Status Report

Hospital Financial Impact and Relief Funding

Related to
COVID-19 Pandemic
May 1, 2020

During this unprecedented time in modern world history, New Mexico’s hospitals have been at the forefront of emergency preparedness and delivery of care to COVID-19 patients. Hospitals have canceled non-emergency procedures, and many Americans are postponing care as they shelter in place to stop the spread of the virus. Unfortunately, the public now has a palpable fear of hospitals and this has significantly reduced patient volumes and may continue to do so.

Treatment for COVID-19 has created incredible demand for certain medical equipment and supplies as the virus has disrupted supply chains, increasing the costs that hospitals face to treat COVID-19 patients. At the same time, COVID-19 has caused unprecedented job losses, leading to a rise in the number of uninsured. Hospitals and health systems, particularly those in rural areas, face catastrophic financial challenges as a result of the COVID-19 pandemic, now and for the foreseeable future.

**KEY POINTS**

1. Hospitals are absorbing a **catastrophic financial impact of at least $250 million per month**, while delivering the frontline response to the COVID-19 pandemic
2. Federal relief to hospitals was a **one-time stimulus valued at $118 million**.
3. Redirection of DSH and SNCP funds provided **no new state relief to hospitals**
4. **Federal relief to the state totals almost $1.4 billion**, a portion of which should be used to help hospitals.

**NATIONAL FINANCIAL PROJECTIONS**

The three major credit reporting agencies have revised their financial outlooks from stable to negative because of the effects of COVID-19.
• As late as December 2019, Fitch reported a stable outlook for hospitals and health systems. As of April, S&P, Moody's and Fitch have revised their outlooks to negative.¹²³

• All three agencies cite increased costs, along with a reduction in admissions and outpatient visits as creating new financial pressure on hospitals, on top of existing concerns around low reimbursement from government payers and coverage shifts from employer-sponsored insurance to Medicare.

• For March, operating margins decreased 150% over the previous year, according to a survey by Kaufman Hall.⁴

• The Kaiser Family Foundation estimates that the cost of treating a patient with COVID-19 could be more than $20,000 and over $88,000 for patients who require ventilator support.⁵

**NM HOSPITAL FINANCIAL IMPACT**

To increase personal and public safety, as well as conserve personal protective equipment, hospitals moved to cancel non-emergency procedures. In many cases they also spent more to obtain personal protective equipment (PPE) and other supplies and equipment necessary, but in short supply. At the same time, many New Mexicans are delaying care, including forgoing primary care and other specialty visits.

• Hospitals and health systems have canceled non-emergency procedures.
  o On March 18, the Centers for Medicare & Medicaid Services (CMS) recommended that elective surgeries and non-essential medical, surgical and dental procedures be delayed during the COVID-19 outbreak.⁵
  o On March 24, NM Secretary of Health Kunkel issued a Public Health Order which further placed restrictions on Non-Essential Health Care Services during the COVID-19 outbreak.

NMHA polled its membership and received responses to a financial impact estimation tool from 26 of the 33 general acute care hospitals for the month of March. **The net impact was $81.1 million.** At this juncture, it is critical to recognize that the impact represents only on week of Public Health Order restrictions. **It is likely that the April impact will be at least $250 million** with significant geographic variation.

On a full month basis, hospitals are experiencing a loss of 40-60% of their revenue as a result of PHO #1 while COVID response expenses are rising.

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<th>MEDICAID Lost Revenue</th>
<th>TOTAL Lost Revenue</th>
<th>Staff Expense</th>
<th>Supplies</th>
<th>Facility Expense</th>
<th>Uninsured</th>
<th>Other</th>
<th>Change in Days Cash</th>
<th>Expenses</th>
<th>Revenue</th>
<th>NET IMPACT</th>
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<td>$ (53,756,947)</td>
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FEDERAL RELIEF

The federal Provider Relief Fund allocated $50 billion for general distribution to Medicare facilities and providers based on eligible providers net patient revenue.

- NMHA projects **NM hospitals should receive $118 million** in combined payments from this fund, roughly on 4/10 and 4/24
- American Hospital Association (AHA) provides a good description of these general payments at: [https://www.aha.org/special-bulletin/2020-04-23-special-bulletin-hhs-announces-how-it-will-distribute-additional-funds](https://www.aha.org/special-bulletin/2020-04-23-special-bulletin-hhs-announces-how-it-will-distribute-additional-funds). (Another round of smaller, targeted federal payments will be directed to rural, hot-spot, indigent and Indian Health Service needs.)

**IMPORTANT NOTE**

While the federal relief was welcome, it is a **one-time** allocation and is equivalent to only about **2 weeks of payroll expenses** for hospitals. Meanwhile, the financial impact on hospitals continues.

CURRENT STATE PAYMENTS

On April 10, through a general press release and specific letters to hospitals, the Human Services Department announced release of Safety Net Care Pool (SNCP) and Disproportionate Share Hospital (DSH) payments:

“The Human Services Department will immediately distribute $35 million in relief funding to hospitals through the Medicaid program. The relief funding includes the release of $14 million in Disproportionate Share Hospital (DSH) payments and $21 million in Uncompensated Care (UC) payments for safety-net hospitals. HSD is also seeking federal approval to make advance payments to hospitals now for expected increases in hospital care provided to Medicaid patients as a result of COVID-19. … HSD is working closely with the federal Centers for Medicare and Medicaid Services (CMS) to obtain flexibility in how relief funding to hospitals is distributed. This may include additional advance payments if CMS will allow it. … funding for the DSH and UC payments that will be made to hospitals is already included in the HSD budget. Typically, payments would be made on a quarterly basis, but HSD will seek federal approval to distribute payments upfront for the entire year. HSD is continually exploring additional options to increase payments to hospitals and other providers and will implement these options as quickly as possible.”
Several points should be made about the announcement:

- The payments did not require emergency funding but were “included in the HSD budget”
- As of May 1, DSH payments have been received but none of the SNCP payments have been received by hospitals. HSD estimates that these may be available by mid-May, effectively 30 days behind the traditional quarterly payment schedule.
- The methodology for distributing the SNCP payments has not been shared with NMHA to allow any analysis or future planning for the remainder of the payments.
- The SNCP payments have clearly been structured in terms of Uncompensated Care payments rather than the methodology developed by NMHA and HSD over months of collaboration and shared cost. That recommended model for SNCP transition was augmented by a $2.3 million appropriation to HSD for hospitals. It was based on managed care directed payments to hospital classes along with Upper Payment Limit (UPL) payments.

**OPPORTUNITIES TO SUPPORT HOSPITALS**

NMHA recommends that the state allocate a significant share of its federal CARES Act and FMAP relief dollars to hospitals and healthcare providers. The State of New Mexico is receiving:

- $1.25 billion under Section 601 of PL 116-136, the “Coronavirus Relief Fund” of the Coronavirus Aid, Relief, and Economic Security Act (“CARES) Act.
- $149,066,400 as a result of a 6.2% enhancement to the Federal Medical Assistance Percentage (FMAP) for the period of January 1 to June 30, 2020.
- Many states have already allocated large shares of their state relief dollars to hospitals and health care providers.
- NMHA can provide technical resources and analysis through input from our membership, our national consultants and the American Hospital Association.
- **Hospitals are in desperate need. New Mexico leaders could help through numerous avenues:**
  - the exercise of the administrative authority of HSD.
  - immediate action through executive order.
  - legislative action in Special Session
NMHA recommends that the first SNCP payment be expedited and the remaining SNCP payments be made on a scheduled basis prior to year-end, that HSD share its SNCP formula it is using to make these payments and that HSD work with NMHA to redesign the payment structure related to SNCP and DSH in line with federal regulatory changes and diverse needs of New Mexico hospitals.

NMHA also recommends the full adoption of the principles embodied in OSI Bulletin 2020-008 by both private and Medicaid insurers and beyond the COVID-19 public health emergency.

Sources

2. moodys.com/research/Moodys-Outlook-for-US-for-profit-hospitals-changed-to-negative--PBC_1220272
5. healthsystemtracker.org/brief/potential-costs-of-coronavirus-treatment-for-people-with-employer-coverage/