SOCIAL INNOVATIONS Journal

Vol. 13 (2022): Human Services System Innovations: Marginalized Populations

The Rose-Colored Balance Sheet: Why Human Service Organizations Should Prepare for the Post Pandemic Reality

By: Stacy DiStefano*

*Founder, Consulting For Human Services

Keywords: human services, Medicaid funding, managed care, behavioral health, nonprofits, strategy

Abstract

As the fiscal year comes to a close, provider organizations in the human services space should be cautious about how they view their balance sheets while staying laser-focused on a strategy to thrive in a post-pandemic funding environment.

Introduction

Top of mind for savvy leaders in the human services industry prior to the pandemic was preparing for the expansion of managed care, exploring data tools to get operationally ready to participate in value-based contracting, and shifting business models to integrated care delivery. Human service providers, like the rest of the business world, operated in crisis mode in 2020 and 2021. Every organizational leader reacted to regulations and guidance that seemed to change by the hour. Most leaders focused their energy on supplying appropriate PPE, establishing telehealth services and finding creative ways to staff essential programs. While many organizations struggled operationally with staffing and program closures, government support of their programs actually strengthened them financially. Human service organizations weathered the pandemic's chaos largely because of Cares Act funding, the implementation of alternative payment arrangements (APAs) and the willingness of payers to drive critically needed emergency dollars into programs that would have failed without them. Unfortunately, these unanticipated short-term funding streams may have also caused an unintended consequence, creating a false sense of security for organizations who were otherwise teetering financially before the start of the pandemic.

I am hearing from many leaders that the fiscal year 2022 will once again leave many organizations in even stronger financial shape than the previous fiscal year. I worry that too many leadership teams are viewing their current financial performance through rose-colored glasses. Once the pandemic is declared administratively over and funding returns to pre-pandemic levels, organizations will have to reacclimate to a fee-for-service billing environment (and the same overhead) with less volume and fewer staff available to generate billable units of service. While there are still many unknowns about post-pandemic services, one thing is absolutely certain, the new complex care/behavioral health business environment will look nothing like it did in February of 2020.

Additionally, there are new factors in play. The conflict in Ukraine further impacts existing supply chain issues. Transportation is more costly due to gas prices. Reimbursement rates remain static despite the necessary hourly-wage increases to attract and retain direct-care staff. Payers are acquiring provider organizations which has coined a new term 'pay-viders' discussed in detail in a recent Bain report. Private Equity investments in providers organizations continue to trend upwards. What this means is the competitive landscape is shifting and adding new players who have access to good data and are well-equipped to take risks with value-based contracting.

Forward-thinking organizations should be fine-tuning a strategic operations plan to see them through to 2023 and beyond. If you've rested on the cushion of APAs, it's time to turn your attention to strategy. Telehealth and technology assets have forever changed the way we work and deliver services. The pandemic accelerated us through regulatory hurdles and beta tests, resulting in consumers and payers who now expect a level of immediacy and flexibility in services that many organizations may struggle to provide.

View the coming 18 months as fertile ground for opportunity. Risk-aversion won't be a successful strategy. Get an outside lens to examine your operational pain points. Outsource admirative services you can't efficiently provide in house. Look for small pockets in your system of care to begin enhancing your service-delivery with technology.

Pay attention to private equity and human services merger and acquisition (M&A) activity. The relevant sectors of healthcare M&A; BH, IDD, SUD and Autism services, have rocketed over the past 18 months. Deal volume increased substantially in 2021, with the first quarter of 2022 on pace to exceed that annual total. Don't let pride get in the way of exploring M&A, but rather pursue a cultural due-diligence as robustly as a financial one. In a good M&A arrangement, there is room for both sets of leadership teams and boards to find a place to contribute.

In conclusion, leverage the financial buffer of the pandemic to springboard your organization into sustainability and success in the coming years. Use this time wisely to map-out tactical plans for innovation and growth.