COVID-19 Response:
Immediate Cash Planning Update and CEO Roundtable

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April 23, 2020
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OVERVIEW AND INTRODUCTIONS
Critical Access Hospital
Oskaloosa, Iowa
(population 11,523)

Serving Mahaska County since 1907
(population 22,181)

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Baptist Medical Center Leake

- 25-bed Critical Access Hospital
- Part of the 22-hospital Baptist Memorial Health Care system based in Memphis, TN
- Location: Carthage, Mississippi
- Serving: Leake County, population 22,763

Leake County is a rural, mostly farming community; however, the county is adjacent to the tri-county Jackson, metro area, which is the population, economic and health care center of the state. County demographics trend older than typical urban areas with higher incidences of poverty and chronic disease.
UPDATE TO IMMEDIATE CASH PLANNING
Cash Planning Overview

- Prepare 26-week, weekly cash flow projection
- Immediately file for accelerated/advanced payments, which will support operations for next 90 days
- Recognize receipt of your organization’s Public Health and Social Services Emergency Fund Grant $30B distributed on 4/10 and continue preparing information to support
- Recognize that additional grant revenue under the PHSSEF program will be distributed via the remaining $70B of CARES Act and an additional $75B approved by Senate on 4/21
- Recognize Small Rural Hospital Improvement Program (SHIP) grant between $71K and 84K
- 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
- Evaluate Economic Injury Disaster Loan (EIDL) and Emergency Economic Injury Grants
- Evaluate Main Street Lending program as source of additional capital
- Request 12-month principal and interest deferral on USDA Community Facilities Direct Loans
- 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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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
Financial Projection

• Example (https://www.stroudwater.com/?resources=stroudwaters-26-week-cash-flow-model)
  • Beginning cash balance of $2.5M
  • COVID-19 Funding from Medicare accelerated payments, SBA PPP loan, PHSSEF and SHIP grants (other programs not included)
  • Assumed volume declined 50% beginning 3/15 and continuing through projection period
  • Assumed expenses remained constant during the projection period
  • After 26 weeks, cash was $7.0M, $4.5M greater than start
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
Public Health and Social Services Emergency Grant Fund (PHSSEF)

✓ Recognize receipt of your organization’s Public Health and Social Services Emergency Fund Grant $30B distributed on 4/10 and continue preparing information to support:
  ✓ Incremental costs of COVID-19 patients
  ✓ Lost revenue due to deferring elective services
  ✓ Cost of bad debt related to COVID-19 patients

✓ Recognize that additional grant revenue under the PHSSEF program will be distributed via the remaining $70B of CARES Act and an additional $75B approved by Senate on 4/21/2020

• Public Health and Social Services Emergency Fund (PHSSEF) Grants ($100B) plus an additional $75B approved by Senate on 4/21/2020
  • New Coronavirus Stimulus Bill passed by Senate on 4/21/2020 approved an additional $75B to be distributed to health care providers

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

- PHSSEF Grants (continued)
  - $50B of PHSSEF grants are allocated to providers as follows:
    - $30B of funds distributed as “payments” on 4/10 and 4/17 based on 2019 Medicare fee for service (FFS) payments they received
      - Formula for distribution was as follows:
        - Distribution = Provider 2019 Medicare FFS Receipts / $484B X $30B
    - The remaining $20B will begin being distributed week of 4/20 based on the providers proportional share of 2018 total net revenue
      - On 4/24, a portion of providers will automatically be sent advance payments based off the revenue data they submit in CMS cost reports with the remaining payments sent out weekly as revenue information is verified
        - Providers without cost reports will have to submit their revenue to a portal opening week of 4/20
Public Health and Social Services Emergency Grant Fund (PHSSEF) (continued)

- PHSSEF Grants (continued)
  - Targeted allocations include:
    - $10B targeted distributions to hospitals and other facilities that have been particularly affected by the increased burden of caring for coronavirus patients and must submit information to portal prior to midnight on 4/23 including:
      - Total number of ICU beds as of 4/10/2020
      - Total number of admissions with a positive diagnosis for Covid-19 between 1/1/2020 and 4/10/2020
    - Allocation for Treatment of the uninsured
      - Providers treating uninsured Covid-19 patients can request claims reimbursement at Medicare rates, subject to available funding
    - $10B allocated to rural hospitals and health clinics
      - “Distributed as early as next week on the basis of operating expenses, using a methodology that distributes payments proportionately to each facility and clinic”

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

• PHSSEF Grants (continued)
  • Within 30 days of receipt, providers to sign attestation confirming receipt of funds and agreeing to terms and conditions
    • Providers must agree not to seek collection of out-of-pocket payments from a COVID-19 patient that are greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider
  • 10 days after end of each calendar quarter, recipients receiving more than $150K shall submit report to the Secretary and the Pandemic Response Accountability Committee which will include:
    • Total amount of funds received under all of the Covid-19 acts
    • Amount of funds expended or obligated for each project/activity
    • Detailed list of all projects/activities
      • Name and description of the project
      • Estimated number of jobs created or retained by the project
      • Detailed information on sub-contracts/grants awarded
Small Rural Hospital Improvement Program

✓ Recognize Small Rural Hospital Improvement Program (SHIP) grant between $71K and 84K

• SHIP Grant ($150M)
  • Funding to be awarded to states through SHIP grant mechanism and amount to between $71K and $84K per hospital
    • In order to streamline the process, eligible rural hospitals will not have to file a grant request to receive these funds
  • The intent of these dollars is to be broad and covers COVID-19 related activities including “responding to the increased need for testing, clinical services, and equipment to meet the needs of the community as well as to address financial and workforce challenges related to the impact of the Covid-19 public health emergency.”
    • “SHIP funding is specifically for Covid-19 needs and is not intended to fall within the existing SHIP funding categories.”
  • “Award recipients may not use grant funds for costs that are reimbursed or compensated by other federal or state programs including but not limited to the SBA PPP, PHSEF grants, or unemployment compensation.”

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

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

✓ An additional $310B was approved by the Senate on 4/21/2020

• 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 (and used with another $310B approved by Senate on 4/21/20) through June 30, 2020 or until funds made available are exhausted on a first come, first served 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 must combine the employees based on “parental governances”
  • Tax-exempt nonprofit 501(c)(3) with fewer than 500 employees, or any other business

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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
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
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
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 3/27/200 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
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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Economic Injury Disaster Loans and Emergency Economic Injury Grants

- Evaluate Economic Injury Disaster Loan (EIDL) and Emergency Economic Injury Grants (EEIG)
- Note an additional $10B for grants and $50B for loans approved by Senate on 4/21/2020

- EEIG will provide emergency advance of up to $10K within three days of applying for EIDL
  - Advance does not have to be repaid
- Lower interest loans of up to $2M, with principal and interest deferral available for up to 4 years to pay for expenses that could have been met had the disaster not occurred
  - Interest rate 3.75% for small businesses and 2.75% for non-profits
  - Repayment terms flexible based on borrower’s ability to repay up to 30 years
  - Borrowers cannot use EIDL loan proceeds for same purpose of PPP proceeds
- Eligibility includes small business concerns (meeting SBA criteria) and private, non-profits

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Main Street Lending Program

✔ Evaluate Main Street Lending program as source of additional capital
  • Provides up to $2.3T in loans to U.S. based small and mid-size businesses through one of:
    • Main Street New Loan Facility (MSNLF)
    • Main Street Expanded Loan Facility (MSELF)
    • Primary Market Corporate Credit Facility (PMCCF)
  • Eligibility
    • United States based small and mid-size businesses up to 10K employees or $2.5M in annual revenues
  • Terms
    • Four-year term loans
      • Principal and interest deferred for first year
    • Interest at Secured Overnight Financing Rate (SOFR) + 250-400 basis points
    • $1M minimum loan size
    • Maximum loan size lessor of $25M/$150M or 4X/6X 2019 EBITDA
    • Fee of 100 basis points on principal paid by borrower to lender
  • Restrictions
    • Proceeds not to be used to repay other loan/Line of Credit balances

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USDA Direct Loan Payment Deferral

✓ Request 12-month principal and interest deferral on USDA Community Facilities Direct Loans

• April 21, 2020 Federal Register notification of direct loan 12-month payment deferrals for the community facilities direct loan program
  • Upon written request received from borrowers prior to September 30, 2020, “USDA may assist borrowers that are temporarily unable to continue making payments of principal and interest due because of temporary cash flow issues resulting from COVID-19”
  • State Directors have authority to approve payment deferral on loans less than $10M
  • Agency Administrator review and approval required for loans greater than $10M and loans that have both a direct loan and a guaranteed loan

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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

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Third-Party Payers

✓ 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
      • Payment rate to be $92, after reprocessing of claims in July 2020
      • Costs excluded from the RHC all-inclusive rate
• 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

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CEO ROUNDTABLE
CEO Roundtable Questions

- What has your hospital’s response to COVID-19 been from a clinical operations perspective?

- What has your hospital’s response to COVID-19 been to ensure financial sustainability?

- How is your hospital addressing the recovery stage of the pandemic?

- What has your hospital done to keep the more vulnerable population healthy?

- What have you done that you consider unique to address Covid-19 that others might find helpful?

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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

- Stay informed with up-to-date information as it is changing rapidly

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