

# *HealthLeaders*

## OSF Healthcare CFO: Future Revenues May Be Less Than Pre-COVID Levels

BY JACK O'BRIEN | JULY 09, 2020

**Michael Allen says proactive forecasting in mid-March following the outbreak and subsequent shutdowns allowed OSF to navigate a challenging financial time.**

About four months into the coronavirus disease 2019 (COVID-19) pandemic, hospital finance leaders have had to reconfigure their strategies to adapt to the 'new normal' and guide their respective organizations through unprecedented challenges.

Since the domestic spread of the virus began in mid-March, compounded by the subsequent cancellation of elective procedures to handle the influx of patients infected with COVID-19, several new market dynamics have appeared before health system CFOs along with an acceleration of existing trends.

**Michael Allen, FHFMA, CPA** is the CFO at OSF HealthCare, a 14-hospital integrated health system based in Peoria, Illinois, and operated by The Sisters of the Third Order of St. Francis. In fiscal year 2019, **OSF reported total net revenue** exceeding \$3 billion.

In an interview with *HealthLeaders*, Allen details how his organization dealt with the significant financial disruption and revenue declines that began in mid-March and how the outbreak has redefined the traditional budgeting process.

### THE REVENUE GUESSING GAME

In the early days of the crisis, Allen says the system paid careful attention to its liquidity situation, but noted that it isn't as much a concern now given that OSF received advanced Medicare advance payments, extended its lines of credit, and took proactive steps to manage cash and reevaluate capital spending.

Regarding the clinical challenges related to protective personal equipment (PPE) shortages, Allen says that the 'burn rate' for those products peaked at about six times the average while overall supply chain costs also rose dramatically.

To mitigate those issues, he says the organization has stocked up its inventory to more than twice its normal levels and will soon begin manufacturing its own N95 masks ahead of a potential second wave in the fall.

Allen adds that he has concerns moving forward about how much patient activity is going to return to OSF and what the **large-scale unemployment claims** will mean for the organization's payer mix. He estimates that every percentage point of patients that move from being insured by a commercial payer to a government payer represents about a \$25 million hit to the health system's bottom line.

"We may be facing a future where our revenue stream is less than it was pre-COVID," Allen says. "The only adjustment you have, if that's the case, is growing your market. It's going to be challenging to do that in a market that's shrinking, if that's in fact the case; whether it's shrinking in activity because people are being more cautious about getting their care, or it's shrinking because of your payer mix, it's going to be harder and harder to try to grow market [share] in those environments."

Allen continued: "The other option is to adjust [the] cost structure. We are fully planning for a future environment where we're having to permanently adjust cost structure. That could [include] certain facilities we don't have open anymore, it could be adjusting staffing levels to activity levels, and other sorts of things. Everything will be on the table at that point."

## **LOOKING FORWARD, NOT BACKWARDS**

Like other health system CFOs, Allen says that the pandemic has changed how OSF approaches its budgeting processes and planning strategies for future challenges and trends related to the virus.

Pre-COVID, Allen says the organization was budgeting in 12-month increments, analyzing what has happened, and "looking backwards." In October, OSF eliminated its annual budgeting process, according to Allen, and started its fiscal year without a traditional budget.

He says that the organization set certain financial goals but didn't go into detailed budgeting, pivoting its processes to be more forward-looking and more "quarter-by-quarter and forecasts-oriented." Allen says the shift towards this new approach had been slow until the pandemic began, which accelerated the change and ultimately served as a positive.

According to Allen, proactive forecasting in mid-March during the immediate aftermath of the outbreak and subsequent shutdowns allowed OSF to navigate a challenging financial time and make decisions that have paid off.

"What this [new budgeting process] has done for OSF is shifted that [approach] from rearview mirror to windshield," Allen says. "It's now looking forward and spending more of our energy

projecting, forecasting, and then observing results against that, and continuously updating that to help guide the organization about what steps to take next."

Allen continued: "One of the best lessons learned is to shift your focus to the window versus the rearview mirror. That doesn't mean you ignore the mirror, it's just rather than spending 75% of your time with the mirror and then 25% with the window, spend 60% or 70% with the window and a little less with the rearview mirror."

## **TECHNOLOGY WILL HAVE A ROLE**

Like many other health systems, the pandemic has prompted OSF to factor virtual care services into its business model and reexamine its real estate holdings.

Allen says the organization doesn't have any immediate plans to unload its brick-and-mortar facilities, but recognizes that telehealth will have a more mainstream effect on care delivery going forward, and that will affect physical care sites, though not entirely replacing them.

Allen says the system is looking at its smaller clinics and communities that only have one or two providers and considering whether they can be better serviced by telehealth, instead. OSF is also reconfiguring its approach to urgent care with the rollout of '[OSF Urgo](#),' the organization's modern urgent care model replacing its legacy urgent care model across its markets.

OSF has already implemented technological features to help adjust to care delivery in the age of COVID-19. Earlier this spring, OSF debuted an artificial intelligence chatbot as well as a behavioral health app, which handled more than 50,000 encounters in its first month.

*Jack O'Brien is the finance editor at HealthLeaders, a Simplify Compliance brand.*