



FINANCIAL GUIDE FOR THE RURAL HEALTH CARE LEADER DURING COVID AND POST-COVID

2022

PRESENTER



Brian Bertsch
Principal
bbertsch@eidebailly.com
605-977-2722

AUTHOR



Ralph Llewellyn
Partner-in-Charge of Critical
Access Hospitals
rllewellyn@eidebailly.com
701.239.8594

AGENDA

- Introduction to the Guide
- Anticipated impacts on financial indicators and facility performance
- Strategies



INTRODUCTION TO THE GUIDE

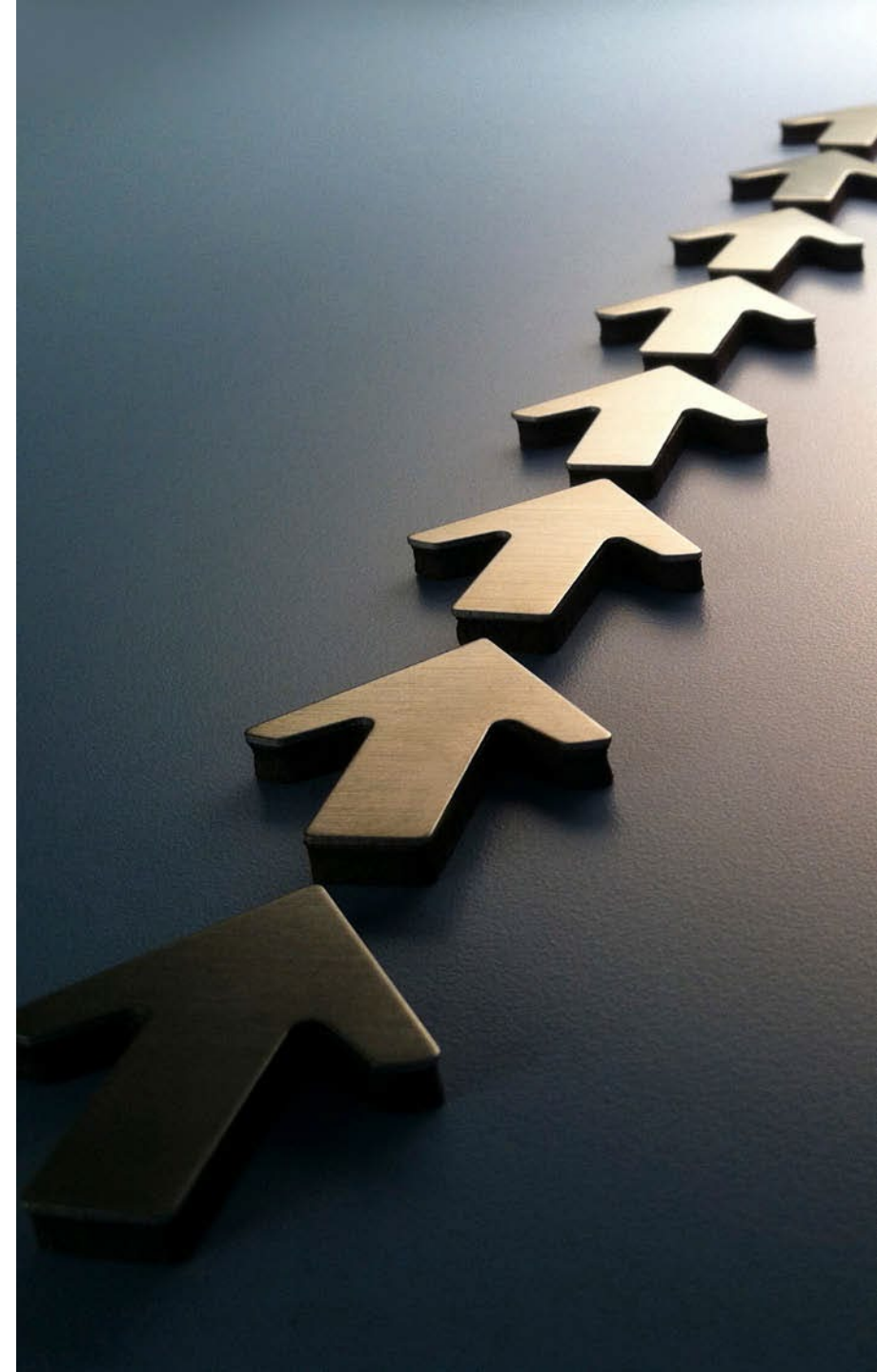
- Purpose
 - Users:
 - State Medicare Rural Hospital Flexibility (Flex) Program personnel
 - Leaders of critical access hospitals (CAHs) and provider based rural health clinics (RHCs)
 - Others that assist these providers in managing their long-term financial performance.
 - Design
 - To be as non-technical as possible
 - To provide guidance on potential COVID Public Health Emergency (PHE) impact on top financial indicators during and after the PHE.
 - To provide strategies on how to address the financial indicators as organizations navigate the challenges of the PHE and post-PHE periods.

INTRODUCTION TO THE GUIDE

- <https://www.ruralcenter.org/resource-library/financial-guide-for-the-rural-health-care-leader-during-covid-and-post-covid>
- Layout
 - Purpose
 - Executive Summary
 - Introduction
 - The Financial Indicators
 - Strategies to Address and Improve Financial Performance and Condition
 - Appendix - Resources

MAJOR FINANCIAL IMPACTS ON PROVIDERS

- Lower patient volumes
- Lower volumes lead to lower revenues
- New infusions of cash are received from various external funding sources
- Increased expenses due to the COVID PHE & after



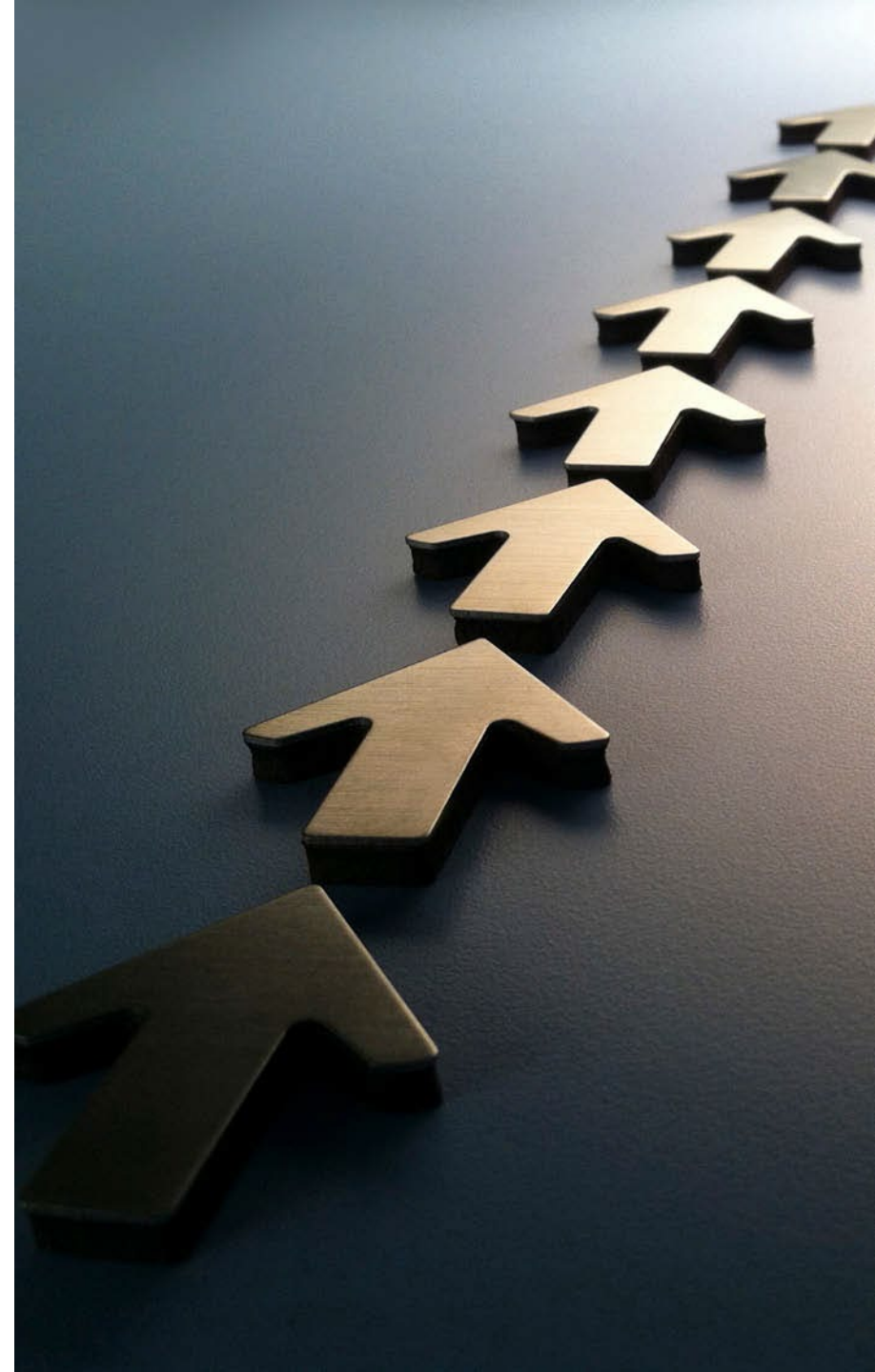
NEW CHALLENGES

- Need to develop an understanding of the impact of the COVID PHE on financial indicators
- Necessity to initiate strategies for moving forward into the future



THE INDICATORS

- 11 Indicators
- From the Small Rural Hospital and Clinic Finance 101 Manual
- Expected impacts
- Indicator specific strategies



DAYS IN GROSS AND NET ACCOUNTS RECEIVABLE

- **Expectation**
 - Variation on impact to providers.
 - Unemployment, increases of uninsured and overall financial insecurity to push levels upward
 - Strategies to clean up outstanding balances during slowdown may push levels downward
- **Strategy**
 - Improve results back to historical levels or closer to benchmarks
 - Maintain gains that were achieved during the PHE

DAYS CASH ON HAND

- **Expectation**
 - Large portion of the facilities will initially report higher calculated days cash on hand
 - Large influx of initial funds
 - Expenditures of funds over time and delays in spending activity
- **Strategy**
 - Need to consider how much of the current cash is earmarked for future lost revenues, future additional expenses and eventual repayment/recoupment

TOTAL MARGIN

- **Expectation**
 - Large variations due to influx of external funds and differences in timing for recognizing these cash infusions as revenues
 - Declining in 2022
- **Strategy**
 - Consider continued monitoring against historical benchmarks with adjustments for known anomalies
 - Cash infusions
 - Changes in investment income
 - Goal – determine how much of the total margin is due to unusual circumstances

OPERATING MARGIN

- **Expectation**

- Large variations due to influx of external funds and differences in timing and accounting rules for recognizing these cash infusions as revenues
- Overall anticipate lower operating margins, continuing decline in 2022

- **Strategy**

- Consider continued monitoring against historical benchmarks with adjustments for known anomalies
 - Cash infusions
- Goal – determine how much of the operating margin is due to unusual circumstances

CURRENT RATIO

- **Expectation**
 - Large influxes of external funds will drive increases in both current assets and current liabilities
 - Anticipate overall reduction in current ratio for those entities with a ratio historically over 1.0
 - Anticipate overall increase in current ratio for those entities with a ratio historically under 1.0
- **Strategy**
 - Consider calculating adjusted current ratios to remove impact of outstanding infusions of external funds

DEBT SERVICE COVERAGE

- **Expectation**

- Anticipate lower than average new debt activity in 2020 and 2021, starting to increase in 2022
- Large variations in total margin are expected to lead to large variations in this financial indicator

- **Strategy**

- Monitor this indicator against existing debt covenants to identify immediate need for action

SALARIES TO NET PATIENT REVENUE

- **Expectation**
 - Higher costs are anticipated to staff healthcare operations
 - Anticipate higher hourly wages
 - Expect to see shifts from salary to contract labor that is not included in salary calculation
 - Anticipate large variations due to the noted factors
 - Important to monitor “trend”
- **Strategy**
 - Consider updating historical and current internal calculations to include salaries and contract labor to monitor total trends

PAYOR MIX PERCENTAGE

- **Expectation**
 - Difficult to estimate potential impacts
 - Medicare patients are older and more susceptible to COVID
 - Recent shifts from older to younger COVID patients
 - Younger patients may have been more successful in avoiding outpatient care
- **Strategy**
 - Continue to focus on maximizing all access and volumes
 - Focus on strategies to capture higher commercial patient market

AVERAGE AGE OF PLANT

- **Expectation**
 - Does not typically fluctuate much from year to year
 - Exception is major new construction or equipment
 - Expect slight increase (less than one year) until providers are able to initiate new projects
- **Strategy**
 - Anticipate potential change in the nature of investments to reflect newly identified strategic needs

LONG TERM DEBT TO CAPITALIZATION

- **Expectation**

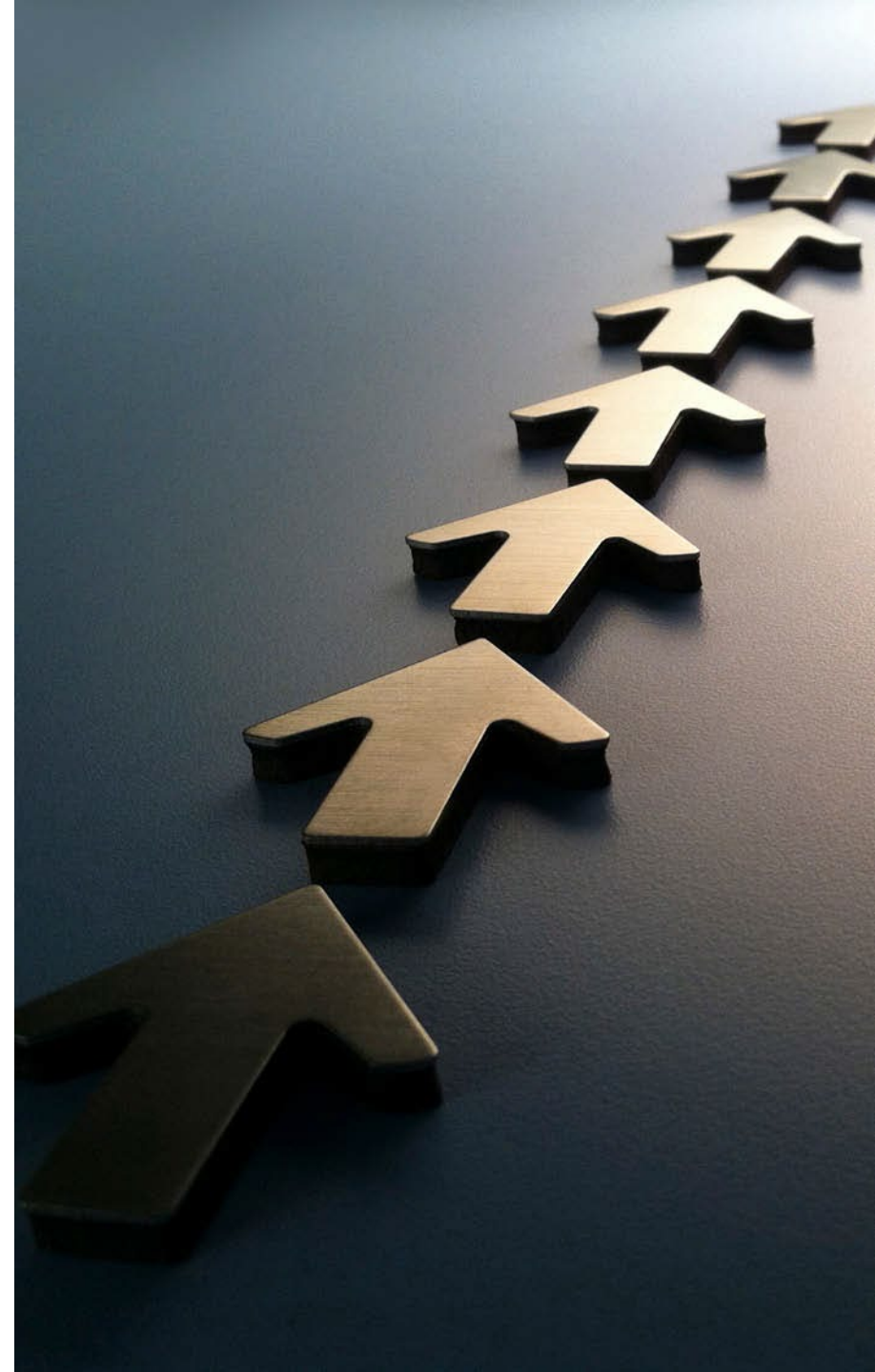
- Initial thoughts - Expect stable indicator in 2020 and 2021
 - Updated thoughts – Seeing some significant drops due to growth in net assets (COVID Funds)
- Potential for increases in 2022 as providers catch up on delayed projects
- Does not typically fluctuate much from year to year
 - Exception is major new construction or equipment
- Expect overall stability until providers are able to initiate new projects

- **Strategy**

- Anticipate potential change in the nature of investments to reflect newly identified strategic needs
- Newly identified needs will still need to fit within financial capabilities

THE STRATEGIES

- 9 Strategies
- Focus on improving financial performance and condition
- Each strategy may impact more than one financial indicator



COMMUNITY HEALTH NEEDS ASSESSMENT

- **Strategy**

- Review current CHNA and documents for completeness
- Enhance processes and methodologies to create a more robust assessment

- **Actions**

- Add market share assessments and projected future demographic/service line trends to assessment
- Utilize survey tools to obtain a better understanding of potential patients
- Use CHNA as basis for improvement of payor mix and marketing efforts
- Complete a CHNA or similar project, even if not required

STRATEGIC PLANNING

- Strategy
 - Update current strategic plan to ensure relevance post-COVID

- Actions
 - Review and update strategic plan to ensure relevance
 - Include assignment of responsibility and timelines
 - Implement monthly reporting on status of implementation

ASSESSING OPERATIONAL EFFICIENCY AND EFFECTIVENESS

- **Strategy**
 - Review operational changes made during PHE to identify best practices
 - Complete a comprehensive analysis of staffing and processes against established benchmarks
- **Actions**
 - Identify operational efficiencies achieved by organization during PHE
 - Determine what identified operational efficiencies can be adopted permanently
 - Compare budgets often (operating and capital)
 - Complete comprehensive staffing and process evaluation to identify opportunities to improve financial and operational performance
 - How can you care for your patients “differently”?

EXPLORATION OF POPULATION HEALTH AND WELLNESS OPPORTUNITIES

- **Strategy**
 - Review various population health opportunities and expanded service offerings that can be provided by the organization with a focus on identifying gaps and opportunities to enhance volumes
- **Actions**
 - Compile a comprehensive list of population health, wellness, and preventative service opportunities
 - Identify opportunities and complete financial feasibility analysis to add new services to fill identified gaps
 - Develop plan to engage in population health activities as well as increase utilization of existing and new wellness and preventative care services

REINVENTING THEMSELVES

- **Strategy**
 - Review current approaches to access and ensure strategies are developed to increase overall service volumes and market capture

- **Actions**
 - Complete a comprehensive review of current hours of operation to address opportunities to improve patient access and patient volumes
 - Complete a comprehensive review of the marketing strategy to ensure it is designed to be in alignment with the strategic plan, increase awareness, and build patient volumes

SERVICE LINE ANALYSIS

- **Strategy**
 - Analyze service lines to identify opportunities to improve performance and/or develop exit strategies
- **Actions**
 - Complete an analysis of all services lines that are struggling financially
 - Perform deeper analysis to develop action plans for those that can improve their financial performance
 - Create action plans for services that cannot achieve needed financial performance

TELEHEALTH SERVICES

- **Strategy**
 - Complete an analysis of telehealth services offered to identify opportunities to expand service line
- **Actions**
 - Complete inventory of telehealth services offered as well as those that could be offered
 - Complete a financial feasibility analysis on the identified opportunities
 - Create an implementation plan for those opportunities identified as feasible

OUTMIGRATION

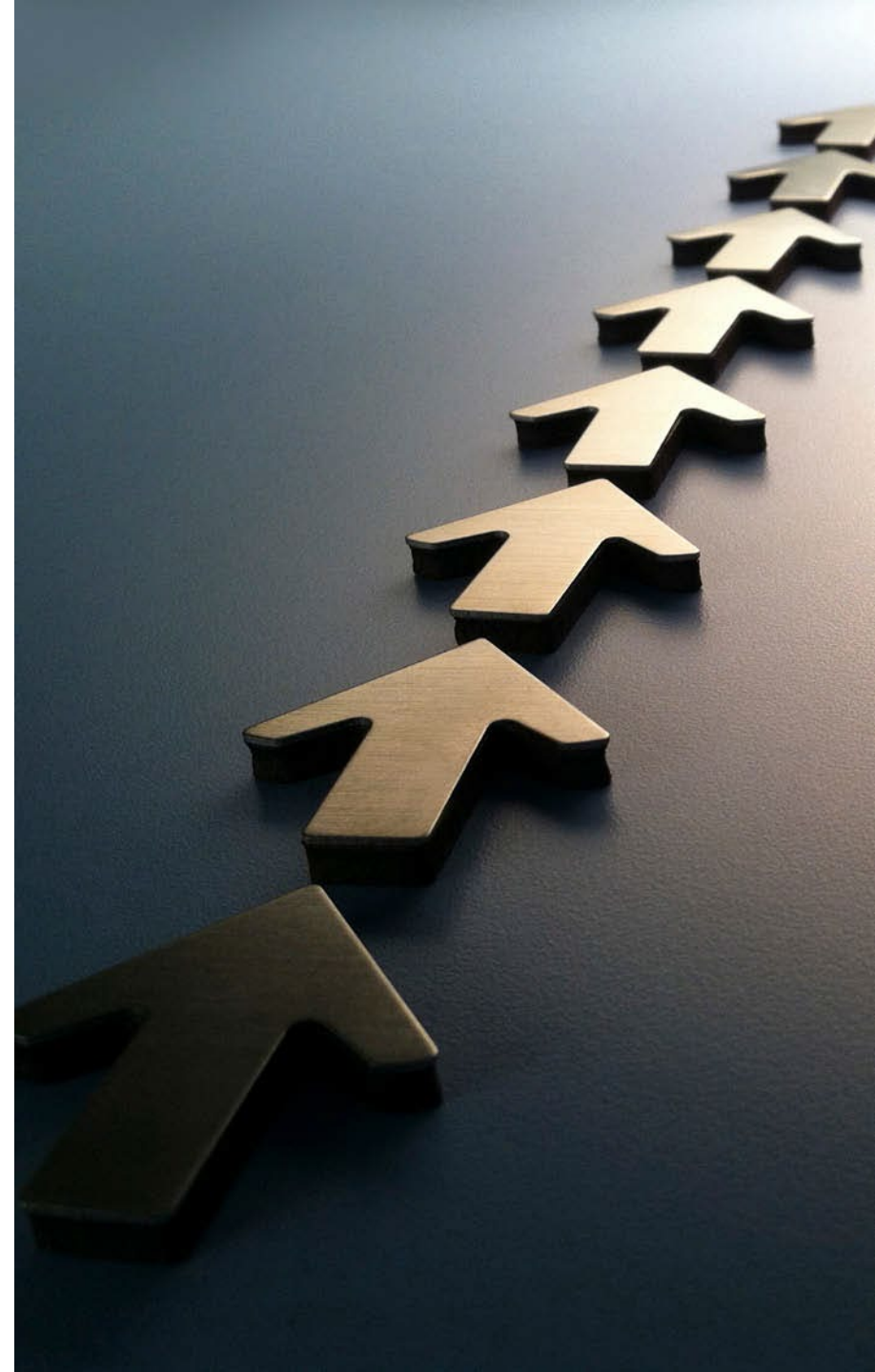
- **Strategy**
 - The identification and implementation of strategies to decrease the outmigration
- **Actions**
 - Engage in a comprehensive market share assessment to identify outmigration
 - Identify root causes for outmigration
 - Develop and implement strategies to address outmigration

MAINTAINING ONGOING EDUCATION

- **Strategy**
 - Ensure educational plans and strategies provide a proper mix of remote and live events that balances the financial resources of the organization and the needs of the staff
- **Actions**
 - Review current policies and practices as it relates to the volume, adequacy, and venues of education for all staff
 - Update current educational policies and practices to address the current educational needs of the staff and organization

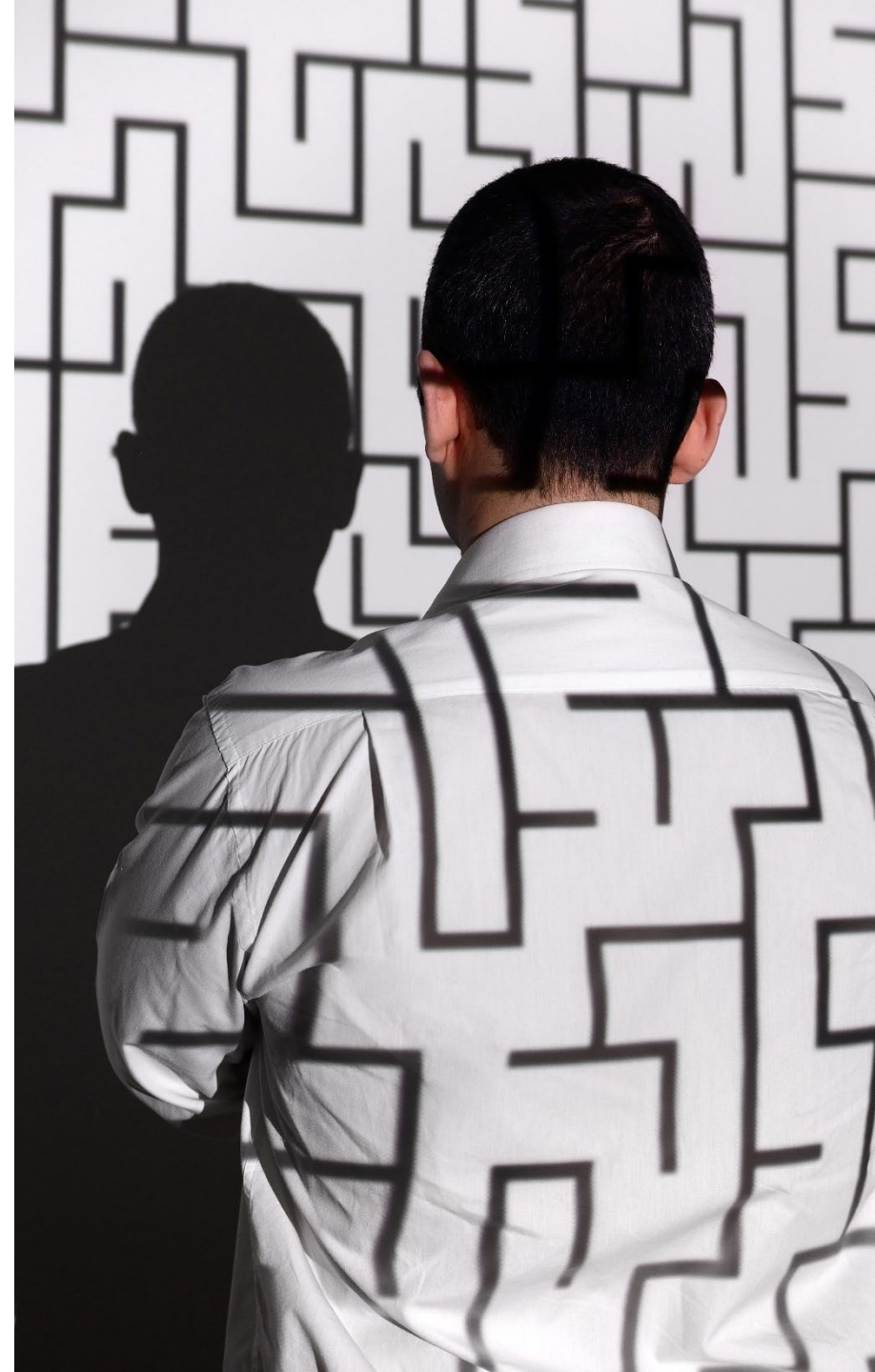
RESOURCES

- Appendix
 - 5 pages of potential resources
 - Sorted by topic area



CONCLUSION

- PHE left a financial mark on rural providers
 - Some temporary
 - Some permanent
- Positive results will not be easy, but action can be taken to improve financial performance and condition





QUESTIONS?

This presentation is presented with the understanding that the information contained does not constitute legal, accounting or other professional advice. It is not intended to be responsive to any individual situation or concerns, as the contents of this presentation are intended for general information purposes only. Viewers are urged not to act upon the information contained in this presentation without first consulting competent legal, accounting or other professional advice regarding implications of a particular factual situation. Questions and additional information can be submitted to your Eide Bailly representative, or to the presenter of this session.

THANK YOU!

Brian F. Bertsch

Principal

bbertsch@eidebailly.com

605.977.2722



CPAs & BUSINESS ADVISORS