

Case Analysis in Ratio and Trend Analysis

| Categories & Guide | Hillside County Public Health Agency |
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| <p>FINANCIAL</p> <p>In this Financial section we are looking at item numbers 1-45 on the Public Health Financial Ratios Spreadsheet.</p> <p><u>Revenues</u> establish an agency's capacity to provide services. The following issues are critical to consider when analyzing revenue: growth rate, flexibility, dependability, diversity, major revenue sources.</p> <p><u>Expenditures</u> are approximate measures of an agency's service output. Usually, the more an agency spends the more services it is providing. The following issues are critical to consider when analyzing expenditures: expenditure growth rate in comparison to revenue growth rate, future liabilities, administrative costs, types of public health services provided, ability to collect Accounts Receivable, and number of programs with expenditures exceeding allocated or earned revenue.</p> <p>Reference: Evaluating Financial Condition, 2003, ICMA</p> | <p><u>REVENUES</u></p> <p>The agency's resources are dwindling as shown with the \$247,849 (2%) decrease in revenues during FY 2008 Item #11). All major sources of revenues have decreased with the exception of Medicare, which has only grown roughly \$8,000 (.6%) over FY 2007. The largest % decrease was in Medical Services, down 7.1%.</p> <p>The major source of revenue for the agency is from the County (item #3). In FY 2008 County revenues decreased by 2.5% (\$113,015).</p> <p>The agency does not receive dedicated tax revenues from the county (item #20).</p> <p>Revenues are down in major program categories (e.g., home health, environmental health, dental) except in immunizations. Home health had a significant decrease of 24.4%, \$128,790 (items #22-27).</p> <p><u>EXPENDITURES</u></p> <p>While agency revenues decreased, the reverse was true for expenditures which increased \$129,349 (1.0%) (Item# 17). Even more significant was the fact that the agency was in a deficit position for FY 2008 because total expenditures were \$472,305 higher than total revenues.</p> <p>In spite of the decrease in revenues, a breakout by specific categories shows that expenditures have actually increased in all categories with the exception of Lab and Preparedness (items #28-38).</p> <p>The Fund Balance was reduced in FY 2008, down to \$103,830 as a result of the deficit spending (item #39).</p> <p>Over 50% of the Accounts Receivable balance (item #40) was written off as "uncollectable". This is an indication that either collection efforts needs to be strengthened or activities need to be undertaken to seek reimbursement from other sources (qualify more patients from Medicaid/Medicare, etc).</p> <p>The # of programs in the agency that were not self-supporting is growing, 18, up from 11 in the previous year (item #42). These programs are maintained by shifting revenues from other sources in order to continue to operate.</p> |
| <p>DEMOGRAPHIC</p> <p>In this Demographic</p> | <p>Population in the county area did not change significantly (item #44).</p> <p>The housing market downturn probably explains the decrease in</p> |

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| <p>section we are looking at item numbers 46-53 on the Public Health Financial Ratios Spreadsheet.</p> <p>Population change can affect governmental revenues and the need for services. Looking at the number of building permits issued, poverty rates, and percent of the population that is uninsured assist us in understanding the effect of population change on the financing of local public health services.</p> | <p>building permits (item #49).</p> <p>An examination is needed to determine if there is a relationship between the drop in residents on Medicaid (2.3%) and the increase in those that are uninsured (3.7%).</p> |
| <p>WORKFORCE</p> <p>In this Workforce section we are looking at item numbers 54-57 on the Public Health Financial Ratios Spreadsheet.</p> <p>Employee costs represent a major part of the agency's budget. Monitoring changes in number of employees per capita is a good way to measure change in expenditures. Increasing employee costs may signal expenditures in excess of revenue or a decline in personnel productivity. Assessing financial skills will indicate the level of financial skills in the workforce and may affect the agency's financial performance.</p> | <p>FTE in the agency increased by 11 people in FY 2008 in spite of decreases in revenues.</p> <p>There was no progress with providing training for staff with fiscal responsibilities.</p> |

RATIOS

The Public Health Financial Ratios form a management tool that assembles data about an agency's revenues & expenses, workforce, community demographics and economics, as well as indicators reflective of the type of public health services provided to the community. This data is used to create ratios that can be used to monitor changes in financial status and alert agency leaders to future problems. No one ratio is conclusive. All ratios chosen for study should be examined simultaneously to discern interrelationships that help to explain the trends revealed through ratio analysis.

Example of questions to consider when analyzing:

1. Revenue Ratios:

Is the community experiencing general economic decline? Is this temporary? Is it related to changes in the populations? What agency revenue sources are declining? Is the decline a result of the type of revenue upon which the agency depends? Is there a local tax to support Public Health services? Does the agency have flexibility in its use of revenues? Are unrestricted resources supporting restricted revenue programs? Are there differences between operating revenues estimated in the annual budget and revenues actually received? Are the shortfalls due to inaccurate estimating techniques, sharp fluctuations in the economy or inefficient revenue collection?

The agency is experiences a decrease in Revenues per capita (item #1) while Expenditures per capita (item #23) continues to increase.

REVENUES

Total Margin compares the difference between total revenues and total expenditures to total revenues. This ratio is an indicator of how well the organization is managing the control of expenditures given the overall level of revenues. If an organization spent only 50% of its revenues, the ratio would be .50%. If expenditures totaled 90% of revenues, the Total Margin would be .10%. Hillside's Total Margin for FY 2008 is -3.9% (item #12), a dismal indicator of current year financial health and cause for immediate corrective action.

An indicator below 1.0 is an indicator of an Operating Surplus (item #13). This is directly related to the negative Total Margin Indicator.

The General Fund Balance (item # 18) has decreased 77.9%, another dismal indicator and cause for immediate action.

Total Medical Revenues (item #22) equal 8.0% of the agency's total revenues. However expenditures in this category (item #33) represent 9.6% of all expenditures. This situation should be examined closely and the information should be valuable for strategic planning purposes.

EXPENDITURES

Expenditures per capita increased in FY 2008 (item # 23). However, money for these expenditures came at the expense of depleting the General Fund Balance since there were not sufficient current year revenues to support the additional expenditures.

Fringe benefits (item #25) appear to be aligned with national averages, but it has grown slightly. This could be explained by the increase in 11 FTE.

57% of the agency expenditures are spent on salaries (item #26). Additionally, nearly 41% of every dollar spent in the agency is classified as Administrative (item #27). Both of these seem high, however, there are no datasets of public health financial data and indicators where comparative effectiveness analysis or benchmarking between peer institutions could be conducted. That information would be particularly beneficial to Hillside County Health Department performing critical and objective analysis of

2. Expenditure Ratios:

Do expenditures exceed revenues? Are the increases the result of new services? Which programs are increasing in costs? What specific costs are driving the increases? Is the agency operating efficiently? Have the number of employees increased? Is productivity declining? Are there new contracts?

3. Mission Critical Ratios:

Do priority public health programs appear in the agency's budget? Which program outcomes are not improving? What strategies are in place to assure adequate program funding and the application of quality improvement methods? Are expenses exceeding dedicated and self-generated revenues? What are the costs of providing services in major program areas? Are they reasonable or comparable to similar agencies? Are there plans in place to increase revenues or decrease services if revenue shortfalls are detected?

this issue.

Home Health expenditures were 138% higher than home health revenues. Also, this has increased roughly 36% over the prior year. This is an obvious contributor to the agencies deficit position.

The total # of employees (item #24) in the agency grew in FY 2008. This requires some examination since revenues are decreasing.

57% of all expenditures are dedicated to Salaries (item #26). Of greater concern is that Administrative spending (item #27) accounts for 40.9% of expenditures. This appears to be exceptionally high but lacking public health financial dataset makes it difficult to conduct comparative analysis. Especially important is that fact that given 40% being spent on administration leave roughly only 60% of agency funding to be dedicated to public health programs.

MISSION CRITICAL

The % of programs showing improvement is low and declining compared to the previous year (item #38).

Hillside does not collect a tax dedicated for public health (item #40). This could put the agency at greater risk to annual fluctuations of county support.

The agency is does not create new ventures to generate and diversify its revenue streams (item #41).

More attention should be given to training of the staff with fiscal responsibilities (item #42).

Another contributing factor to the declining financial status is that 35% of programs in the agency can not operate on dedicated or self-generated revenues (item #43). Fiscal resources from other areas of the agency must be transferred to fund these programs.

Hillside does not conduct cost analysis on the majority of its programs (item #44). This could also be a contributing factor to the large # of programs that are not self-supporting and also to the declining financial health.

The # of agency programs actually grew in FY 2008 (item #61) in spite of the fact that revenues are declining. Perhaps these programs were established with new funding with the intent of diversifying revenue sources.

**OVERALL
FINANCIAL
CONDITION**

Overall, Hillside County Health Department has a weak financial condition. Significant contributing factors include:

- 1. Negative Total Margin**
- 2. Expenditures that are greater than Revenues**
- 3. Increase in expenditures while revenues are declining**
- 4. Depletion of General Fund Balance**
- 5. Specific programs with expenditures that exceed revenues**
- 6. Large % of Programs that are not self-supporting**
- 7. Increasing # of programs being created while revenues are declining**
- 8. Large % of resources spent on Administration and Salaries**
- 9. Lack of health outcome improvements**

Monitoring the financial indicators for early warning signs could have prevented or slowed the negative progression of this situation and definitely will be required to correct the problems.