

## **Training on Measuring the Financial Performance of Local Health Agencies**

A Public Health Finance training session on financial ratio analysis was recently conducted for all Public Health Officers and their Finance Managers in the state of Ohio. The set of 3 Power Points used in that session are posted below.

A case study exercise was included in the training. The case spreadsheet and descriptive analysis of the Indicators for a “sample” agency are posted below also. The analysis is provided as an illustration of the benefits of financial ratio analysis as indicators of financial and operational performance and for inclusion in quality improvement efforts. Such indicators are widely used in other industries and in healthcare as a management tool to gain insights for improving program operations and to ensure efficient utilization of resources. It is also highly useful for strategic planning purposes.

If you have additional observations about the Indicators that you would like included in this analysis, please send your comments to [Peggy.Honore@hhs.gov](mailto:Peggy.Honore@hhs.gov) or Cheryll Lesneski [lesneski@email.unc.edu](mailto:lesneski@email.unc.edu).

November 6, 2008

## Case Analysis

<b>West Coast County Public Health Agency</b>	
<b>Demographics</b>	<ul style="list-style-type: none"> <li>• Significantly Increasing Population (11)*</li> <li>• Increasingly younger population (12)</li> <li>• Significantly increasing population in poverty (13)</li> <li>• Significant housing declines (14)</li> <li>• Dramatic increases in Medicaid population (15)</li> <li>• Dramatic increase in uninsured (16)</li> </ul> <p>Indicators suggest that demographics of the jurisdiction are changing significantly and it is having a negative impact on poverty, Medicaid dependency, and the uninsured. This is useful information for planning purposes.</p>
<b>Revenues, Budget, and Expenditures</b>	<ul style="list-style-type: none"> <li>• Total Revenues per capita are declining (19) while total expenditures per capita are increasing (55).</li> <li>• The Total Operating Budget (21) is higher than Total Revenues (19) which could suggest a need to improve planning and forecasting.</li> <li>• Medicaid Revenues are declining (28) while the Medicaid population is increasing (15).</li> <li>• Private insurance revenues declined substantially (30) and should be flagged for review. This problem is magnified by the Accounts Receivables balance growing over the 1 year period (38).</li> <li>• The jurisdiction does not have a dedicated property tax for public health services (43). The Board should consider reviewing why the jurisdiction does not have authority to levy a tax in order to establish a base of financial support similar to what other public service are afforded in the county.</li> <li>• If viewed as a service line operational center, Home Health revenues are declining significantly (47) while corresponding Home Health expenditures are increasing (67), signaling a potential problem with program sustainability if the trend continues. Also while Home Health expenditures are increasing, expenditures on more tradition population-based services are declining (64, 65, 66, 68) which could signal an unintentional shift in organization mission.</li> <li>• A related issue is a decline in the # of health outcomes showing improvement (82).</li> <li>• Fifteen programs in total also have expenditures that exceed revenues and self-generated program revenues (62). These programs are depleting resources from other sources in order to continue.</li> <li>• Primary care expenditures are increasing (70) while private insurance and Medicaid revenues are declining. Greater attention should be focused on analyzing the costs of provided services compared to revenues received for delivering these services.</li> </ul>
<b>Ratios</b>	<ul style="list-style-type: none"> <li>• Revenues per capita (91) are decreasing at a rate faster than expenditures</li> </ul>

	<p>per capita (135).</p> <ul style="list-style-type: none"> <li>• A review may be needed to understand the decline of fees as a % of total revenues especially since the population has not declined. (111)</li> <li>• The organization has a negative Total Margin (119) signaling potential sustainability problems.</li> <li>• The organization received only 96% of the Revenues that it budgeted. Although this is slightly better than the previous year, better estimates or budget adjustments are needed to ensure that expenditures are reduced during the year to reflect projected funding that will not be collected. (125)</li> <li>• With expenditures exceeding revenues in some programs, the general fund balance (131) is decreasing. (It is important to note that all agencies do not have the authority to carry a fund balance).</li> <li>• Fifty-one % of the agency's funding is spent on Administrative Expenses (143) signaling a potential imbalance between admin and program expenditures.</li> </ul>
<b>SUMMARY</b>	<p>Overall the agency is in declining financial health. One of many major issues is the reduction in revenues without a comparable decrease in agency spending. Better planning is needed to ensure that the annual budget is in line with projected revenues. Steps should be taken to examine the reason for the decline in Medicaid revenues and what the impact will be given the increasing % of residents living in poverty. A significant operational issue is the amount of funding that is dedicated to Administration which is more than what is dedicated to mission relevant population health program operations in the agency. The agency also has a significant # of programs with expenditures that exceed funding dedicated to those programs and is consequently serving as a financial drain on the agency.</p>

**\*Line # (1<sup>st</sup> column on left margin of Excel spreadsheet)**