NATIONAL ASSOCIATION OF
Community Health Centers

Financial and Operational Contingency Planning: Strategic Tips for Health Centers

Many health centers undergo some level of financial and operational contingency planning routinely as part of a strategic planning process and/or as needed in times of uncertainty. A contingency plan is often described as an organization's "Plan B or C" and outlines a set of steps to undertake if a particular event occurs.[i] Common scenarios creating a need for such a plan can include a significant change in a funding stream, the potential operational impact of changed or new legislation or regulations, or risk mitigation dialogue within an organization.

Please see various tools in Capital Link and the National Association of Community Health Center's (NACHC) "**Creating a Dynamic and Useful Strategic Plan: A Tool for Health Centers**" to assist in a contingency planning process (see "Contingent Action Plan" on page 48 and "Sustaining Action Summary" on page 50 of the toolkit).

The goal of this brief document is to outline some specific strategies and ideas for health centers to consider when preparing or implementing a contingency plan that addresses financial and operational risks.

Conduct a Financial Analysis

- ***Calculate the Financial Impact of the Possible Event*** – To address a possible change in a funding stream, for example, forecast the financial implications for the health center. Alternatively, if your health center is in a state that expanded Medicaid, calculate the potential impact should changes to that program be implemented.

Analyze and Explore Operational Implications and Strategies

- ***Explore Human Resources (HR) Strategies***
  - ***Ensure Plans Address Staff Communication and Engagement*** – Regardless of the strategies pursued, factor communication into the plan. Keeping your staff involved and up-to-date will make them more apt to engage in responding to the event and in strategies such as identifying cost or service reductions. Plan to motivate staff to continue working at the health center by praising hard work and keeping the door open for questions. Be aware that in difficult situations, having employees criticize the situation does not help. If necessary when implementing such a plan, follow health center's policies and procedures as you move through an employee corrective action plan.

- ***Explore Reductions in Staffing Costs*** – If the contingency plan necessitates decreased expenditures, consult with HR to explore various strategies to reduce staff costs. If a reduction in force may be needed, it is essential to consult with legal counsel. Strategies around workforce may include:
  - Reduce overhead costs. Rather than pay overtime, plan to review schedules and stagger employees to cover shortfalls.
  - Consider alternative strategies that may encourage staff to reduce sick time or vacation for an established period of time. In particular, plan to create an "all hands on deck" environment, and encourage staff to work by providing non-monetary recognition. It is imperative to develop creative ways to keep morale high so that the patient experience is not negatively impacted.
  - Consider whether the situation might necessitate asking employees if they would be willing to take a temporary salary reduction. Ensure that the decrease in salary is for a specified period, with an end date for reinstatement and adhere to that date. If necessary, a plan may temporarily decrease matching contributions to retirement and additional fringe benefits. It is advised to consult with the Administrator of the health center's Benefits Package for details.
  - Be aware that the loss of billable providers can harm a health center. The STAR² Center Financial Assessment Tool (available at http://chcworkforce.org/star%C2%B2-center-financial-assessment-tool) captures the hard costs of recruitment at a health center, and the cost, price, and value of productivity.

- ***Review All Contracts to Identify Expense Reductions*** – Contracts should be reviewed routinely to ensure compliance with the Health Center Compliance Manual and all applicable federal, state, and local laws and regulations. However, when considering contingency plan action steps related to a decrease in funding or revenue, for example, it may be helpful to factor in the following:
  - Pull a vendor list and review all vendors and contracts. Contracts include consultant agreements, leases, non-clinical and clinical contracts, among others.
  - Contact each vendor to ensure that the health center is taking advantage of non-profit status by receiving reduced pricing for supplies, tax-exempt status for state and/or federal ordering and bulk ordering discounts, as appropriate for your supply chain management. If the contingency plan addresses circumstances such as an operational crisis or major funding cut, consider talking with vendors to request a discount and leverage customer loyalty in those negotiations.
  - Review all nonessential consultant contracts. If appropriate, when implementing the contingency plan, request to put a hold on contracts and/or terminate the contract if termination is permitted within the terms of the contract. Determine what can be brought in-house that may have been contracted out (e.g., grant writing).
  - Contact landlords to determine whether a temporary lease reduction may be possible due to your health center being a good tenant.

Consider Mechanisms for Increasing Revenue

- ***Apply for a Line of Credit*** – A Line of Credit (LOC) can help bridge the gap when a health center is waiting on a large funding payment and/or in the event of a decreased funding or revenue stream. After identifying that a LOC[ii] is an appropriate strategy for your health center, the following considerations may be helpful:
  - Financial Institutions will review: the organization's history and mission; plans for the funding; cash flow and assets; financial documents; audits; and the management and board.
  - When applying for a LOC, some financial institutions require collateral. Determine what to use (e.g., accounts receivable, owned buildings, etc.).
  - LOC are determined on exceptional credit. Ensure the health center pays bills on time and does not have interest charges due to non-payment of invoices.

- Ensure that the health center board of directors approves the LOC and this approval is documented in the monthly board of directors meeting minutes.

- ***Consider Diversifying Revenue Streams*** – If the plan identifies a need to explore strategies to diversify revenue, consider the following:
    - *Payment Reform* – As value-based payments and pay per performance is affecting health centers, some insurance companies (Managed Care Organizations, Private Insurance Companies) may provide a revenue stream based on referral and case management and quality indicators. Contact health center payors to determine whether these incentive streams can be increased.
    - *Other Business Opportunities* – Analyze and determine whether a health center can support other lines of business that provide unrestricted revenue (e.g., some health centers have a consulting companies, are part of an Independent Practice Association, own an insurance company). Utilize legal counsel to provide initial set-up and support.
    - *Local and Legislative Assistance* – Contact local and state representatives to determine what assistance may be provided in the short term (e.g., some states provide line item funding for health centers within the state budget). The Primary Care Association (PCA) may assist or provide support.
    - *Leverage Donors* – Consider how current donors may help in the short-term. Local foundations or philanthropic donors may be willing to provide community grants or donations to assist with sustained operations of a health center.

- ***Optimize Collections and Billing practices***
    - Review Accounts Receivable (A/R) to ensure that the health center is maximizing all collections. Ensure that collections percentages are appropriate and comparable to national averages (e.g., Medicaid collections should be close to 90%). If a Medicaid plan has a co-pay and the health center is not collecting it, determine whether it would be feasible to implement the process.
    - Review billing remittances to ensure denials are worked in a timely fashion. Billing for health centers should not be denied due to timely filing on the part of the health center.

Involve the Board of Directors

- ***Actively and Strategically Engage the Board*** – Be sure your board is actively and strategically involved in the contingency planning process. Be clear with the board about potential risks, and seek their guidance and input related to planning.

- ***Identify Parts of the Plan that Require Board Approval or Action*** – Be clear about what part of a contingency plan requires board approval and/or action. Board action and approval is often required for various aspects of a contingency plan. Also, be sure to identify how to leverage the board's connections in executing the plan (e.g., communications with key stakeholders).

- ***Involve the Board in Donor Development*** – Plan to utilize board expertise to assist with fundraising and donor development. Having a board of directors that attains 100% board member philanthropic giving to the health center encourages other funders and donors to provide funding.

Focus on Communication

- ***Develop a Communications Plan*** – Develop a plan to coordinate communications to key stakeholders such as patients, staff, media, and the community that identifies the circumstances, plans, and anticipates questions to maintain the public's confidence in the organization.[iii] Plan to advise staff to minimize talking about the situation on social media platforms, if engaging the media, or any nonessential person involved.

- ***Ensure a Unified Voice*** – Ensure the plan has mechanisms to prepare health center staff, the management team, and board of directors to communicate the areas of opportunity and challenge in a unified voice. Even in situations where there is a question of financial viability, ensuring continued quality of care along with being the provider and employer of choice will decrease fears. In particular, organization-wide talking points can help to ensure that board members and employees are comfortable addressing questions in the community and within their respective networks.

Additional Considerations

- ***Communication with your Health Resource and Service Administration (HRSA) Project Officer is vital*** – If a health center needs to temporarily close a site/location or modify services, communicate with your Project Officer (PO) who will assist with completing a Change in Scope (CIS), if applicable. Communication with your HRSA Grants Manager is vital when working within the Payment Management System (PMS). It is also a good idea to be in communication with PO and Grants Management Specialist if the health center is facing a financial crisis.
- ***National Cooperative Agreements (NCA), Primary Care Associations (PCAs) and Health Center Controlled Networks (HCCNs) are valuable resources to provide technical assistance*** – These organizations provide infrastructure support services, as well as training and technical assistance in a variety of domains tailored for health center operations. See the HRSA website for more **detailed descriptions and list of organizations**.

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i See Bridgespan (https://www.bridgespan.org/getdoc/64976fc6-54d7-4fd8-adbc-829d2f6fdf26/managing-in-tough-times-7-steps) and Grantspace (http://grantspace.org) for more information.

ii While applying for a Line of Credit (LOC) and not using it prudently can pose financial damage if a health center is unable to pay the line of credit (on the audit it will be considered a liability), having a LOC may save a health center if a scenario arose that decreased a major funding stream, for example.

iii For more information see "Be Proactive in Times of Crisis" by the Nonprofit Risk Management Center https://www.nonprofitrisk.org/resources/articles/be-proactive-in-times-of-crisis/