

From the Editors: About This Issue on Health Care Finance and COVID-19

Dean G. Smith, PhD¹, James J. Unland, MBA^{2,3}

1. School of Public Health, Louisiana State University Health Sciences Center – New Orleans, LA, USA
2. Health Law Institute, Loyola Law School of Chicago, IL, USA
3. The Health Capital Group, Chicago, IL, USA

On March 5, 2020, as we were coming to terms with the virus novel severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) and the associated coronavirus disease (COVID-19), James Unland started an e-mail exchange. In part, it read:

“Dean, I hope this finds you well, and I do mean that! Do you think some of us should put together a special virus/pandemic issue of our Journal? It's OK if you tell me that I'm overreaching!”

This was not overreaching. Many health care finance analyses and decisions will be impacted by COVID-19 and this is a wonderful way of organizing thoughts in a central location. The following week we disseminated a call for papers and organized a webinar. The March 30th webinar “Health Care Finance and COVID-19” was viewed live by more than 200 participants, including health care finance faculty associated with the Association of University Programs in Health Administration, public health students, faculty and staff at Louisiana State University Health Sciences Center – New Orleans, and others.

This issue of *Journal of Health Care Finance* includes papers presented at the webinar, and a couple of additional papers written by authors who had submitted proposals, but were unable to participate in the webinar. Many of us are now teaching on-line and engaged in activities that leave little room for additional presentations.

To set the health care stage, Dr. Susanne Straif-Bourgeois provided participants with a primer on COVID-19. Dr. Straif-Bourgeois is an Associate Professor of Epidemiology in the School of Public Health, Louisiana State University Health Sciences Center – New Orleans, and formerly Assistant State Epidemiologist and Program Manager, State of Louisiana, Office of Public Health, Infectious Disease Epidemiology Section. She and her colleague Dr. William Robinson are providing the State of Louisiana with their modeling of the spread of COVID-19, and we were delighted that she was able to spend time with this group. At the time of her talk, there had been 34,033 tests completed and reported to the State 4,025 cases reported (11.8% of tests) and 185

deaths associated with COVID-19 in Louisiana (4.6% of cases). As I write this editorial on Easter Sunday, the counts are 96,915 tests 20,595 cases (21.3%) and 840 deaths (4.1%).

To set the finance stage, Mr. James Unland provided a discussion of thinking in capital markets. Mr. Unland is Executive Editor and Publisher of *Journal of Health Care Finance*, Adjunct Professor at the Health Law Institute, Loyola Law School of Chicago and President of The Health Capital Group, The starting point of his presentation was the high volatility in capital markets. Uncertainty is never appreciated in capital markets and almost nothing about this disease is certain. The experts do not yet quite “get it” and therefore investors who rely upon experts are left with widely varying and changing views. Institutions and governments wasted time in accepting the significance of the disease, and in presenting appropriate responses. It is still unclear how bad will it be and for how long. As Dr. Straif-Bourgeois noted, there is no clear understanding of the migration pattern of the actual virus, whether it repeats, or how to attack it. There is a great concern about the available and continuing health care infrastructure and personnel.

One government response commented upon by Mr. Unland has been the decision to allocate \$2 trillion in government grants and loans, of which \$100 billion has been designated for hospitals, on top of an increase to reimbursements. An initial \$30 billion is being allocated to hospitals as a percentage of Medicare revenues, with decisions to be made on the remainder. How many more injections will be needed? All of this may mean that we need to “throw out many books” on investing and the nature of capital markets.

So what are the “books” that need to be thrown out? Among the core considerations for health care finance are profitability, capital planning, liquidity, and capacity. Dr. Nathaniel W. Carroll explained how the shifting of hospital services to care for COVID-19 patients is expected to directly influence hospital profitability. Dr. Carroll is an Assistant Professor of Health Services Administration at the University of Alabama at Birmingham, and formerly Manager of Operations and Medical Informatics, Virginia Premier Health Plan. As reported by ABC News the morning of the webinar, many hospitals and health systems are worried about their financial viability if scarce resources are exclusively devoted to COVID-19 patients for too long (Rubin & Kim, 2020). Using financial statements for a health system as an example, he demonstrated that limited shifting in cases is required to turn profits into losses.

Dr. Alex Holcomb provided further insights on capital planning. Dr. Holcomb is an Assistant Professor of Finance in the Department of Finance, Banking and Insurance, Walker College of Business at Appalachian State University. In addition to uncertainty about revenues and expenses of current and future investments, there is also uncertainty about the discount rate to employ in financial analyses. Our books tell us that the appropriate discount rate is the weighted average cost of capital, which takes into account the cost of equity and the cost of debt. The volatility in capital markets calls into question how we think about each component during a crisis.

Financial viability is determined by profitability, liquidity and the capacity to provide services. Organizations need cash in the bank to pay employees, vendors and to pay for the cost of capital. Dr. Soumya Upadhyay presented on both the liquidity of hospitals and the capacity of hospitals. Dr. Upadhyay, is an Assistant Professor of Healthcare Administration and Policy, School of Public Health at the University of Nevada Las Vegas, and formerly Clinical Transformation Data

Coordinator at Sutter Health. Liquidity of many hospitals and their capacity to treat large numbers of patients place the viability of the organization and patient lives at risk. While the cash conversion cycle has increased in recent years, at least in hospitals in the State of Washington, the primary component of increase is inventory, not pure cash. Inventory is important during this current crisis, but inventory is not generic. Hospitals may have greater stores of medications and supplies, but not the right ones. Similarly, hospitals have been running at very high levels of capacity utilization in recent years. They have achieved greater efficiency of space and other resources. Efficiency has meant a reduction in what we used to call “surge capacity.” Some shifting of patients is possible (as was discussed by Dr. Carroll), but there are still people having heart attacks and the range of illnesses and injuries requiring hospitalization.

Along the same lines as the analysis by Dr. Upadhyay, Dr. Sayeh S. Nikpay examined the financial preparedness of hospitals. Dr. Nikpay is an Assistant Professor of Health Policy, School of Medicine, at Vanderbilt University. It is highly likely that COVID-19 will result in a drain on hospitals financial resources, not the least of which being cash. Using data from Medicare Cost Reports on all U.S. hospitals, it is clear that not all hospitals are financially prepared for any enduring loss of cash, with hospitals in few states being well prepared. Those states that have experienced early cases of COVID-19 are less well prepared financially.

The United States is not the only country facing challenges associated with COVID-19. By all appearances, the first reported cases of this disease were in Wuhan, China. Mirandy Li, Qiufan Fu and Ting Luo presented on the state of COVID-19, the Chinese health care system and the hospital response in China. These scholars are doctoral students in the School of Public Health, Louisiana State University Health Sciences Center – New Orleans, with family connections in China. With a single-payer, government system for financing health care, the response was direct and involved construction of two additional hospitals in ten days.

The United States, without a single-payer system relies upon both public (Medicare and Medicaid) and private payers, each of which has responded to COVID-19. Dean Smith, PhD provided a discussion of the payer response. Dr. Smith serves as the Dean of the School of Public Health, and the Richard A. Culbertson Professor of Health Policy and Systems Management at Louisiana State University Health Sciences Center – New Orleans, and formerly a health plan executive and board member.

Last, but by no means least, Dr. Richard Culbertson provided a discussion of the ethics of health care finance decisions during a crisis. Dr. Richard Culbertson is Professor of Health Policy and Systems Management, School of Public Health at Louisiana State University Health Sciences Center – New Orleans, and formerly CEO of Los Angeles Medical Center (Kaiser Permanente). Decision-making during this crisis involves balancing competing ethical paths; duty based ethics, virtue ethics and utilitarianism. He also discussed the efficiency and the failure of the health care supply chain and the well-being of the workforce.

Altogether, these papers present a number of thoughts on health care finance and COVID-19 in a central location. Without a doubt, there will be many more thoughts and analyses expressed in the coming months and years.

