

INSIGHTS FROM THE BDO CENTER FOR HEALTHCARE EXCELLENCE & INNOVATION

HOW POST-ACUTE CARE CAN NAVIGATE COVID-19 CHALLENGES

Preserving Patient Care and Financial Stability during Occupancy Challenges & Increased Patient Acuity is Key

By Venson Wallin and Patrick Pilch

The novel coronavirus (COVID-19) pandemic and the public health response are converging and negatively impacting all U.S. providers across the care continuum, with particularly severe implications for post-acute organizations.

Many post-acute organizations may see continued challenges in maintaining occupancy levels and containing costs. Post-acute providers will face further challenges with occupancy, already on a decline as the industry continues to move care from traditional four-walled facilities to home-based models, as reports of COVID-19 breakouts at senior care facilities are creating concern from new residents and their families about the safety of these facilities.

Cost containment may be an issue as preparation for COVID-19 cases may necessitate earlier transfers of eligible patients from hospitals to free up beds for a surge in COVID-19 patients. Such transfer patients may be more critical in nature than the current patient population and could require an intensive use of resources. These issues may result in a reduction in revenue and/or an increase in expenses—a negative blow to cash flow. Post-acute organizations need to make decisions now about planning for their near- and long-term future.

Key Pressure Points for Post-Acute Care from COVID-19

1. Continued challenges in sustaining occupancy

Skilled nursing facilities (SNFs) have generally seen declines in occupancy over the past few years because of the shift to home health from facility-based care, driven in large part by federal reimbursement policies intended to improve care quality and reduce costs amid a growing aging population. In fact, just 12% of healthcare providers said they were investing in SNFs to prepare for the growth of the aging U.S. population by 2020, according to BDO's [Candid Conversations on Elder Care](#). Forty-four percent, meanwhile, said they were investing in areas of home health, 44% in palliative care and 39% in geriatric caretakers. Reports of COVID-19 outbreaks in SNFs and rehab facilities will only lead to increased occupancy pressures, as reticence of patients and their families to enter a SNF or rehab facility grows.

3. Heightened levels of workforce stress

Staff at many post-acute organizations are already carrying significant workloads, with high patient-to-staff ratios. Covering many patients individually, staff get little "down time," resulting in higher levels of stress. With COVID-19's arrival, employees now must be even more cognizant of infectious diseases in their interactions with patients and focus not only on preventative measures to protect patients in the facility, but also the health of themselves and their families. Additionally, for those facilities where a COVID-19 breakout does occur, it is likely that some of their staff will contract the virus as well. Already lean staffing models will become even leaner as ill staff members are quarantined. Availability of staffing to replace quarantined staff will be minimal as many of the available qualified medical professionals will already be working with local hospitals and health systems experiencing COVID-19 staffing shortages themselves.

5. Fundamental changes in daily operations

COVID-19 awareness will require changes to operations, from ramped up sanitation and hygienic procedures, increased personal protection equipment for staff, limitations on family and friends' visitations, and more. As a result, post-acute providers will need to quickly address unbudgeted costs and policy changes to minimize operational challenges arising from the COVID-19 crisis.

2. Increasing severity of patient acuity and associated resource commitments

Facilities were already facing an increase in patient acuity because of the waiver of the three-day stay by CMS, which allowed hospitals to transfer patients quicker (and earlier in the recovery stage). As a result, they faced either increasing costs for a higher level of staffing to accommodate more intense patient acuity or maintaining the same level of staffing and potentially taking a hit on their quality ratings (STAR ratings). With hospitals needing to increase bed capacity to address the expected COVID-19 patient surge, they may ask post-acute organizations to accept transfers of patients earlier in their recovery stage than under normal circumstances. Again, post-acute providers would need more resources—including workforce, equipment and supplies—to address the sicker patients.

4. Challenges in cash collections

EBITDA and cash collections may at times be at odds with each other. For example, an organization's EBITDA performance may portray it as a strong performer, but their business office may not be proficient in collecting the cash generated by operations. Unless the organization is effectively managing its patient accounts receivable, the EBITDA performance can camouflage negative cash flow issues until it is too late. COVID-19's economic impacts have been widely covered in the media, and post-acute organizations may see a direct impact on their cash collections. Specifically, families may have difficulty in paying medical bills should they be furloughed or laid off. State Medicaid agencies should receive some relief from the various economic packages enacted by the federal government, but Medicaid payments—which can comprise up to 80-90% of total cash flow—could still experience a slowdown.

6. Access to capital may become more constricted

Access to capital, either through financial institutions or through private equity, may become constricted as the crisis exacerbates the post-acute sector's challenges. Financial institutions and PE investors will face challenges from the economic slowdown, and access to capital for them will tighten up. Any further funding or investing on their part will likely undergo significantly greater scrutiny than during the last few years.

7. Organizations should evaluate lease arrangements as to viability

The COVID-19 pandemic has added additional risk and complexity to relationships between lessees and lessors, which have already become somewhat tenuous over the past few years because of evolving care models and corresponding financial pressures on both parties. Often, lease payments were determined when the industry was more bullish on growth of the post-acute sector, and REITs and other investors often became highly leveraged in purchasing facilities. Lease payments were high to be able to service the debt and operators felt that operations would support the payment. Recent years have demonstrated that many of those operators are seeing income deteriorating, making their ability to meet lease terms increasingly difficult. The lessors, however, are in a challenging position themselves in that their leeway in renegotiating the terms are somewhat limited as they need the existing payment to be able to service their own loan.

Lessors may offer concessions to lessees in the form of free or reduced rent, deferral of rent payments, or cash payments when operations of the lessee are interrupted or significantly impacted. Lessors could also offer a modification: a change to the terms and conditions of a lease that results in a change in the scope of or the consideration for a lease. Whether a lessor concession is a modification or concession in accordance with the original lease depends on the terms of the lease contract and enforceable rights and obligations of the lessee and lessor. For example, an existing lease contract may contain force majeure events requiring rent reductions or free rent periods. Landlord concessions that are considered modifications are typically accounted for as a modification of the original lease versus a separate contract.

If a change is deemed a modification, that will require the lessee to: remeasure and reallocate the remaining consideration in the contract; reassess lease classification; update the discount rate; and remeasure the lease liability and carrying amount of right-of-use asset.

A lessor will make a similar determination to account for a lease modification of the existing lease and make appropriate changes to remeasure amounts recorded. Both the lessee and lessor will need to account for lease terminations, whether full or partial, in accordance with ASC 842 or ASC 840 depending on whether the company has already adopted the former.





BDO's Take on Resulting Pressure Points

1. Cash flow projections and scenario analyses are key

A cash flow projection is critical to maintaining liquidity and performing business planning. It provides the basis on which to make difficult decisions as necessary related to flexing staffing, accepting acute hospital transfers, renegotiating lease arrangements and seeking potential debt restructuring (or notification of lender as to potential debt service issues, at a minimum). The use of scenario analyses will enable the organization to model best case, worst case and most-likely case scenarios to facilitate management's decision-making process on a proactive and timely basis.

3. Identification of alternative funding sources

Effective management includes staying abreast of alternative funding resources on a proactive basis. Reacting to emergency funding needs dramatically limits options and may result in a more expensive financing arrangement. By proactively establishing relationships with alternative financing resources, organizations can maintain a path to capital in a manner that is typically more cordial and less expensive since negotiations can be completed in a routine manner versus rushed. While some organizations may not yet be in a position where new financing is necessary, that is in fact the ideal time to establish financing relationships.

2. Creation or enhancement of staff support structure

Increased stress levels necessitate the creation of new (or enhanced) staff support mechanisms. Organizations need to create or contract out respite rooms or adjacent locations. They should also consider partnering with local restaurants for staff meals. Consistent communications and regular check-ins with staff members as to the status of the facility and its response to COVID-19 are also important in mitigating workforce burnout and health concerns. Steady communication mitigates a knowledge vacuum that is often filled by misleading information.

4. Patient and family communications must be innovative

Organizations should investigate innovative avenues for family interaction with residents to mitigate patient loneliness and families' frustration with not being able to see their loved ones if the facility is quarantined. Video conferencing capabilities, established phone call times and regular administration updates are a few examples.

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Learn how your post-acute organization can navigate these challenges.

CONTACT:**VENSON WALLIN, CPA**

Managing Director
The BDO Center for Healthcare Excellence & Innovation
804-873-0443 / vwallin@bdo.com

STEVEN SHILL, CPA

National Leader, Assurance Partner and
BDO Board of Directors Member
The BDO Center for Healthcare Excellence & Innovation
949-413-2961 / sshill@bdo.com

MICHELE MICHAELIS, CPA, CIRA, CTP, CFF

Managing Director
Restructuring & Turnaround Services
212-885-7281 / mmichaelis@bdo.com

SETH MERKSAMER

Senior Manager, Healthcare Advisory
The BDO Center for Healthcare Excellence & Innovation
212-885-8063 / smerksamer@bdo.com

MICHAEL STEVENSON, CPA

National Leader, Accounting & Reporting Advisory Services
214-665-0707 / mstevenson@bdo.com

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