Covid-19 Response: Immediate Cash Planning

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Market Overview

The Mahaska Health Story

Cash Planning

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MARKET OVERVIEW
Amid a Pandemic

• As a result of significant declines in patient volume:
  ➢ Mid-South rural hospital furloughs ambulatory surgery staff, clinic nurse practitioners, and members of administrative staff
  ➢ Mid-Atlantic CAH furloughs 25% of staff
  ➢ CAH in northeast reduced pay to salaried employees (including physicians) and furloughed hourly workers
  ➢ For-profit health system announces furloughing 500 full-time positions

• U.S. Bureau of Labor Statistics reports 42,500 healthcare industry job losses in March
  • 96% of losses from ambulatory sector

• Industry experts agree that providers who furlough staff risk losing them and then must replace them, a costly tactic

Are there other opportunities available for rural health systems?
Amid a Pandemic - Cash Planning

Immediate Recommended Course of Action:

- Prepare 26-week, weekly cash flow projection
- Immediately file for accelerated/advanced payments, which will support operations for next 90 days
- Begin preparing information to support Public Health and Social Services Emergency Fund Grant
- Submit application for $90K small rural hospital improvement program grant
- If applicable, submit loan application to local Small Business Administration (SBA) lenders for Payroll Protection Program (PPP)
- For organizations not eligible for SBA PPP, evaluate payroll tax credits and deferrals
- File Federal Emergency Management Agency Request for Public Assistance application and begin tracking eligible costs
- Critical Access Hospitals (CAHs) to prepare interim cost report and submit to MACs
  - File updated Medicare rates with Medicare Advantage plans
  - Negotiate PIPs with third-party payers
  - Work with bank to open and/or expand line of credit

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THE MAHASKA HEALTH STORY
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1.) **Maintained current staffing levels.** Created strong employee loyalty during an uncertain time. Re-allocated employees throughout the hospital:

- Cleaning, facilities and environmental services
- In-car screening areas
- In-car allergy shots and specimen collection
- Set up a phone triage system for respiratory patients
- Set up or expand your Telehealth program via Google Duo, Facetime or simple phone call
- Set up a COVID Risk Assessment exam (Wellness Exam)
- Go through the EMR to find all patients with co-morbidities or family history
- Call patients to ask how they are doing and what questions do they have. Especially call suspected COVID patients
- Provide additional medical staff wide trainings in sedation protocols, order sets, etc. in preparation of a possible surge
- Create a **Surge Emergency Preparedness Plan** and hold daily Task Force virtual meetings and Provider meetings. The California Hospital Association has a very good surge plan outline at: [https://www.calhospitalprepare.org/surgechecklist](https://www.calhospitalprepare.org/surgechecklist)

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2.) Immediately applied for Medicare accelerated prepayment funds by assessing our cost report. These funds were sent to us in seven days. We placed this advance payment into a separate GL account. This is a payable back to Medicare and should be reflected as such in your balance sheet. Once Medicare starts recouping the funds (after four months) we will be reconciling this account diligently. After 12 months from the date we received the funds, and if we have not repaid the loan, we will start to be charged interest at 10.25%.

3.) Immediately applied for an SBA loan through our bank by assessing our payroll. These funds will not be repaid. We continue to monitor how the $100B grant funds will be allocated to hospitals.

4.) We evaluated the option to defer payments of employer share of social security payroll taxes. The provision requires that the deferred taxes be paid over a two-year period, with the half the amount required to be paid by December 31, 2021, and the other half by December 31, 2022.
5.) Immediately applied for a FEMA Grant. Our facility will be recording labor cost, supplies, equipment and other costs associated with the COVID-19 effort. We are recording all management and physician meetings via Office 365 Teams virtual platform. 

6.) Immediately worked with our local bank to establish a Line of Credit of a $1M as a backup to the backup.

7.) We have created COVID-19 cost centers and our tracking overtime costs for Medicare cost report purposes.

8.) We have created customer loyalty and have taken care of our employees working with local restaurants to provide food. Each day we listen and garner feedback by rounding day and night with our front-line employees who are screening and seeing patients in multiple areas of our hospital particularly on the inpatient floor, ER and screening area. This allows for immediate problem solving to improve front line operations.

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9.) We are preparing to **ramp back up our clinics and elective surgeries** that include evenings and Saturdays. We will have a back log of surgeries, procedures, injections, visits, etc. and we will have to accommodate our customers. WE have begun these discussions with our providers specifically primary care, general surgeons and orthopaedic surgeons.

10.) We are holding daily virtual **Task Force meetings** with our Leaders and any Provider who would like to attend along with select front line directors/supervisors. We are holding virtual meetings with our physicians and providers to plan for a surge and what that would look like. We have established a staffing matrix in case we must increase our bed capacity due to a surge

11.) We have **engaged our local churches**. We met and secured a local 52,000 square foot church if we needed to ramp up a Non-COVID clinic.

12.) We have engaged our **local hotels** in case our Providers and front-line Medical Team have to isolate themselves from their families while treating COVID-19 patients.

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13.) We have worked with our marketing team to **post weekly YouTube and Facebook videos** of our Physician/Provider leaders to deliver updates and reassure the community.

14.) We have worked with our **local businesses** to think of how to care for respiratory patients. Many businesses are utilizing 3D printers, etc. Our Physicians worked with a local business Musco Lighting to engineer a portable intubation box to be used to minimize droplets or aerosolized saliva.

Thank you to all Front-Line Caregivers!!
CASH PLANNING
Cash Planning Overview

- Prepare 26-week, weekly cash flow projection
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Financial Projection

✓ Prepare 26-week, weekly cash flow projection to enable better short and medium-term decision making

✓ Minimum of 26-week cash projection

• Necessary for hospitals to understand a number of variables impacting cash including:
  • Beginning cash balances
  • Reduced volume (and possible increase) and timing of cash impact
  • Increased expenses for personal protective equipment
  • Cash impact on changing labor costs
  • Changes in cash from CARES Act provisions
    • Receipts and payments (i.e., accelerated payments)
  • Potential for increased bad debt
  • Opportunity for other balance sheet accounts affecting cash
    • Long-term debt

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• Example CAH
  • Beginning cash balance of $2.5M
  • Covid-19 Funding from Medicare accelerated payments, SBA PPP loan, and SHIP grant (other programs not included)
  • Assumed volume declined 50% beginning 3/15 and continuing through the projection period
  • Assumed expenses remained constant during the projection period
  • After 26 weeks, cash was $6.7M, $4.2M greater than start

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Accelerated/Advanced Payments

✓ Immediately file for accelerated/advanced payments, which will support operations for next 90 days

• Medicare Accelerated/Advanced Payments
  • Intended to provide necessary funds when there is a disruption in claims submission/processing or offered in circumstances of national emergencies in order to accelerate cash flow to impacted health care providers
  
  • Amounts (based on 7/1/2019-12/31/2019 PS&R information):
    • 100% of Medicare payment amount for a 3-month period
    • CAHs are able to request 125% of Medicare payment for a 6-month period
  
  • Timing:
    • Receipt within 7 calendar days of receiving request
    • Request submitted to MACs using forms found on their websites

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Accelerated/Advanced Payments (continued)

• Medicare Accelerated/Advanced Payments (continued)
  • Repayment:
    • For most providers, repayment begins 120 past receipt and expected to be repaid in full within 12 months for CAHs and 3 months for others
      • At the end of the 120‐day period, 100% of claims submitted by the provider will be offset to repay the accelerated/advanced payment
      • Hardship exceptions allowed if necessary
  • Interest:
    • Interest free for first 395 days (one year plus 30‐day notification period) for CAHs and 210 days (six months plus 30‐day notification period) for others
    • Interest at 10.25% after 30‐day notification period

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Public Health and Social Services Emergency Grant Fund (PHSSEF)

- Begin preparing information to support PHSSEF grant
  - Incremental costs of COVID-19 patients
  - Lost revenue due to deferring elective services
  - Cost of bad debt related to Covid-19 patients

- Public Health and Social Services Emergency Fund (PHSSEF) Grants ($100B)
  - Note: AHA requesting grants of $25K per hospital bed ($23B)
  - Otherwise, HHS to review applications and make payments on a rolling basis to address immediate cash needs
    - Additional guidance forthcoming

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Public Health and Social Services Emergency Grant Fund (PHSSEF) (continued)

- PHSSEF Grants (continued)
  - Qualifying expenses include all non-reimbursable expenses attributable to Covid-19 including:
    - Building or retrofitting new ICUs
    - Increased staffing or training
    - PPE
    - Building of temporary structures
    - Foregone revenue from cancelled procedures
    - Bad debt expense related to Covid-19 patients
  - Secretary to establish a reconciliation process and payments will be returned if other sources provide reimbursement for expenses

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Small Rural Hospital Improvement Program

✓ **Immediately File application for $90K Small Rural Hospital Improvement Program (SHIP) grant**

- SHIP Grant ($180M)
  - Funding to be awarded to states through SHIP grant mechanism and amount to approximately $90K per hospital
  - The intent of these dollars is to be broad and covers COVID related activities; if the hospital can link purchases and activities to COVID related needs then its allowable.
Small Business Association (SBA) Payroll Protection Program (PPP)

✓ If applicable, submit loan application to local Small Business Administration (SBA) lenders

• SBA PPP provides 100% federally guaranteed loans to small businesses that may be forgiven if borrowers maintain their payrolls during the crisis or restore their payrolls afterward
  • $349B program available through June 30, 2020 or until funds made available are exhausted on a first come first serve basis

• Eligibility
  • Small business operating on 2/15/20 with fewer than 500 employees (full-time, part-time, and any other status) or otherwise meets the SBA’s standard size
    • SBA affiliation criteria in effect in which affiliated non-profits have to combine the employees based on “parental governances”
  • Tax-exempt nonprofit 501(c)(3) with fewer than 500 employees, or any other business
    • Congress currently putting pressure on SBA to allow publicly owned rural hospitals and rural health clinics
Small Business Association (SBA) Payroll Protection Program (PPP) (continued)

• SBA PPP (continued)
  • Loan of 2.5 times borrower’s average monthly payroll costs, not to exceed $10M
    • Note that payroll costs include salary, wages, vacation, payment for group healthcare benefits, and state and local taxes assessed on the compensation
    • Excluded costs include compensation of an individual in excess of an annual salary of $100K, as prorated for the period 2/15/20-6/30/20
  • Loan amount forgiven is equal to the amount borrower spent during 8-week period beginning on date of loan origination on the following
    • Included costs (note that loan forgiveness cannot exceed principal):
      • Payroll costs
      • Interest on mortgage obligation
      • Rent on a leasing agreement
      • Payments on utilities
    • There is a reduction in loan forgiveness if there is a reduction in the number of employees or a reduction of greater than 25% in wages paid

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Small Business Association (SBA) Payroll Protection Program (PPP) (continued)

• SBA PPP (continued)
  • Loan forgiveness (continued)
    • Loan forgiveness must be applied for through lender with application to include:
      • Documentation verifying number of employees, pay rates, IRS payroll tax filings etc.
      • Documentation on payments on covered mortgage, lease and utilities
      • Certification that documentation provided is true and in accordance with criteria
  • Other:
    • Waives borrow and lender fees; “credit elsewhere” test; and collateral and personal guaranteed requirements
    • The interest rate will be 1%
    • No prepayment penalties
    • Loan can be deferred by 6 months
    • Loan maturity is two years
    • 75% of loans proceeds shall be used for payroll costs

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Employee Retention Credit and Payroll Tax Deferral

✔ For organizations not eligible for SBA PPP, evaluate payroll tax credits and deferrals

• Payroll Tax Credit and Deferral (for organizations not participating in SBA PPP)
  • Section 2301 of CARES Act provides refundable tax credit against an employer’s share of Social Security payroll taxes (6.2%) for 50% of up to $10K of qualified wages paid to each employee between 3/13/2020-12/31/2020 if either:
    • Employer’s business is fully or partially suspended by government order; or
    • Employer’s gross receipts are below 50% of comparable 2019 quarter (until receipts are above 80% of same quarter)
  • If the employer has greater than 100 employees in 2019, credit is allowed only for wages paid to employees who did not work during the quarter
  • Program not available for governmental agencies

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Payroll Tax Credit and Deferral (continued)

- Section 2302 of CARES Act provides employers the option of deferring the employer portion of Social Security taxes between 3/27/2020 and 12/31/2020 with 50% repayment on 12/31/2021 and 50% repayment on 12/31/2022
  - No penalties or interest if deposited on stated dates
Federal Emergency Management Agency (FEMA) Public Assistance Program

✓ **File Federal Emergency Management Agency Request for Public Assistance document and begin tracking eligible costs for the duration of the response**

• Federal Emergency Management Agency (FEMA) Grants
  • Provides grants through the Public Assistance (PA) program to cover costs of “emergency protective measures that are taken to save lives, protect public health and safety, and to protect improved property”
  
• Requires President’s Emergency Declaration for covered area
  • Between 3/13/20 and 4/5/20, States were declared Major Disaster Areas

• Eligibility
  • Grant “Recipients” include States, Territorial, or Tribal governments
  • Applicants/Subrecipients include:
    • Private non-profit organizations
    • Public hospitals
  
  • Note: private entities may be eligible if they contact with governmental agency to carry out emergency protective measures

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Federal Emergency Management Agency (FEMA)
Public Assistance Program (continued)

- FEMA Grants (continued)
  - Reimbursable Costs
    - 75% of costs of emergency protective measures (Category B) and 100% of management costs (Category Z), *not otherwise reimbursed including* (but not limited to):
      - Triage and medically necessary tests related to Covid-19 cases
      - Emergency medical treatment of Covid-19 patients
      - Prescription costs related to Covid-19 patients
      - Purchases of PPP, DME, and consumable medical supplies
      - Medical waste
      - Emergency medical transport

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Federal Emergency Management Agency (FEMA) Public Assistance Program (continued)

• FEMA Grants (continued)
  • Excluded costs
    • Long term medical treatment including
      • Inpatient admissions,
      • costs that extend past the emergency period,
    • Administrative costs associated with the treatment of Covid-19 patients
  • Cost Eligibility
    • Costs must be tied directly to eligible work, adequately documented, and necessary and reasonable to accomplish work including:
      • Labor
        • Overtime only for budgeted staff
        • Unbudgeted staff
      • Equipment and leased equipment
      • Material
      • Contract services
      • Management costs incurred in administering PA awards

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Critical Access Hospitals (CAHs) Interim Cost Reports

- **File updated Medicare rates with Medicare Advantage plans to ensure appropriate revenue received from MA plans**

  - As CAH volumes decline, unit costs increase as a result of 80%-90% of total costs are fixed or step-fixed
    - Further, increased personal protective equipment will increase variable costs in addition to total unit costs
  - Cost-based payment rates with change with changes in volume and variable cost increases
  - CAHs should prepare interim cost reports reflecting changes in volume and variable costs
    - Interim cost reports submitted to MACs so that future cash flow matches expected changes in unit cost structure
Contact third-party payers for relief

- Request an extension of the timely filing and appeal deadlines
  - This takes the pressure off
  - As codes and billing procedures keep changing it may be more cost effective to have the flexibility to wait to file the claims, especially if they are being denied
- PIP payments - Request a monthly cash advance if your organization falls behind in claim’s submissions due to staff illness, new coding issues, etc.
  - Claims would be submitted and reconciled at a later date
- Request waivers of co-pays for chronic disease medications or open medication alternatives at the same co-pay
- Request funding for SDOH assistance to members/patients so they do not develop other health care needs your system cannot support right now
Line of Credit

✓ Work with bank to open and/or expand line of credit
  • As “back-up to back-up” plan, ensure adequate cash reserves through opening or extending line of credit with current bank
Other Revenue Opportunities

- **Enhanced COVID patient payments**
  - **120% for inpatients**
    - 20% add-on for patient admitted with Covid-19 through duration of emergency period
  - **Telehealth services**
    - During emergency period, removes criteria that established patient and allows beneficiary to be seen in their home
    - Allows FQHCs and RHCs to act as distant sites
- **Discontinuation of Sequestration**
  - Temporary lift Medicare sequester from 5/1/20-12/31/20
- **Delay Medicaid Disproportionate Share (DSH) reductions**
  - Delay the scheduled implementation of State DSH reductions through 11/30/20
Summary/Conclusions

- COVID-19 pandemic has created unprecedented uncertainty for health systems
- CARES Act has created opportunities to preserve and enhance operations of rural health systems
- Rural health systems have an opportunity to understand and predict impact of changed operations and new funding sources on organizational liquidity
  - Essential for effective decision making
- Now is the time to be proactive

- Thank you for all that you are doing on the front lines!
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