

HealthLeaders

John Muir Health CFO on Addressing Financial Stability Among Second COVID Surge

BY [JACK O'BRIEN](#) | AUGUST 06, 2020

Chris Pass says that he expects provider M&A activity in California will increase because of the pandemic, adding that some independent hospitals will have to look for a buyer.

John Muir Health, [like the rest of California](#), has been dealing with a recent surge in coronavirus disease 2019 (COVID-19) cases in recent weeks.

The rise in cases of patients infected with the disease that has killed more than 150,000 Americans comes [after the state faced an initial surge](#) during late March and early April.

John Muir is an integrated nonprofit health system based in Walnut Creek, California, [composed of two major medical centers](#), John Muir Health Walnut Creek Medical Center and John Muir Health Concord Medical Center, as well as its Behavioral Health Center.

The organization reported total net patient service revenue of more than \$1.5 billion at the end of 2018, according to [its most recently available financial filings](#).

Chris Pass, CFO of John Muir Health, tells *HealthLeaders* that during the initial surge in April, the system peaked at 30 patients across its two hospitals in April. During a phone call at the end of July, Pass said that the new patient census eclipsed the springtime highs, which has added financial pressure to the organization as it sought to resume more elective procedures and "bring the business back."

"It's an interesting challenge that is very different now; [with] the way we came into COVID, it was abundantly obvious that safety and taking care of our patients and community was the No. 1 [priority]. It was: 'We're going to do this at all costs,' " Pass says. "As [the pandemic] continues, there's a point where we've got to make sure we remain balanced with financial responsibility and stewardship, along with needing to still [focus] on our No. 1 priority."

BALANCING THE SHORT TERM VERSUS LONG TERM

Like other hospital executives, Pass says John Muir has had to balance addressing urgent short-term financial pressures while remaining focused on long-term projects. He says John Muir enacted as few 'short-term Band-Aid-type' financial changes as possible and instead aimed at the longer game.

Pass adds that it has been important for hospital leadership to be transparent with employees about various investment plans and not get caught up in the day-to-day challenges presented by the virus and cancellation of elective procedures.

"We actually had the benefit of redoing our strategic plan in the fall of 2019," Pass says. "With the COVID changes, we looked at [our strategic plan] and made sure that the investments and the folks who weren't completely engulfed with COVID had the ability to continue to try and fast-track what we were doing in the long run. We did put the lens of long-term strategy and mid-term strategy on changes and recommendations that we would do."

Pass says the organization resisted the inclination to downsize staff due to reduced patient volumes, saying he "didn't feel it was the right thing to do," but also because John Muir has certain operational areas targeted for growth and expansion plans, which will require an adequate amount of employees post-pandemic.

He cites both the system's plans to embrace the emergence of telehealth services as well as consolidate individual physician practices into larger health centers for patients to access in-person care.

'STRONGER WILL GET STRONGER'

Pass says that he expects provider M&A activity will increase because of the pandemic, adding that some independent hospitals will have to look for a buyer.

He says that John Muir was fortunate to have a strong balance sheet entering the pandemic, though the organization has lost money, "like just about every health system during this period of time."

Still, despite the healthy financial positioning, Pass says he is carefully watching out for the potential shift in where the organization generates revenue.

"What concerns us is if not as many patients need to come to the emergency room as they once did, because they now can reach out via video and telehealth. That might be a permanent volume change," Pass says.

"If you do not put some sort of tactic in place to regrow that volume, which a logical place would be an existing business [since] folks are looking for a quicker return on capital, [then] you're starting sort of *de novo*. I do think you'll see [increased M&A] in California; I do think it'll be something where the stronger will get stronger. The relative punishment for larger systems is significantly less than any of your smaller businesses, and so I do think you'll start to see some of that [M&A activity] with people looking to diversify revenue."

DYNAMIC BUDGETING AND LESSONS LEARNED

Reflecting on what has changed at his system in the months since COVID-19 first began to spread across the country, Pass says that the pandemic has spurred more collaboration across John Muir and fostered organizational change that was previously difficult to get enacted.

Pass also echoes a sentiment from his peer [OSF HealthCare CFO Mike Allen](#), noting that organizations need to be forward-looking as they emerge from the pandemic.

"[I follow] the advice of trying to remain focused on not only what's in front of you, but to have a view that's a little bit beyond the front of your hood; that will be important for all of us," Pass says. "I think we realized early on, as many are, that this is not something that's going to bounce back to be 100% of normal in two months. I think we have to remember we need to be here for the long term."

Pass also says that John Muir moved to a dynamic budgeting process a few years ago, which has enhanced the organization's ability to communicate and understand the financial situation ahead.

In the case of COVID, being able to forecast rapidly aided John Muir's leadership as they considered different approaches to resuming elective procedures and bringing the business back following the shutdowns this spring.

Pass says that the dynamic forecasting approach allowed the system to reconfigure its financial approach, take the pressure off the organization's board, and construct an 18-month recovery plan.

"We're fortunate that we're a [December 31] fiscal year. We had [peers] who were [June 30], so they're trying to put a budget together smack in the middle of COVID hitting with no idea as to where it's going to go," Pass says. "For us, sharing that [budgeting process] the way we did has been a huge opportunity for our financial planning teams to be able to help and say, 'OK, this is what the comeback plan is; this is what is going to impact our next quarter, next six months, next nine months.'"

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