



On the Front **Lines:**

The Impact of COVID-19 on Kentucky Hospitals



**Kentucky
Hospital
Association**

*Representing
Kentucky Hospitals
and health systems*



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▶ Key Points from the Front Lines

- More than \$2.6 billion in revenue losses and additional costs from cancellation of elective procedures, responding to the virus and treatment of COVID-19 patients
- More than 3,000 hospital employees furloughed
- Lower patient volume continuing
- Rural hospitals at risk of closure

▶ Key Takeaways

- Kentucky was one of the first states to cancel elective procedures, which generate revenue to cover services hospitals provide at a loss
- In order to re-open elective procedures, hospitals must keep 30% of their beds in reserve in case a spike in COVID-19 patients occurs
- Hospitals continue to have lower patient volume because many individuals are not seeking care due to concerns about the virus
- Hospitals are using more PPE, which is often in short supply, and are having to pay higher prices to obtain what they need
- Hospitals incurred costs to reconfigure their facilities to create COVID-19 units, install barriers for social distancing and create additional patient care space to be ready for spikes in COVID-19 cases
- COVID-19 patients are more costly to treat and most hospitals lose \$1,200 for every COVID-19 hospitalized patient
- Kentucky hospital losses in 2020 are estimated to exceed \$2.6 billion, yet federal relief funds have covered less than one-half of that amount
- Despite these losses, hospitals that requested Medicare payment advances to help with cash flow during the elective procedure shutdown must now continue treating Medicare patients without receiving any Medicare payment until the advances are repaid

▶ Our Request to Policymakers:

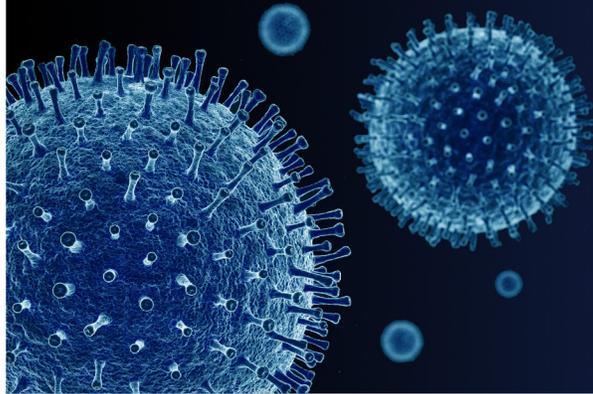
- Don't impose additional provider taxes or cut Medicaid reimbursement
- Ensure that Kentucky's hospitals are financially strong so they can continue the battle against COVID-19 and provide quality care for their patients
- Make sure that addressing the commonwealth's budget problems does not come at the expense of Kentucky's hospitals and the people who care for our citizens

Introduction

Kentucky hospitals and the caregivers they employ are on the front lines of the battle against COVID-19. Although the economy is reopening, the pandemic is far from over, and the damage continues to grow. This report examines the impact of the pandemic on the commonwealth's hospitals and outlines their financial challenges that have been exacerbated by the virus.



Impact of COVID-19 on Kentucky Hospitals



Beyond threatening the health of all 4.4 million Kentuckians, the virus prompted a shutdown that has damaged our economy and disrupted Kentuckians' lives.

For hospitals, the losses they have incurred due the pandemic created a profound financial impact. **The figure is staggering: COVID-19 will cost the state's hospitals more than \$2.6 billion in 2020 from loss of revenue from canceled elective procedures, increased costs to respond to the virus and an ongoing lower volume of patients.**

Hospital Mitigation Efforts

In response to these losses, Kentucky hospitals have taken numerous steps to mitigate these costs. Many hospital employees are involved in the provision of elective procedures; consequently, when these procedures were cancelled to assure capacity for a surge in COVID-19 patients that did not occur, many hospitals across the state – both large and small – had to resort to furloughs of thousands of hospital employees, reduction of employee hours or reductions in pay. Only a few obtained partially forgivable federal loans, which were available to smaller facilities.

Federal Relief Covers Less than Half of the Total Financial impact on Hospitals

The federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, was enacted in March and provided more than \$2 trillion in economic relief to workers, families and businesses to help offset the economic impact of COVID-19. Included in the act was a Provider Relief Fund that distributed \$175 billion nationwide to hospitals to assist with the cost of treating COVID-19 patients and recoup losses from cancelled medical procedures.

As of August, approximately \$984 million in funding from the CARES Act had been provided to Kentucky hospitals to help offset COVID-19-related costs. An additional \$50 million in other funds and grants had been provided from other sources.

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The \$1 billion in federal assistance represents less than half (40%) of the total financial impact of COVID-19 on Kentucky hospitals.

Despite this much-needed financial help, the total financial impact of COVID-19 on hospitals in Kentucky far outweighs the federal assistance provided. The \$1 billion in federal assistance represents less than half (40%) of the total financial impact of COVID-19 on hospitals. The following chart shows a shortfall of more than \$1.3 billion for Kentucky hospitals when assistance and hospital mitigation efforts are compared to the COVID-19 financial impact on the hospitals. If these losses are not covered, hospitals – both large and small – will not have the funds to support their operations long term.

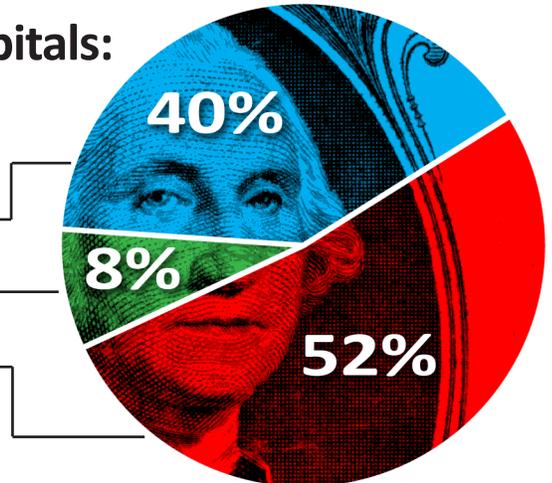
2020 COVID-19 Losses for Kentucky Hospitals: **\$2.6 Billion**

Losses Covered by Federal Assistance: **\$1.03 Billion**

Hospitals' Cost Mitigation Efforts: **\$199 Million**

Remaining 2020 Financial Loss: **\$1.34 Billion**

Source: Kentucky Hospital Association data



Hospital Losses in Detail

Loss of Revenue from Elective Procedures: An Executive Order issued by Governor Andy Beshear cancelled all elective medical procedures effective March 18 to limit the spread of the virus and to increase available hospital capacity to treat COVID-19 patients. Kentucky was one of the first states to implement such a ban. As a result, inpatient admissions decreased 40% on average, and outpatient services declined 60%. (One rural hospital reported inpatient admissions decreased by 90%.) Elective procedures account for the largest portion of hospital revenues, and the revenue they produce is needed to cover the cost of patient services that hospitals provide at a loss. These are medically necessary procedures where the patient is unlikely to die if the treatment is postponed for a short time.



Limitations on Hospital Capacity: Although a phase-out of the ban on elective procedures began on April 27, hospitals were not permitted to return to their full pre-COVID-19 capacity. To resume elective procedures, hospitals must maintain at least 30 percent of their beds to care for COVID-19 patients. This is based on the number of staffed beds plus surge beds – those they could immediately begin using should a spike occur in the number of COVID-19 patients occur. Hospitals can add surge beds in a number of ways, such as converting non-patient care space into patient rooms. As a result, even if patient demand returned to pre-COVID-19 levels, hospitals could not fill all of their beds. In fact, each hospital has a Procedural Oversight Committee to monitor COVID-19



cases locally and make adjustments in elective procedures to ensure that the 30% bed reserve capacity is maintained. Referral hospitals are monitoring ICU capacity to determine if they can accept transfers of critical, non-COVID-19 patients and still maintain the required bed reserve. And, if hospitals must stop scheduling elective cases to maintain their overall bed reserve, the cases being delayed are often those that generate the most revenue. The maintenance of “reserve capacity” for COVID-19 patients assures that resources to care for them will be available. However, it is a financial drain on hospitals when these beds go unfilled because of the costs associated with maintaining the unused and uncompensated space.

Lower Patient Volume: Despite the limited reopening of hospitals, many patients are not returning because of their concerns about the virus. This includes many people suffering from medical problems, such as heart conditions, strokes and other serious conditions that require hospital care. The elective procedure shutdown also resulted in fewer preventive services and screenings being performed in Kentucky and across the country. There are national reports of a decline in the detection of many underlying health conditions, such as cancer. Fewer individuals are seeking mental health services despite an increase in mental health issues such as depression, anxiety and substance use disorders. Hospitals report that since the end of May, when elective procedures were allowed to resume, inpatient volume generally remains 10% to 20% below pre-COVID-19 levels; emergency department volume remains 40% down. Since patients undergoing surgery or being sedated must be tested for COVID-19 prior to a procedure, shortages of in-house testing supplies and long delays in the turnaround time from reference labs for test results have led to difficulties, including delays in scheduling elective procedures.



These factors threaten patient health and complicate hospitals’ finances. Restoring patient volume to pre-COVID-19 levels will take considerable time, and hospitals’ experience in previous emergencies indicates they will never regain all the revenue lost during the shutdown.

Gearing up to Treat COVID-19 Patients: Hospitals geared up to treat patients with a highly contagious disease caused by a virus, about which researchers still have many questions. Hospitals have taken many steps to modify their structures to treat COVID-19 positive and suspected COVID-19 patients, including creating COVID-19 units with negative pressure units; separate facilities and entrances for patients experiencing respiratory symptoms; and establishing bed capacity in non-patient care space or at alternative care sites.

- **Personal Protective Equipment (PPE):** Because a significant percentage of people with COVID-19 may not be experiencing any symptoms, hospitals must use personal protective equipment (N95 surgical masks, gloves, protective gowns and shields, etc.) when treating all patients to protect health care providers and ensure the virus is not spread unknowingly. Prior to COVID-19, the type and amount of required PPE fluctuated and depended on the amount and nature of infectious disease in patients. Only a minimal amount of PPE is required for the care of non-infectious patients, and the addition of appropriate additional PPE for known infections rarely requires the specialized equipment and additional coverage required for care of patients during the current pandemic. The nature of the COVID-19 pandemic requires the universal use of PPE and the need for more specialized types of PPE, such as N-95 masks that were not typically available in the quantity needed to meet this need. Kentucky hospitals also reported significant disruptions in the supply of PPE due to overwhelming demand.



These disruptions, as well as competition for PPE purchases among states, other health care providers and the federal government, caused the price of PPE to soar, further increasing operating costs for hospitals during the pandemic. Since hospitals are required to maintain a 14-day supply of PPE

Personal Protective Equipment (PPE) continued

to perform elective procedures, supply chain disruptions can cause hospitals to reduce the number of these procedures to ensure an adequate supply of PPE is maintained.

- **Environmental Controls:** With new, heightened guidelines from the CDC, hospitals have spent additional time and resources intensifying the disinfection and decontamination of their facilities. Additional cleaning supplies had to be obtained and new staff training implemented to ensure these guidelines are followed. New signage, Plexiglass barriers and other infrastructure changes are required to ensure social distancing requirements are met.
- **Testing:** Guidance for hospitals to resume elective procedures indicates that patients undergoing invasive procedures or receiving sedation should receive a test for COVID-19 prior to the procedure. Providing these COVID-19 tests are another new cost for hospitals.
- **Treatment of COVID-19 Patients:** COVID-19 patients stay twice as long in the hospital and require higher treatment costs than the average hospitalized patient. This is due to the complexity of the patients' conditions, expanded cleaning regimens, higher PPE use and drug costs. For example, Remdesivir, a medication approved for emergency use, costs \$3,120 for a five-day dose. Researchers have indicated that, even with a payment increase provided by Medicare, hospitals will lose an average of \$1,200 per case and up to \$6,000 to \$8,000 per case depending on the hospital's payor mix.

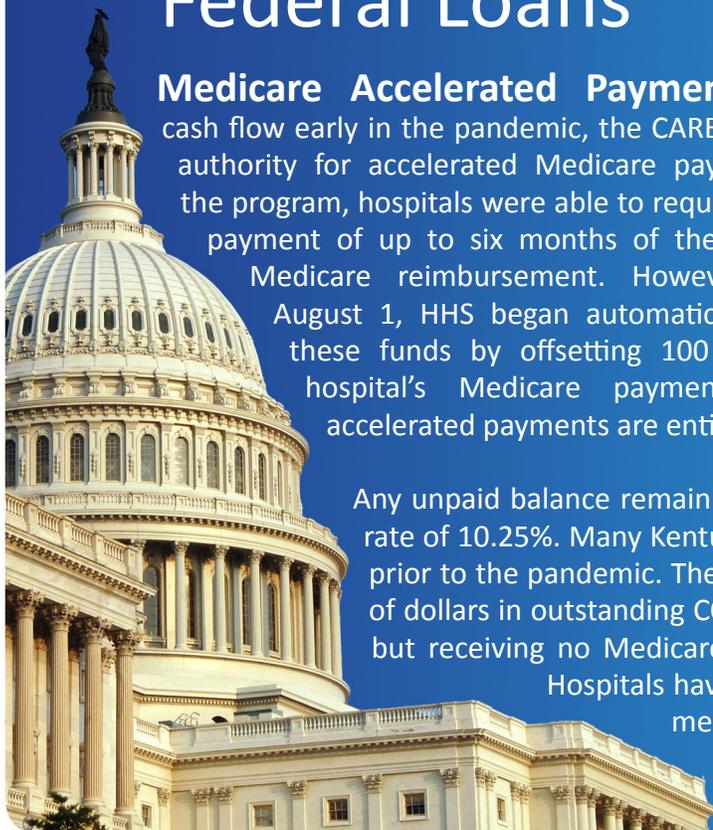


Federal Loans

Medicare Accelerated Payments: To ease cash flow early in the pandemic, the CARES Act included authority for accelerated Medicare payments. Under the program, hospitals were able to request an advance payment of up to six months of their prior year's Medicare reimbursement. However, beginning August 1, HHS began automatically recouping these funds by offsetting 100 percent of a hospital's Medicare payments until the accelerated payments are entirely repaid.

Hospitals cannot survive long having millions of dollars in outstanding COVID-19 losses while treating Medicare patients but receiving no Medicare payments for the next six months or longer.

Any unpaid balance remaining after one year accrues interest at an annual rate of 10.25%. Many Kentucky hospitals were on tenuous financial footing prior to the pandemic. These hospitals cannot survive long having millions of dollars in outstanding COVID-19 losses while treating Medicare patients but receiving no Medicare payments for the next six months or longer. Hospitals have requested forgiveness of the accelerated payments or recoupment delays and restructuring until COVID-19 losses are reimbursed.



Importance of Hospitals to the Kentucky Economy

Kentucky's hospitals are a vital part of their communities' economic health.

- Kentucky hospitals employ more than **78,000 workers statewide**, pay **\$4.9 billion in wages** per year and are the largest private employer in many counties.
- Spending by hospitals and their employees generates **\$3.3 billion annually in economic activity for their local communities.**
- Hospitals and their employees support government services by paying almost **\$700 million annually in state and local taxes.**
 - This amount includes **\$183 million in hospital provider taxes that generate \$610 million each year in spending for the Medicaid program.**
- Hospitals **provided \$1.2 billion in additional financial benefits in 2019 to their communities by subsidizing losses from treating Medicaid and Medicare patients as well as providing charity care and financial assistance to the uninsured and patients covered by private insurance.**

Kentucky hospitals and their employees are responsible for **\$10.1 billion** in state and local economic activity, taxes and benefits.



Rural Hospitals at Risk of Closure Before the Pandemic

Kentucky is one of the most rural states in the country — ranking 10th highest in rural population. Kentucky's 68 rural hospitals make up more than half (56%) of all hospitals in the commonwealth and employ more than 24,000 Kentuckians.

- Kentucky hospitals rely more heavily on government health coverage than the national average. Kentucky has the sixth highest percentage of hospital patients covered by Medicaid or Medicare. Medicaid and Medicare pay hospitals less than what it costs to treat patients, and hospitals must rely on better-paying private health insurance to make up the difference.
- Rural hospitals have 10% fewer patients covered by private health insurance than hospitals in urban areas, and rely more heavily on Medicare than urban facilities.
- Several recent studies have found that many rural hospitals in Kentucky were already in a financial crisis before the pandemic. These studies identified anywhere from 16 to 28 rural Kentucky hospitals to be at risk of closure if their financial situation did not improve. The additional strain imposed by COVID-19 will exacerbate an already critical financial problem for Kentucky's rural hospitals.

Considerations Moving Forward

As elected leaders and policy makers focus on addressing the reduced revenue caused by the COVID-19 shutdown, the financial challenges faced by Kentucky hospitals have created several important points to consider:

- Cancellations of elective procedures and additional costs resulting from COVID-19 have placed a severe financial strain on hospitals. **The cost of COVID-19 for Kentucky's hospitals is more than \$2.6 billion due to the mandatory cancellation of medical procedures, additional expenses to combat the virus and ongoing lower patient volume.** Federal relief funds covered less than half (40%) of these costs.
- Medicaid expansion has been critical to providing coverage to Kentuckians who became unemployed due to the economic downturn created by the pandemic and for the stability of hospitals. However, it is important to remember that Medicaid and Medicare do not cover all costs incurred by hospitals for treating patients covered under those programs. Medicare covers approximately 90% of hospital costs while Medicaid covers 81% .
- In addition to COVID-19-related challenges, hospitals face other, continuing financial strains. In particular, special payments provided to hospitals that were intended to address the fact that Medicare pays below cost are being reduced over time under the federal Affordable Care Act. These reductions have cost Kentucky hospitals \$77 million to date. Similarly, federal payments to address hospital losses related to Medicaid payments (Medicaid Disproportionate Share Hospitals – DSH) will be reduced later this year and 75% by 2022 — costing Kentucky hospitals \$117 million.
- Although elective procedures are now allowed, hospitals must keep beds in reserve, many patients are not seeking care and it will take time to shift back to normal patient volume. This results in a continued drain on hospitals' revenues and may impair the ability of some hospitals to repay loans and Medicare accelerated payments while still treating patients.
- Many rural hospitals were in dire financial shape **prior** to the pandemic and are at risk of closing. The additional stress of COVID-19 puts them at further risk, threatening access to needed care in several Kentucky communities.

Our Request to Policymakers

As Kentucky hospitals continue to fight on the front line of the pandemic, the more than 78,000 caregivers and health professionals who work for them need the support of Kentucky policymakers. This request for support does not come in the form of a proposal for more funding or special treatment. We fully recognize the negative impact that the COVID-19 shutdown has had on businesses and individuals across the commonwealth. Instead, we ask that efforts by the Governor and the General Assembly to address the decreased revenue caused by the pandemic do not compound hospitals' financial crises by imposing additional provider taxes, cutting Medicaid reimbursement or similar actions. As state, national and international health experts continue to point out, the pandemic is far from over and a resurgence of the virus is expected.

Continuing the battle against COVID-19 and providing quality care for our patients make it essential that Kentucky's hospitals are financially strong. Addressing the commonwealth's budget problems should not come at the expense of Kentucky's hospitals and the people who care for our citizens.

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