take a few days.

In a press release from Rick Pollack, President and CEO of the American Hospital Association, he said, "America's hospitals and health systems appreciate the leadership of Majority Leader McConnell and Democratic Leader Schumer in recognizing the absolutely critical role of hospitals and health systems, and our dedicated front line caregivers, in responding to the COVID-19 pandemic. This bill includes important provisions that will help us respond, including the creation of an emergency fund grant program, additional support for taking care of COVID-19 patients and relief from spending cuts, among other provisions. This support will help those hospitals from rural and urban communities that are in dire financial need due to this devastating pandemic."

Funds will be allocated to federal and state government agencies to distribute to hospitals. The legislative language appropriates these funds *"to remain available until fully committed and expended."* This may translate into *"first come, first serve."* Hospitals must act quickly to document their increased costs and lost revenue related to the Coronavirus pandemic.

How prepared are hospitals to manage the financial impacts of the COVID-19 crisis?

Hundreds of hospitals have liquidity challenges (e.g., less than 60 days of cash on hand, many cannot operate for more than a week or two) and will be challenged to meet their operating expenses.

Even with disaster preparedness training and preparation that hospitals regularly execute, this is a new unparalleled challenge. While some hospitals have faced natural disasters such as hurricanes, floods, earthquakes and wildfires, there has never been

a similar countrywide pandemic in modern times. Most federal and state agencies likewise have never faced a crisis of such magnitude. The uniqueness of this disaster is its duration, impact on health care workers, disruption of hospitals' long-term viability, unknown aspects of the enemy and demands on/threats to virtually every segment of society.

The federal and state agencies take their oversight responsibilities seriously. Hospitals likely will have to provide documentation so these agencies can release funds. Hospitals and health care experts are in the best position to help inform these agencies to carry out their responsibilities and ensure COVID-19 emergency health care funding is directed appropriately.

This crisis underscores that all departments in a hospital are vital. During a crisis, collaboration and team effort will make the difference between success and failure for patients and the institution.

What should hospitals be doing?

1. **To expedite capacity in response to the disaster, state hospital advocates should collaborate with their states to obtain the executive orders, emergency legislation, or other changes, to relax or suspend regulatory requirements.** Laws and regulations guide government agencies. If the agencies need emergency legislation or executive orders to relax or suspend regulatory requirements, input from hospital industry leaders and health care experts will be essential to identify required changes while ensuring appropriate safeguards and quality.
2. **The hospitals' finance departments should be working with all departments to document the increased costs and loss of revenues attributed to the COVID-19 pandemic.** In many organizations, the finance department's participation in hospital disaster drills has been light. The COVID-19 crisis underscores the importance of finance's immediate and active engagement throughout the ordeal and the ensuing recovery period. Without comprehensive and accurate documentation, hospitals will miss the opportunity to recover millions of dollars of essential support. Documenting the financial impact of a disaster is essential. It is a top priority in real-time and requires devoting appropriate resources to completing these tasks. The survival of the hospital can be at stake.
3. **Hospitals and their state associations should work with the regulatory agencies responsible for distributing funds and formulating standardized logic, processes, audit trails and reporting COVID-19 costs/losses.** Hospitals, especially finance leadership, must work with the government agencies responsible for distributing relief funds. This should be a collaborative effort to establish standardized reporting tools and templates, data capture processes and audit trails for COVID-19 costs and revenue losses. Accurate, complete and timely documentation will enable hospitals to obtain their fair share of available funding.

   States that have experienced widespread major disasters and associated financial recoveries may have systems they can reactivate. However, even in those states, long-term pandemics present unprecedented challenges that do not exist in limited locality disasters. Other states, and their hospital providers, which have not experienced major disasters, may not have previously undertaken the process of documenting and qualifying providers for their losses. States must act swiftly to adopt comprehensive response plans and procedures. State hospital associations can play a particularly important role in this process.
4. **Hospitals need to act now; timing is important.** Financial aid has been authorized and is being implemented. More relief may be required. Hospitals must gear up and apply for the relief funds that will be available now. Future aid, after the fact action, will be more politically, emotionally and financially difficult. Pressures from the pandemic will subside and memories of the disaster will fade. Just as in past disasters, public response to help victims is replaced by new priorities and daily responsibilities. Self-interest can be replaced by the mutual interest for a short time, during or immediately following a disaster. However, self-interest will prevail

as soon as the collective threat is defeated or is no longer imminent.

5. **COVID-19 internal monitoring and reporting protocol, which tracks the added disaster costs and revenue losses, should be implemented immediately.** In addition to adding a report of the financial impact of the coronavirus pandemic to monthly management reports, hospitals should create a dashboard that tracks COVID-19 impacts daily, but not less than weekly. Financial management during this disaster is vital to every hospital's future.

Our nation will successfully overcome this pandemic as we have overcome other major challenges. In the case of COVID-19, hospitals and other health care providers are called upon to serve our communities in unprecedented ways. Our gratitude and thanks extend to the heroes who are on the front lines 24/7, providing care to every patient without regard for their own safety.

Key Takeaway

Now is the time to be documenting the costs and revenue losses related to COVID-19. No one knows how much will ultimately be needed and how much the government will eventually allocate to hospitals and other health care providers to compensate for the costs and losses as a result of the pandemic. Funding is finite and to ensure your organization receives its full fair share of financial support, it is imperative hospitals undertake sufficient measures to document costs and revenue losses in real-time.

For more information on how COPE Health Solutions can provide analytic and advisory services, staff expertise, and recommendations to assist hospitals in working through this pandemic and maximize their disaster relief support, please contact Tom Dougherty, FACHE, Principal at tdougherty@copehealthsolutions.com or 909-238-9898.

Endnotes

[1] https://www.kff.org/global-health-policy/issue-brief/the-u-s-response-to-coronavirus-summary-of-the-coronavirus-preparedness-and-response-supplemental-appropriations-act-2020/#

[2] https://www.fiercehealthcare.com/hospitals-health-systems/healthcare-financial-outlook-from-covid-19 3 https://www.npr.org/2020/03/19/818322136/

[3] https://www.npr.org/2020/03/19/818322136/heres-what-is-in-the-families-first-coronavirus-aid-package-trump-approved