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Lehigh Valley Health Network: COVID-19's Financial Impact and the Road to Recovery

July 20, 2020

Presenters:

- Thomas Marchozzi, MBA, CPA – EVP/CFO, Lehigh Valley Health Network, Inc.
- Christopher J. Kalkhof, MHA, FACHE – Partner, Healthcare Practice, Guidehouse, Inc.
- Ahmed Naguib, MBA – Associate Director, Healthcare Practice, Guidehouse, Inc.

Today's Presenters

Thomas Marchozzi, MBA, CPA | EVP/CFO – Lehigh Valley Health Network, Inc. | Thomas.Marchozzi@lvhn.org

Thomas Marchozzi is the Executive Vice President and Chief Financial Officer of Lehigh Valley Health Network (LVHN). He has served in this role since January 2018 and oversees all health network finances and financial strategy. Prior to joining LVHN, Mr. Marchozzi was Senior Vice President and Chief Financial Officer at Universal Health Services, Inc. He also served as Executive Vice President and Chief Financial Officer at Hartford HealthCare.

During his more than 30 years of professional experience, Mr. Marchozzi has held senior-level finance positions at Hartford HealthCare in Hartford, CT, at Washington Hospital Center in Washington, DC, MedStar Health in Columbia, MD, Jefferson Health System in Radnor, PA, and Thomas Jefferson University in Philadelphia. He is a certified healthcare financial professional and a certified public accountant and a current board member of the Hospital Association of PA (HAP)

Christopher J. Kalkhof, MHA, FACHE | Partner – Guidehouse, Inc. | Christopher.Kalkhof@Guidehouse.com

Chris has been working with LVHN leadership on various performance improvement initiatives for over two years. He serves as Guidehouse's client Partner across LVHN's responses to COVID-19 and is currently working with leadership through their recovery and restore process. He has more than 30 years of operations, finance, managed care / contracting, M&A, strategic alliance, and new business development experience across hospital, physician organization, post-acute care, and health plan industry verticals. Chris also leads Guidehouse's Payment Transformation, New Revenue Model and Pricing practice (a/k/a provider managed care solutions) within the firm's Healthcare Strategy practice and serves as Guidehouse's HCS Business Unit Leader. Chris has also been an active member of the HFMA for the past 25 years.

Ahmed Naguib, MBA | Associate Director – Guidehouse, Inc. | Ahmed.Naguib@navigant.com

Ahmed serves as the lead PMO assisting LVHN COVID-19 taskforce in identifying eligible COVID-19 response expenses and qualifying for funding resources, both state and federal. Ahmed is a seasoned healthcare management consultant with over 14 years of experience in strategy and operations management, service line development, facilities planning, and performance improvement. In his capacity as an Associate Director within the Performance Improvement practice, Ahmed engages some of the largest healthcare systems in the US through transformational journeys delivering strategic and actionable plans geared towards performance improvement and value generation.

Today's Agenda

- 1 The Old Normal**
Pre-Pandemic Operating Environment & Strategic Initiatives Underway at LVHN
- 2 The COVID-19 Surge**
Impact on LVHN Operations and Financial Sustainability
- 3 Response to the Pandemic**
Stop the Bleeding, Find Every Dollar from Every Source
- 4 The New Normal**
LVHN's Pathway & Key Strategies to Recover, Restore & Revitalize the Health System
- 5 Q & A**

Polling Question 1

What are the three biggest financial impacts your organization has experienced?

- ☐ Declining volumes due to cancellations
- ☐ Loss in revenue
- ☐ Deterioration in patient financial profile
- ☐ Rising pandemic response costs
- ☐ Needing to manage operating costs through staff furloughs/cuts
- ☐ Depleting cash flow
- ☐ Disruptions in patient access to services and patient engagement



1

The Old Normal

Pre-Pandemic Operating Environment and
Strategic Initiatives Underway at LVHN

The “Old Normal”: LVHN is a \$3.5B Healthcare System Serving the Philadelphia-NYC corridor (Allentown)

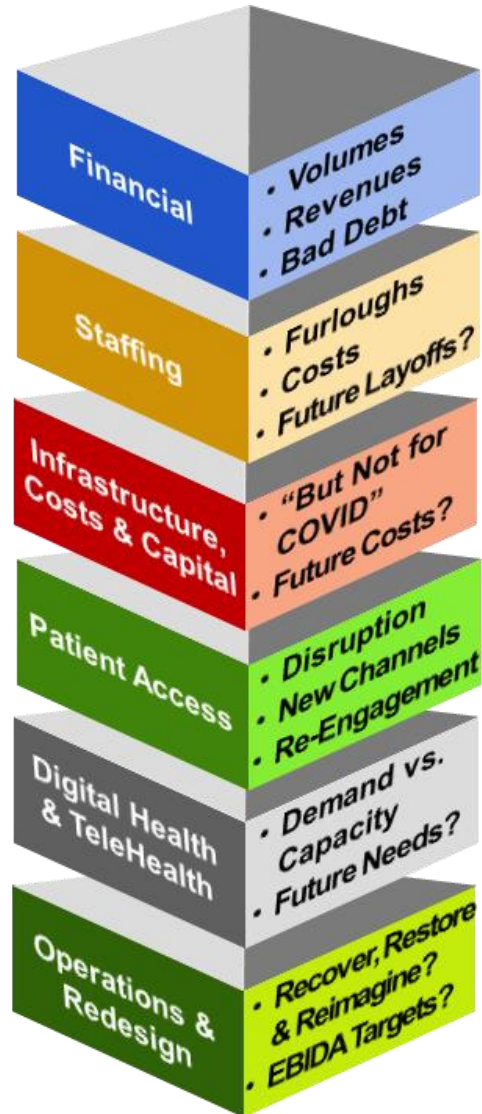
Old Normal – Pre-Pandemic Operating Environment

- Serving the third largest metropolitan area in PA with a multi-county service area centered around Allentown
- Multiple trauma and community hospitals and a children’s hospital with a service configuration consisting of:
 - 9 hospitals with 2,522 staffed beds, 1,400 employed physician and APPs, a total medical staff of over 3,000, over 300 ambulatory care access sites of care inclusive of practice sites, 17 urgent care centers, 33 imaging centers... plus 3 SNFs, 3 ACOs, 3 GPOs, 1 PHO
- 18,000 colleagues contributing to the LHVN Mission
- Approx. **\$143M** in EBIDA improvements achieved in FY20 across a total EBIDA improvement target of **\$250M** by end of FY21... two new hospitals under construction
- FY19 results = **3.9% margin** and FY20 original forecast target declined due to Pandemic

The Surge – Medical Sheltering (March – May 2020)

- **70% to 90%+** of outpatient elective procedures and diagnostics cancelled
- **50% to 80%** reduction in patient visits to ambulatory care and physician practice sites
- **40% to 50%** of inpatient surgeries cancelled
- **5%-10%** increase in operational expenses
- **20% to 40%** decrease in net operating revenue cash flow, requiring expanded credit lines/draws
- **10%-15%** of employees furloughed; **20%** planned force reduction, multiple OP site closures
- Medicare payment advances and CARES Act funds stabilize cash flow... FEMA slow to act in PA
- Cash flow swing by nearly **\$600M** over three months and notwithstanding federal relief monies, going into FY21 with a budget gap of **\$250M** to get back to pre-COVID margins

Strategic Impact: Pandemic Surge and Response Priorities



Short-Term Priorities

- Protect Current Revenue
- Rapid Response to Replenish Revenues
- Improve Asset Efficiency and Manage Variable Costs
- Grow Revenues to Recapture COVID Related Losses
- Grow Market Share
- Execute and Realize Existing Transformation and New EBIDA Initiatives
- Furlough and cut staff to close FY20-FY21 budget gap by \$137M
- Improve Operating Margins



Financial, Operational and Strategic Re-Positioning Improvement and Stabilization for LVHN and LVPG

Polling Question 2

Do you anticipate your elective procedure volumes returning to pre-COVID levels?

- ☐ Yes, volumes already recovered or near pre-COVID levels
- ☐ Yes, in the next 3 months
- ☐ Yes, in the next 3-6 months
- ☐ Yes, in 6-12 months
- ☐ Yes, in a year or more
- ☐ No, we do not anticipate our elective procedure volumes returning to pre-COVID levels
- ☐ Yes, volumes already recovered or near pre-COVID level
- ☐ N/A



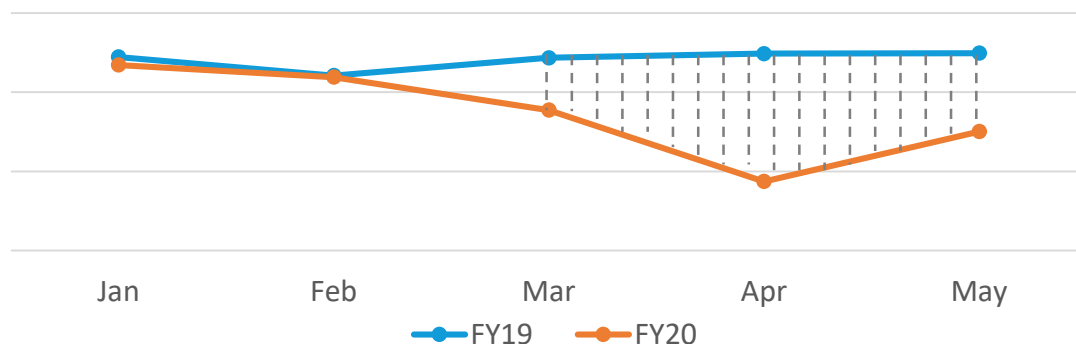
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The COVID-19 Surge

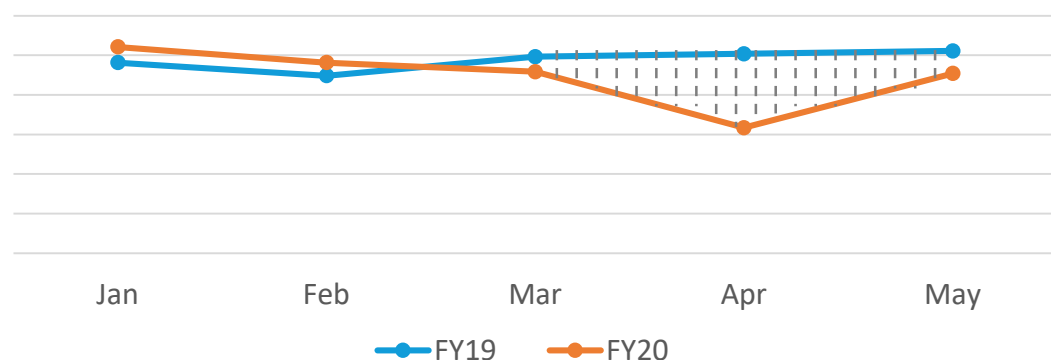
Impact on LVHN Operations and
Financial Sustainability

Impact from the Pandemic Resulted in Declining Volumes and Loss of Patient Revenue

LVHN Patient Volumes – Pre and Post Pandemic
(Jan-May 2019 compared to Jan-May 2020)



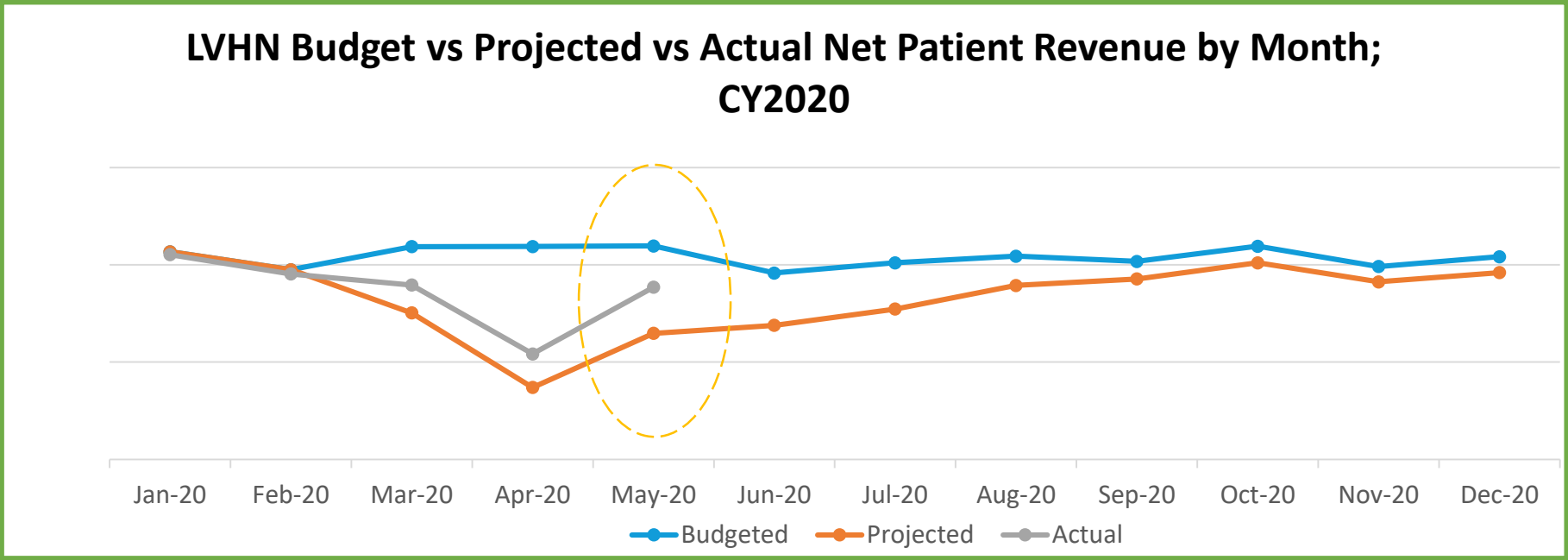
LVHN Net Patient Revenue – Pre and Post Pandemic
(Jan-May 2019 compared to Jan-May 2020)



- In the first three months of the pandemic (March-May), LVHN experienced declining volumes and NPR compared to the same period last year
 - Over 44% volume loss compared to the same period 2019 (IP, ED, and OP volume decline)
 - Net patient revenue loss of over \$141M (compared to 2019)
 - April experienced the highest decline in both volumes and revenue loss; 65% and 37% decline respectively
- Recovery in both volume and NPR in May were due to re-opening plans but volumes are not expected to reach pre-pandemic levels through the end of the year

Notes: patient volumes from IP, OP, ED, and clinical services.
Source: LVHN Financial Reports (Account & Transaction Revenue Cycle Files);
Guidehouse analysis 2020

Over \$350M in Revenue Loss is Expected by end of CY2020 Compared to Budget

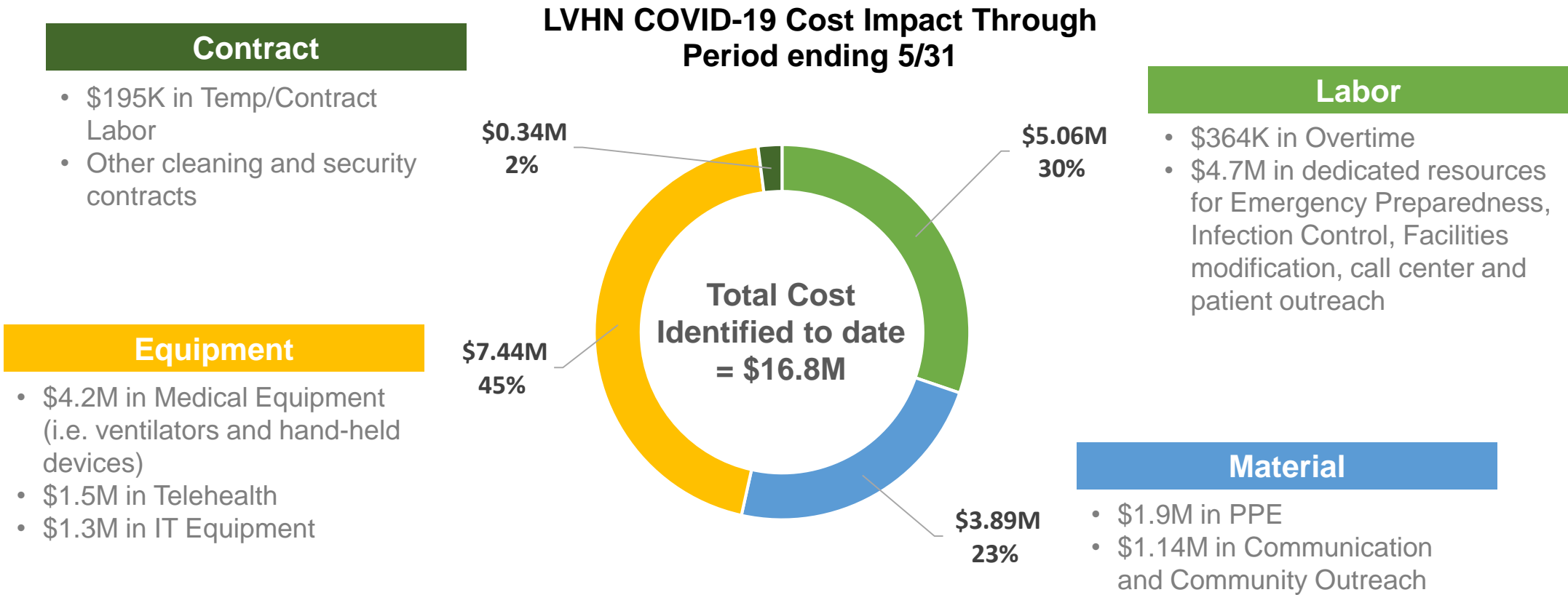


Net Patient Recovery Observed in May 2020	
Actual Revenue Increase May to April by Service Type	
OP Surgical	+318%
Phys Offices	+80%
IP Surgical	+69%
OP Medical	+31%
Emergency Dept.	+13%
IP Medical	+5%

Budgeted Revenue (pre COVID-19) = FY20 and FY21 Budget

Projected due to COVID-19 Revenue = Budgeted Revenue x Input of Volume Reduction

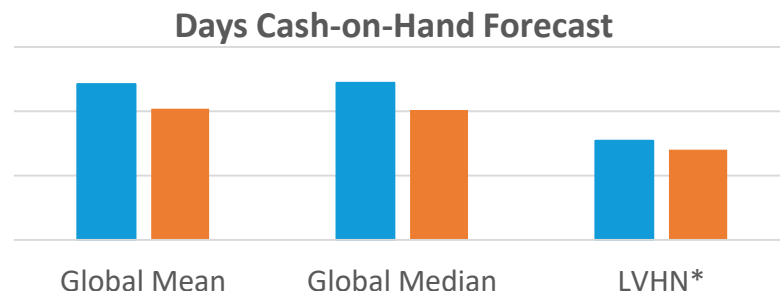
LVHN Response is Resulting in Increased Spend across all 4 FEMA Cost Categories



Source: LVHN COVID-19 cost tracker; Guidehouse analysis 2020

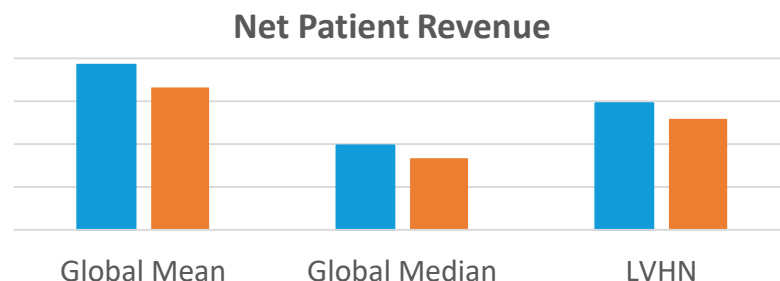
Decline Across Key Financial Performance Indicators is Expected to Persist through the end of CY2020

Days Cash on Hand (2019 actual vs. 2020 forecast)



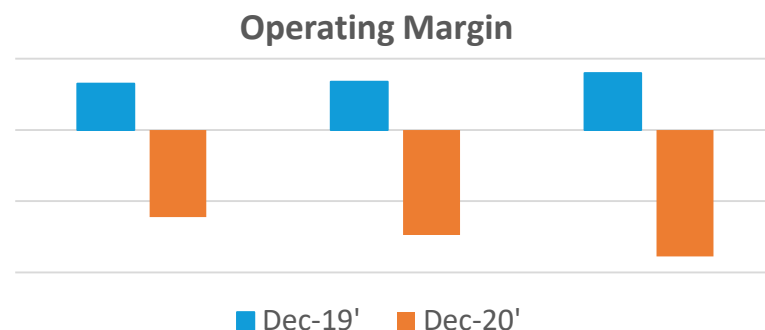
- Average decline in days cash on hand during CY2020: **38 days**
- Median decline in days cash on hand during CY2020: **42 days**
- LVHN decline in days cash on hand during CY2020: **14 days**

Net Patient Revenue (2019 actual vs. 2020 forecast)



- Average decline in NPSR: **13.7%**
- Median decline in NPSR: **15.0%**
- LVHN decline in NPSR: **12.5%**

Operating Margin (2019 actual vs. 2020 forecast)



- Average decline in Operating Margin: **↓7.5%**
- Median decline in Operating Margin: **↓8.6%**
- LVHN decline in Operating Margin: **↓10.3%**

Source: Guidehouse study for 36 health systems across the US; Financial reports FY2019-FY2020

Polling Question 3

What is the range of change in your net patient operating revenue since March 2020 (pre to post COVID impact)?

- ☐ Less than 5%
- ☐ 5% - 10%
- ☐ 11% - 20%
- ☐ 21% - 30%
- ☐ Over 30%



3

Response to the Pandemic

Stop the Bleeding,
Find Every Dollar from Every Source

Immediate Actions to Take to Manage Financials

Cash Flow And Reimbursement Adjustments

- ✓ Medicare Advanced and Accelerated Payment
- ✓ Telehealth
- ✓ Wage index adjustments and COVID Cost Report Allowances (seek/lobby)

Lost Revenue Funding

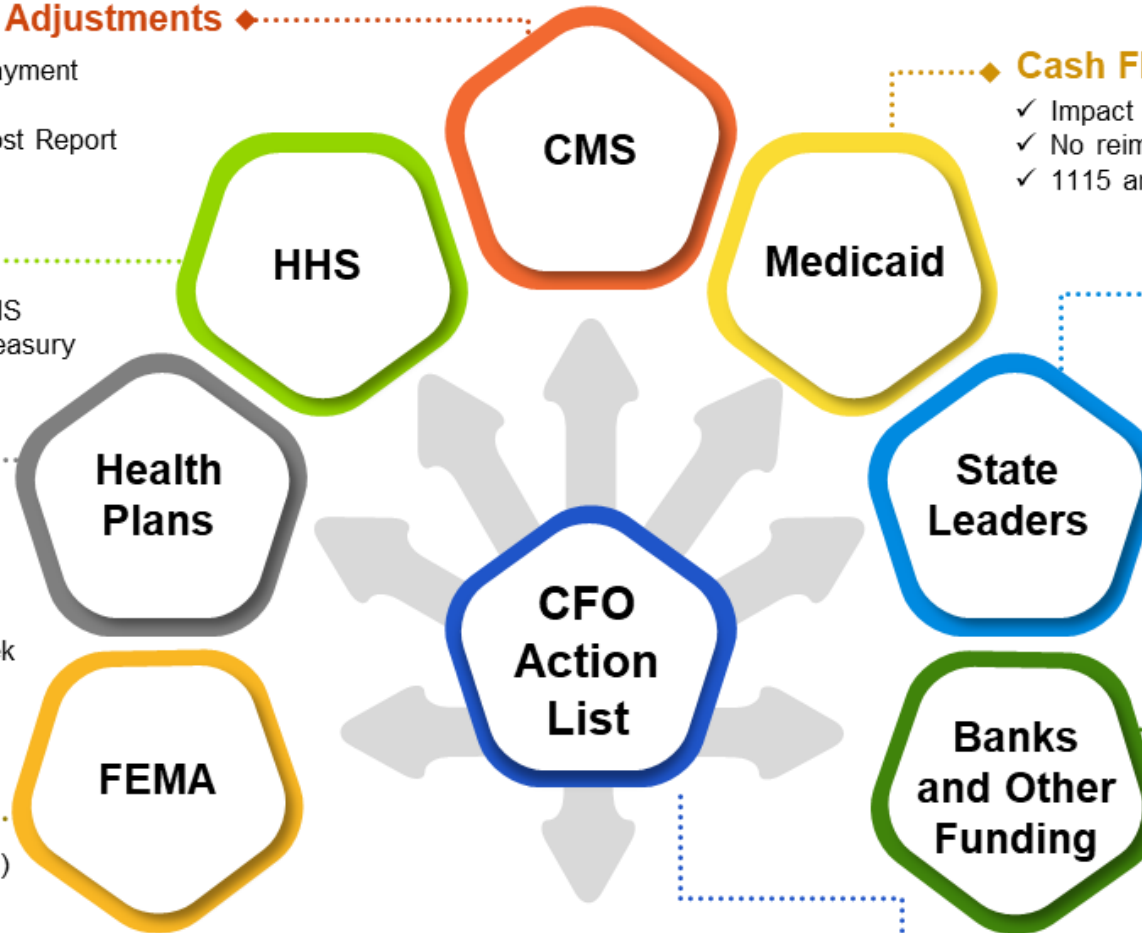
- ✓ CARES Act funding opportunities via HHS
- ✓ CARES Act funding opportunities via Treasury
- ✓ Detailed documentation

Cash Flow Stability

- ✓ Request for short term funding (e.g., ensure monthly revenues never drop below 75% of monthly average) w/late date reconciliation
- ✓ For CY 2020 and 1/1/21 renewals... seek a 1 year contract only with a COVID factor added
- ✓ Telemedicine reimbursement

CAT B

- ✓ Submission of project worksheet ("PW") for reimbursements of all eligible costs
- ✓ Seek 50% advance draws
- ✓ Submit PWs for reasonable costs in FEMA "gray zone" of expense eligibility



Cash Flow And Revenue Enhancement

- ✓ Impact of Enhanced Medicaid FMAP
- ✓ No reimbursement cuts or freezes (seek/lobby)
- ✓ 1115 and 1135 State Waivers

Policy, Support And Action

- ✓ No Medicaid reimbursement cuts or freezes
- ✓ Interest free loans
- ✓ Dedicated State funding sources for hospitals
- ✓ Governor's Office support to accelerate FEMA and HHS funding to hospitals and State
- ✓ Ensure sufficient EMA resources / Open portals

Cash Flow

- ✓ Credit line expansion
- ✓ Business disruption insurance
- ✓ Other potential sources

Hospital Coalition(s)

- ✓ Strength in numbers
- ✓ Common cause

**Protect, Replenish and Manage
Revenue Improvement Process**

Post-COVID “4 R” Activities and Other EBIDA Initiatives

Strategic Transformation

Realize Existing EBIDA Improvement Targets + Incorporate New EBIDA Initiatives

Recover

Replenish Cash:

- Solutions designed to address near term cash pressures and liquidity concerns
 - CARES act relief funding
 - Operating cost reducing
- 5-1-20 restart of Elective Services with 90% productivity restored
- Strategic site consolidations with key focus on improving patient volumes
- Assessing “re-staffing” requirements from furloughed staff
- Prepare for shifts in care delivery models (e.g., Telemedicine).
- New EBIDA Initiatives and Planning for Restore Phase.

Respond

Protect Cash: EROC*, Legislative Catalysts, New EBIDA Initiatives... LVHN’s solutions to provide LVHN with relief now and to stabilize cash flow disruption

*EROC – Enterprise Return Operations Council

Legislative Catalysts

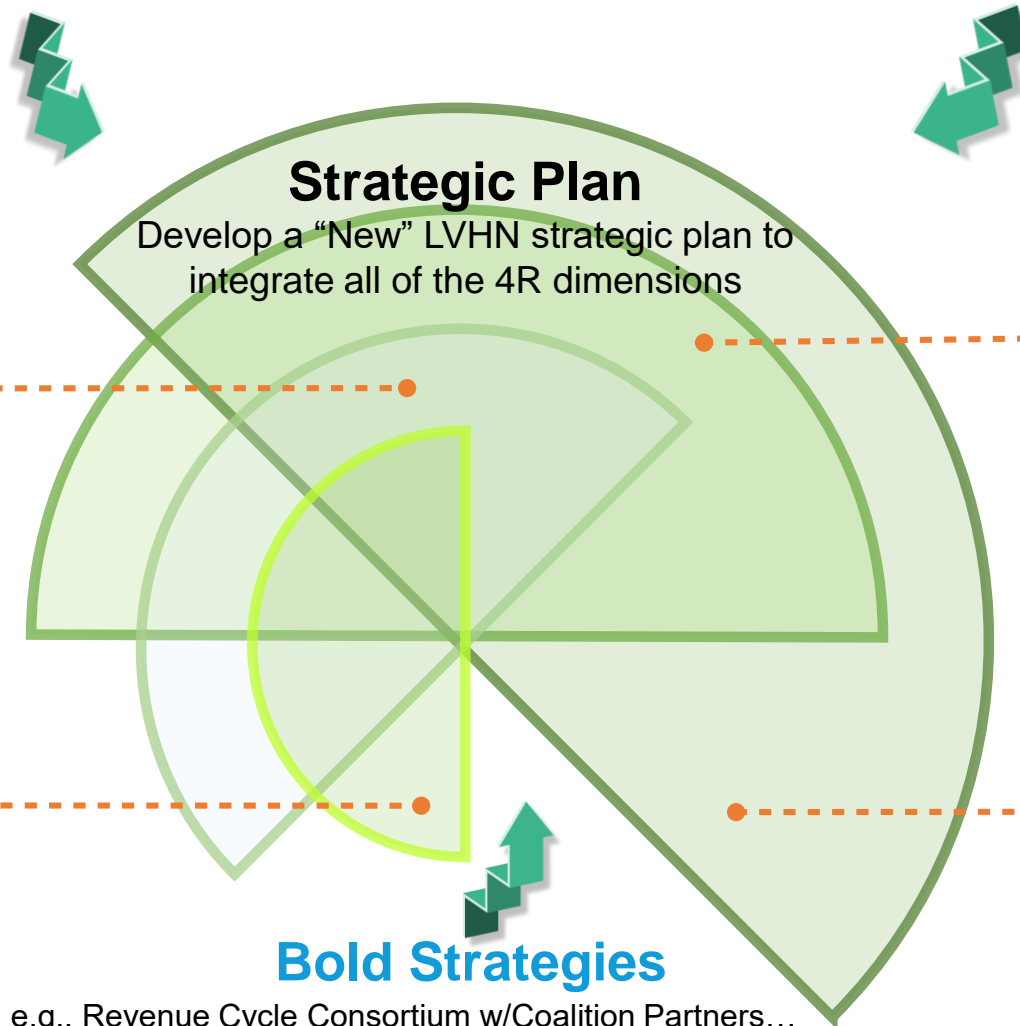
Public Assistance Funding...
HHS/CMS, FEMA and PEMA...
Legislative Strategies... and Public Assistance Funding Phase 1 Extension

Restore

Manage Cash: Solutions designed to help LVHN to return to operational/financial health and determine what degree of “restructuring” is required at corporate overhead, workforce and care delivery model levels; to be more productive, reduce the total cost of care and improve margins.

Reimagine

Grow Revenue, Margin and Market Share: Solutions designed to help LVHN to adjust/implement changes to align w/the “new normal”... post FEMA/PEMA and HHS/CMS funding solutions have expired... restructured balance sheet, capital budgets and go-to-market plans to support profitable and sustained growth while mitigating future disruption risks.

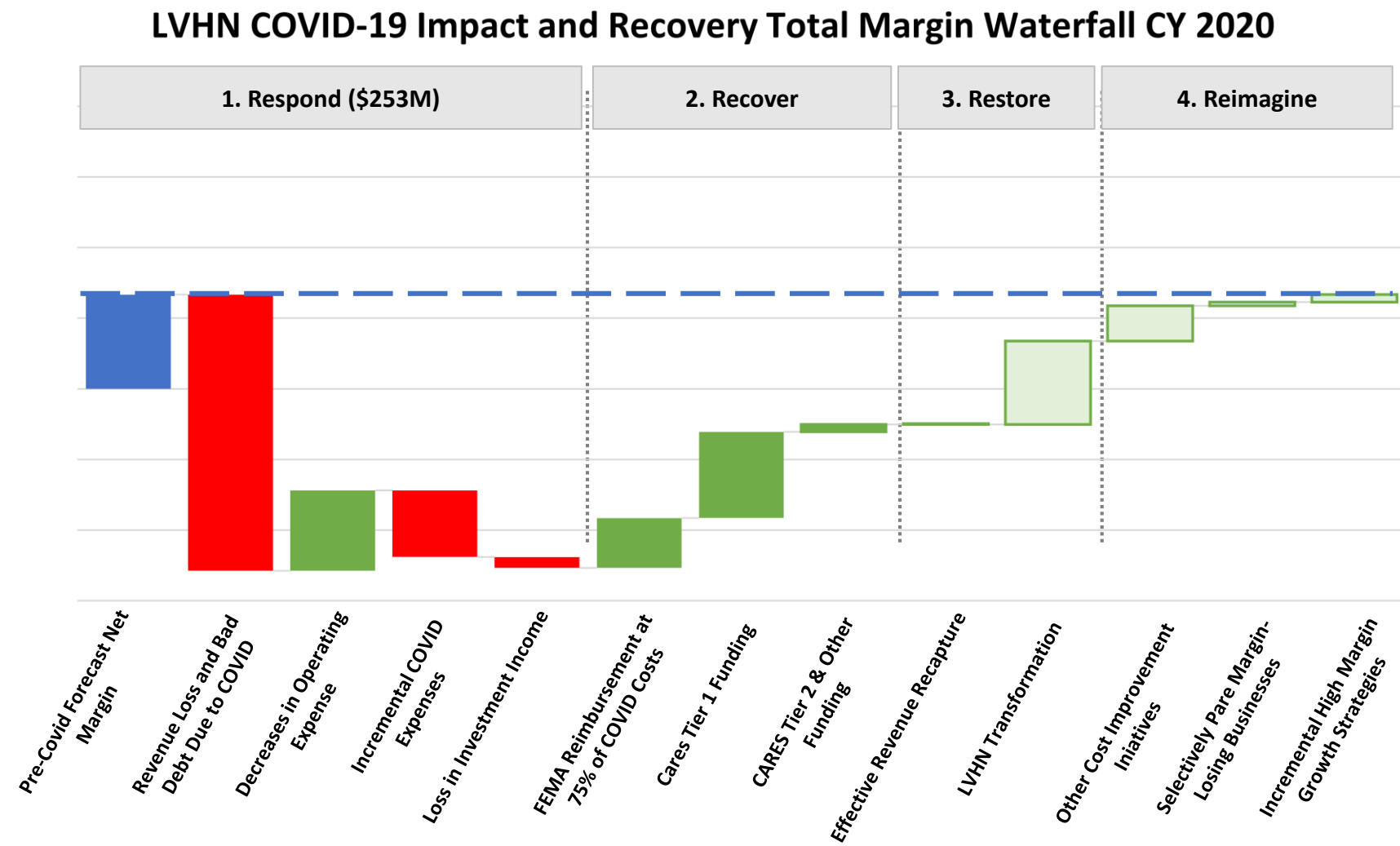


Bold Strategies

e.g., Revenue Cycle Consortium w/Coalition Partners...
Primary Care Practice of Tomorrow... Repurpose-Consolidate-
Close Non-Productive Assets... Telemedicine

Financial Impact and Road to Recovery due to Pandemic Response

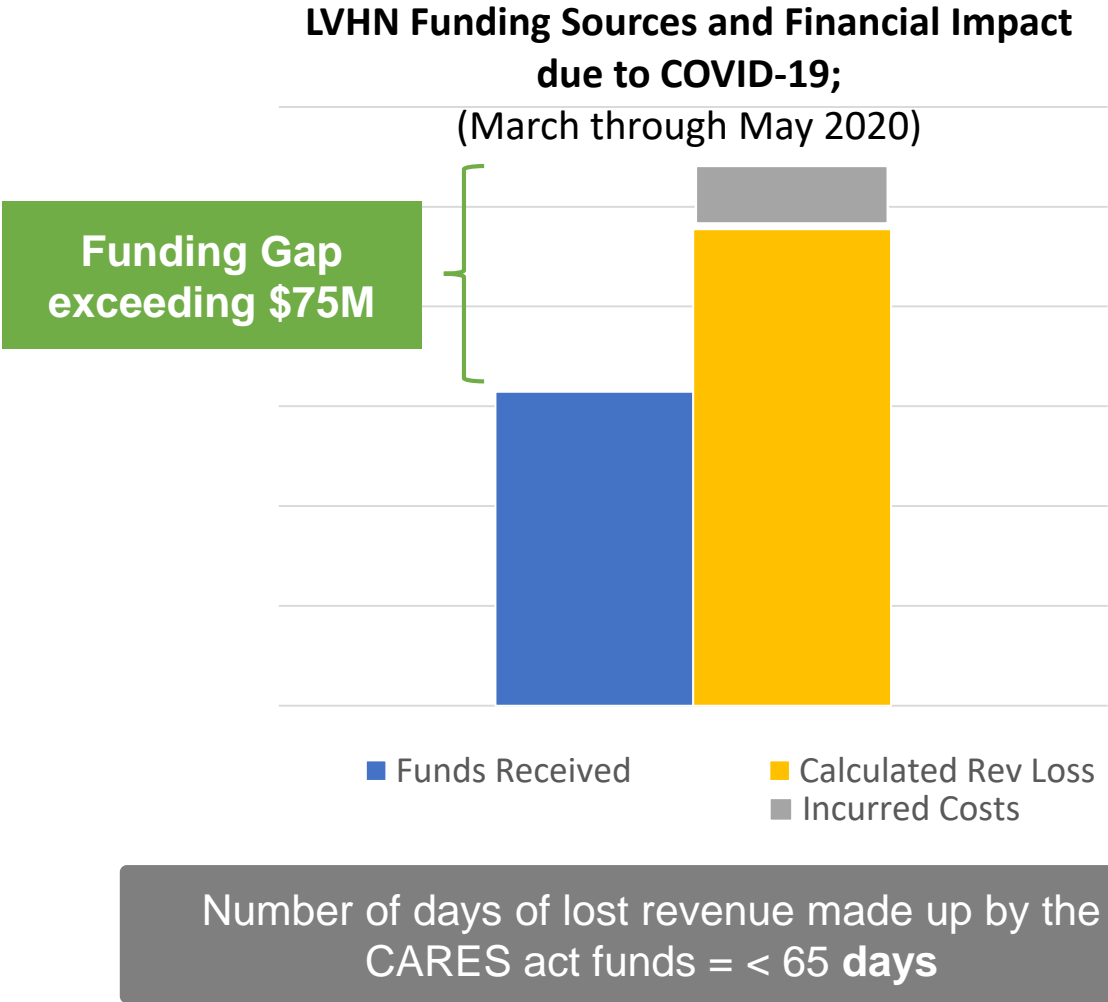
- Pre-pandemic net margin of \$133M to be eroded by forecasted revenue loss and incremental COVID-19 rising expenses of by end of CY2020
- Despite a decrease in operating expense of over \$100M, LVHN is expecting a “respond” impact of \$253M



Source: LVHN Financial Reports; S&P Database (FY2019-FY2020 May TD); Guidehouse analysis 2020

Gap Exists Despite CAREs Act and Other Expected FEMA Funding

Funding Source	Categories of Funding Support
FEMA / PEMA	<ul style="list-style-type: none"> Category B: Expense Reimbursement (Cat. B to cover expenses)
HHS – CARES act	<ul style="list-style-type: none"> Provider Relief #1 (\$30B released) Provider Relief #2 (\$20B released) High Impact Distribution (\$12B) Medicaid and CHIP Distribution (\$15B) Rural Distribution (\$11B) Safety Net Hospitals (\$13) Nursing Facilities distribution (\$4.9B) ASPR supplement (\$350M)
CARES act - Other	<ul style="list-style-type: none"> Employee Retention Tax Credit PPP and Healthcare Enhancement Act
CMS	<ul style="list-style-type: none"> Medicare Accelerated Payments DRG Increased Weighted Factor Medicaid Cash Flow & Revenue Enhancement
FCC	<ul style="list-style-type: none"> CARES Act Telehealth Funding
PA-DHS	<ul style="list-style-type: none"> CARES funding to support Childcare
Total Funding to Date	



Polling Question 4

What are the actions your organization is planning to manage financials in response to the pandemic?

- ☐ Public Assistance Program funding
- ☐ Staff furlough / staff reduction
- ☐ Non-labor expense reduction
- ☐ Return to “normal” operations plan
- ☐ CMS cash flow advances
- ☐ Managed care payor cash flow advances
- ☐ Credit line advances
- ☐ Accelerate revenue cycle collection activity
- ☐ Other



4

The New Normal

LVHN's Pathway and Key Strategies to Recover,
Restore and Revitalize the Health System

Strategic Framework for LVHN (Post-Pandemic)

Achieve targeted EBIDA realization and identify new value capture initiatives

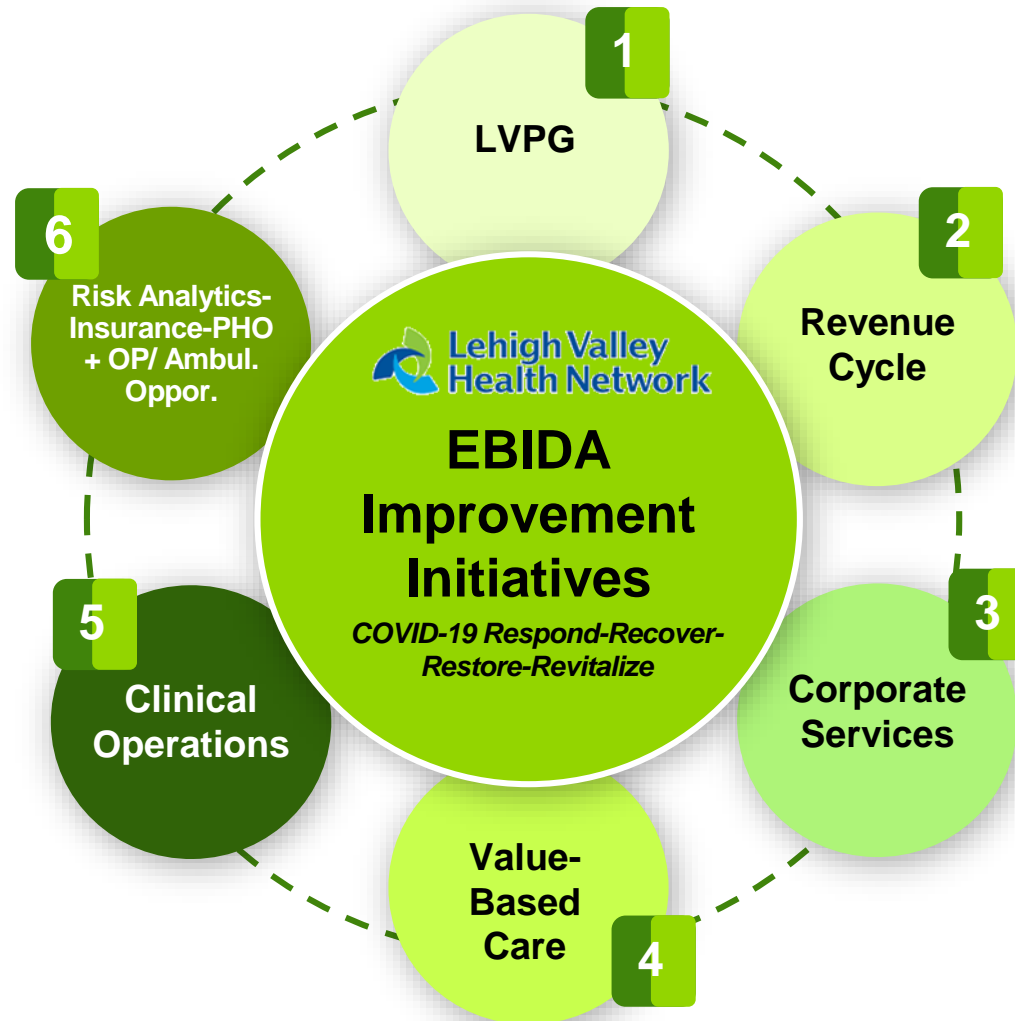


Strategic Framework for LVHN (Post-Pandemic)

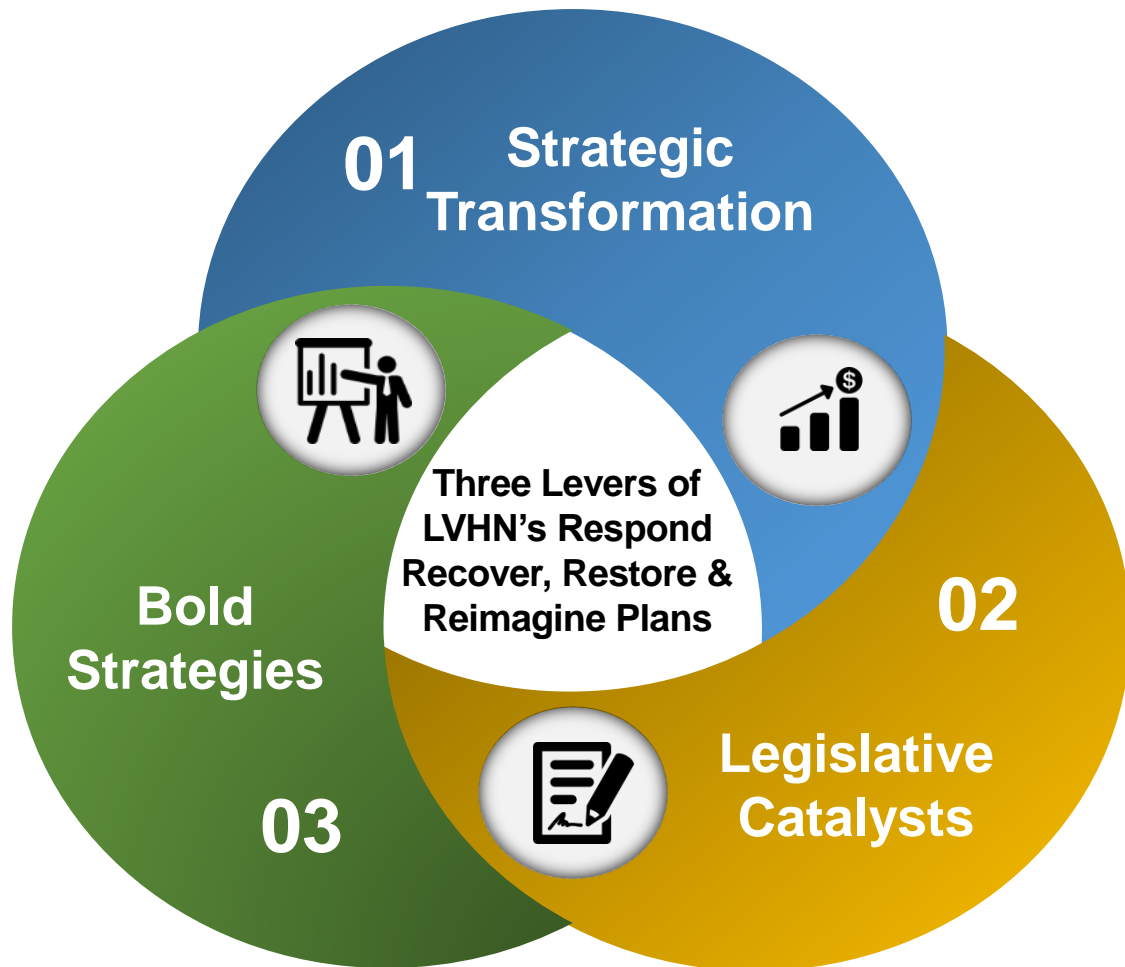
Achieve targeted EBIDA realization and identify new value capture initiatives

Key Goals:

- Realize over \$200M improvement goals in FY21
- Obtain additional realization value from identified “new” opportunities, to close the COVID related \$250M+ budget gap
- Support LVHN “4 R” initiatives
- Prepare LVHN for the “new normal”



Risk Mitigation and Planning for a Potential Second Pandemic Wave



Align leadership agreement and commitment

Strategic Transformation – The Four R's

- Clinical Operations... Physician Enterprise... Revenue Cycle... Corporate Overhead... Value-Based
- Transition to a high value/value-based care delivery model which will thrive in the new normal
- Reduce reliance on legacy and outdated payment models which are highly dependent on high volume electives

Legislative Catalysts – Restore & Replenish Cash

- Optimize Public Assistance Funding and Sources of Revenues
- Governor's Office Strategies and Tactics to Avoid Future Elective Procedure Shut-Downs and Medical Sheltering Directives by Working w/Governor's Office and State FEMA to Have a Better Prepared Plan of Action for a Pandemic
- PA and Federal Legislative Strategies and Tactics to Gain Support for An Emergency Preparedness Plan in the Event of Future Pandemics/Wave 2 COVID Crisis

Bold Strategies – Restore & Revitalize LVHN

- Explore strategic alliances and joint ventures which better “harden” LVHN sources revenues (e.g., a hedge strategy)
- Repurpose-Consolidate-Close Non-Productive Assets
- Telemedicine Integration – Build Into “Practice of Tomorrow” Strategy
- Merger/Acquisition and Joint Venture Strategies

Concurrent Development of a LVHN Recover, Restore and Reimagine Enterprise Strategic Plan



5

Questions?

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July 29 - Living in a price transparent world

August 5 - Achieving working capital efficiency and cash management

August 7 - The importance of a supply chain strategic plan in a coronavirus world

August 25 - The importance of a supply chain strategic plan in a coronavirus world



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