

Most Rural Hospitals Have Little Cash Going into COVID

Why is days cash on hand important?

Days cash on hand is a common measure of an organization's level of cash resources. It is an estimate of the number of days an organization could operate if no cash were collected or received. Consider two rural hospitals:

180 days cash on hand

If a hospital has 180 days cash on hand, it can operate for half of a year without any additional revenue. The hospital would be well-positioned to get through a cash crunch like the current one imposed by the COVID-19 pandemic.

7 days cash on hand

If a hospital has 7 days cash on hand, it can operate for one week without any additional revenue. To get through a cash crunch, the hospital would have to borrow money, sell assets, or seek emergency funding. Without additional cash, the hospital could fail to meet its next payroll.

The current cash crunch

Acute care hospitals have lower revenue because elective procedures and some routine care are being canceled to ensure capacity for COVID-19 patients. Many also face higher expenses because of supplies, equipment, and staff required for COVID-19 patients. A hospital's ability to get through periods of diminished cash flow depends on the amount of cash, marketable securities, and other assets that can be readily converted to cash. Many rural hospitals have low cash levels and may struggle to get through the current cash crunch.

Going into COVID-19 most rural hospitals have only a small amount of cash

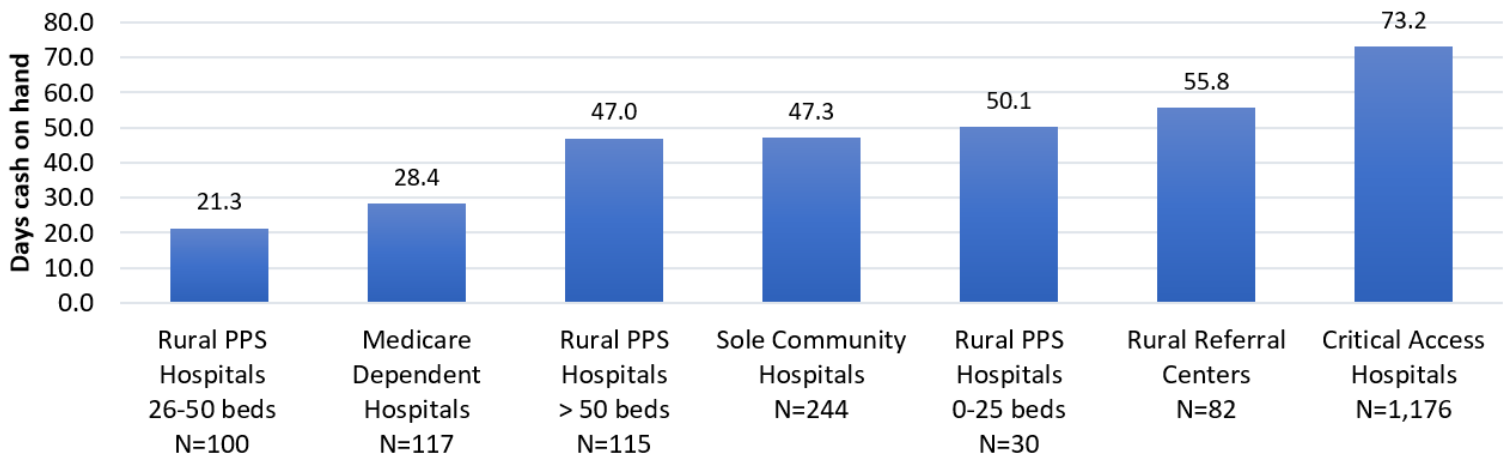
The figure below shows that, based on the most recent cost report data, rural Prospective Payment System (PPS) 26-50 bed hospitals had a median of only 21.3 days cash on hand and rural Medicare Dependent Hospitals (MDH) hospitals had a median of only 28.4 days cash on hand prior to the onset of COVID-19 in the United States.

Definition of days cash on hand:

$$\frac{\text{Cash} + \text{Temporary Investments} + \text{Investments}}{\text{Total expenses} - \text{Depreciation}} / \text{Days in period}$$

Median Days Cash on Hand by Medicare Payment Classification

PPS = Prospective Payment System



These hospitals will probably be the first to have a cash crunch.

Limitations: 1) Some system-affiliated rural hospitals have their cash swept by the parent organization, and these hospitals are excluded from the figure. 2) The Ns in the figure above are the number of available cost reports, which is less than the number of hospitals.

