

RUNNING OUT OF CASH?



As we start to emerge from the first wave of COVID-19, most hospitals fall into two groups:

- The first group was at least partially overwhelmed with COVID-19 patients, shortages of PPE and staff stress that tested systems and leadership like never before.
- The second was a provider who shut down revenue-producing operations, stocked up on supplies and urgently prepared for patients that never came. One hospital CEO described it as “I have never worked so hard to take care of such few patients.”

One outcome is consistent: even the largest, best capitalized Systems are now facing financial issues that will require a focused, intentional effort. The situation is much more dire for organizations that were operating with razor thin margins before the crisis.

For an organization on a short cash runway, here is your plan of action:

SECURE YOUR CASH FLOW

You must take urgent and immediate action to secure your ability to meet near term cash obligations. It is crucial that you prepare a detailed cash flow forecast to understand when the organization will run out of cash given your current projections. The cash runway you have will determine the flexibility you have regarding your recovery efforts. A detailed day-by-day forecast of your sources and uses of cash is your priority. If the organization does not have the balance sheet strength to muster a response, a recovery plan is for naught. Unfortunately, the crisis will make this exercise even more difficult than it usually is.

Sources of cash will be less predictable:

- The ability to project cash flow is significantly degraded by the loss of hindsight. Historical A/R valuations are now probably irrelevant. Potential exposure to unreimbursed and potentially non-reimbursable COVID-19 costs is difficult if not possible to estimate accurately.
- There will be a large number of sources of funds available through the CARES Act and other stimulus and recovery legislation. Emergency loans, grants, reimbursement for extraordinary expenses, and other sources of cash will be important but are subject to both local and national political winds, making timing difficult to predict.
- Investments will have dropped in value and may require liquidation while they are underwater.
- Consider drawing down all available lines of credit immediately to create a cash buffer before lenders reconsider their exposure.

Uses of cash will need a close review:

- Normal operating expenses will increase for those cases you are able to do; however, furloughs and other actions taken during the crisis to respond to lower volumes will reduce normal operating expenses.
- Losses to investment portfolios will have an added non-cash impact as you will have to "mark to market" and / or increase balance sheet reserves for Defined Benefit plans. Eventually you will have to fund those benefit shortfalls.
- Evaluate the impact of delaying all non-essential vendor payments to conserve cash.
- Determine the timing of payments and notices for all debt, lease, and rent payments that have recourse.

You may have to file a pre-emptive reorganization proceeding, stop / delay all non-essential cash payments, request forbearance of interest payments, restructure debt, sell assets, close services, and aggressively pursue a financial turnaround. Hire attorneys with deep experience in bankruptcy law and debtor-in-possession operations to help you assess your options quickly. It is difficult to consider the added expense of hiring these experts when you are furloughing staff, but their expertise will speed up your decision making and save more jobs in the end. When cash is running out, time is of the essence. Experts can:

- Work with lenders or indenture trustees in advance of a potential default, determining if a waiver is needed, and if required seeking waivers, deferments, or forbearances.
- If bonds are involved, interpret bond documents, advise on how to communicate with bondholders, solicit bondholder approval of remediation plans, gaining flexibility of action with an ad hoc committee of bondholders, and justifying no-action after a default.

Depending on your ability to address your cash runway through other means, you may need to consider strategic alternatives to ensure your ability to serve the healthcare needs of your community.

- Government-owned organizations may consider special tax support to help manage through the recovery period. This help may not be available given the impact of the virus on government finances and its tax base; however, there may be political will to fund the shortfalls in order to secure the broader economic benefits of having the hospital available to the community.
- Independent organizations may consider a strategic affiliation or sale of some or all their assets to secure funding to manage the recovery. While it is difficult to consider loss of local control, it may be better than having the organization close entirely.
- As a last resort, filing a pre-emptive reorganization proceeding and operating as a debtor-in-possession may provide the runway necessary to come to a satisfactory strategic conclusion – whether that is an eventual sale or a successful financial turnaround. The CARES Act increased the debt limit to \$7M for eligibility to the new small business bankruptcy procedures. As a result, more organizations or their affiliate organizations may be able to take advantage of the new small business bankruptcy rules implemented in 2020. The new small business bankruptcy rules are designed to decrease the expense of a reorganization proceeding and eliminate certain hurdles to court-approval of a plan of reorganization.

Engaging governance will be critical for navigating these options.

- The board should be involved immediately and be kept informed throughout the analysis and planning. They may have to make hard, politically sensitive decisions with a profound impact on their community on a compressed timeline.
- The board will have specific duties through these types of strategic decisions and appropriately documenting that these duties are met will be important to facilitate strategic options and limit board liabilities.
 - The board needs to be informed so that it can hold management accountable for its plans to confront financial challenges and develop plans to address the financial challenges.
 - Boards should be provided the tools to assess the hospital's 13-week cash flow, days of cash on hand, days in accounts receivable, compliance under its debt instruments, and business plans. If a lawsuit is brought against the board or individual board members, this financial knowledge will be helpful to the board members in their depositions and in establishing compliance with their fiduciary duties.

- Even volunteer / uncompensated board members can be sued in the case of default, so they should be fully aware of their exposure and the actions necessary to limit that exposure, such as the actions necessary to gain the protection of the business judgment rule.
- Even in states with statutory protections for members of nonprofit boards, the community, the employees and the hospital's creditors will hold the board to the same level of scrutiny as that of a commercial enterprise. Determine whether the board's minutes and resolutions would demonstrate to an outsider — or perhaps a juror — the prudence and thoughtful decision-making process the board has undertaken. Many boards keep more generalized, less-detailed minutes. However, keeping accurate minutes that record the facts and due consideration given to issues is a best practice — indeed, they are a board's best defense should claims be asserted against it. Lax record-keeping can be a board's undoing in litigation.
- Public relations and crisis communications will be important through the process to manage the messaging with staff and the community, especially if the restructuring plans include layoffs, bankruptcy, changes in services available, etc.

CONCLUSION

Your top priority is to know how much runway is available to solve the financial issues you face in the next several months. If you will run out of cash before you can achieve the benefits of a sustainable financial turnaround, you have no choice but to pursue an urgent, cash-conservation approach to your situation. Engage your board and hire restructuring professionals now to assess your options and plot a path forward.

Galloway has developed a comprehensive work plan to accelerate your recovery based on conversations with leading healthcare executives and our experience leading financial turnarounds, customized for your situation.

Our thoughts on other related topics can be found by following the link to [INSIGHTS](#) on our website.

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Galloway Consulting helps hospital groups, physicians, and payer/providers improve operations, outcomes, and profits so they can better serve their communities. Our healthcare team has mastered every aspect of the business.



Mitchell Galloway is the CEO and co-founder of Galloway Consulting and built his reputation by helping healthcare executives transform their organizations, often achieving landmark results on seemingly impossible timetables. Among the country's foremost authorities on organizational strategy, he takes the lead role with our clients, rapidly diagnosing the challenges they face and prescribing innovative, timely, and effective responses. Mitch has been in the healthcare business for his entire thirty-five-year career, starting his first consulting business 28 years ago. He has an MBA from Emory University's Goizueta Business School, where he achieved the #1 class ranking and was recognized

as the Outstanding Graduate Student in the field of Organization and Management. He has a Bachelor of Science in Health Systems from the Georgia Institute of Technology.



Ryan Cochran leads Waller's Finance & Restructuring practice out of Waller's Nashville offices. In his role as Practice Group Leader, Ryan oversees strategic initiatives, including client service and case management for the firm's Finance & Restructuring practice. He has experience working on insolvency and receivership proceedings involving municipalities, healthcare facilities, utilities, real estate ventures, and other businesses. Ryan also has substantial experience representing creditors and debtors in commercial law matters, workouts, corporate reorganizations, and bankruptcy litigation. Utilizing both his transactional and litigation experience, Ryan helps clients navigate through the complexities caused by financially distressed parties and projects, both in the structuring of corporate and credit transactions and in connection with bankruptcy proceedings.