

Public Health Finance - Evaluating Financial Condition

Cheryll D. Lesneski, DrPH, MA
NC Public Health Academy
North Carolina Institute for Public Health

Objectives

- Define public health finance
- Articulate the purpose for using financial indicators
- Identify indicators to monitor revenue, expenditures, financial management, and community demographics
- List steps in the process for implementing financial indicators

The North Carolina Public Health Academy

2

Definition

“**Public health finance** is a field of study that examines the **acquisition, utilization, and management** of resources for the delivery of public health functions and the **impact of those resources** on population health and the public health system.”

Honoré & Amy, 2007

The North Carolina Public Health Academy

3

Importance

- **Measuring financial success**
 - What measures demonstrate success?
 - Requires a set of financial indicators – leaders must choose which ones
- **Evaluating financial condition**
 - Tracking performance is vital for an agency to continually change and to improve
 - How much variation is acceptable?
 - Where are the areas for improvement?

The North Carolina Public Health Academy

4

Financial Success & Condition

- Agency's ability to be solvent:
 - **Cash solvency** – enough cash to pay all the bills
 - **Budgetary solvency** – sufficient revenues over budgetary period to meet expenditure obligations
 - **Long-run solvency** – pay all costs of doing business (Pensions, leave balances, capital improvements)

The North Carolina Public Health Academy

5

Financial Success & Condition (cont'd)

- Agency's ability to be solvent:
 - **Service level solvency** – provide services at the level and quality required to assure the public health mission
 - Withstand economic disruption (as occurs in disaster response)
 - Meet the demands of growth and decline

The North Carolina Public Health Academy

6

Reasons for Evaluating Financial Success & Condition

- Agency is
 - Under pressure from a few unidentifiable problems
 - **Need a broader perspective**
 - Example: Medicaid funds are shrinking – how is this affecting overall public health services?
 - **Experiencing emergence of problems** but cannot pinpoint them
 - Example: Periodic revenue shortfalls

Reasons for Evaluating Financial Success & Condition (cont'd)

- Agency is
 - In good financial condition but wants to **systematically monitor changes and anticipate problems**
 - Example: Community health assessment has added priorities to the agency's strategic plan

Obstacles to Measuring Financial Condition

- Profit is not our motive – **we seek health and welfare, community satisfaction**
 - Including service level solvency requires less than precise measurement
 - Subjective to some extent
 - Link finances to agency's strategic plan and community health status indicators – our bottom line

Obstacles to Measuring Financial Condition (cont'd)

- Major focus has been on cash and budgetary solvency
 - **Less attention to the long run and service level solvency**

Best Practices for Financial Data Infrastructures and Reporting by System Partners

Healthcare

Hospital Financial Statements

Almanac of Hospital Financial and Operating Indicators



Higher Education

Integrated Post-secondary Education Data System



School Districts

Census Bureau F-33

EFSC Education Finance Statistics Center (EDFIN)
 Financial information on public elementary/secondary education



Community Health Centers

Uniform Data System (UDS)

HRSA
 Bureau of Primary Health Care

Roadmap for Evaluating Financial Success and Condition

- **Select** a set of financial indicators (about 20)
- **Collect** the data
 - Work can be done by admin assistant, accountant, accounting clerk, intern (Note: All SPH MPH students must complete a practicum!)
- Develop indicators and **plot them over time**
 - Initial analysis – 3 to 5 years of historical data, or with what is available
 - Two weeks of work
 - Collect current data
- **Evaluate** the results
- **Develop policy** statements

Introducing a Set of Financial Indicators

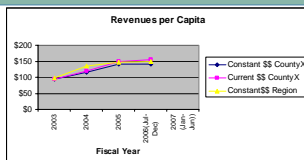
Primary Categories for Indicators

- Revenues/acquisition – 11
- Expenditures/uses - 7
- Financial management - 4
- Community characteristics & health outcomes - 7

Revenue Indicators

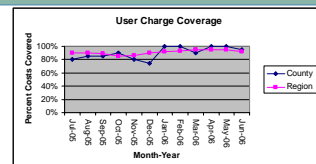
1. Revenues per capita, adjusted for inflation
2. Restricted revenues
3. Total margin (surplus or deficit)
4. Operating surplus or deficit
5. Budgeted revenues received as planned
6. Sources of revenues
7. Revenue resulting from LPHA initiatives
8. Days revenue in net accounts receivable
9. One time revenues
10. Charges adjusted (% of customers below poverty)
11. % of County Government Annual Budget

Financial Indicator Examples



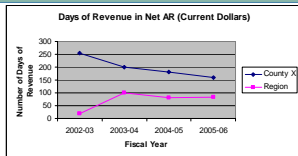
- Changes in revenues relative to population size
- **Warning trend:** Decreasing revenues per capita
- **Formula:** Net operating revenues in constant dollars / population

Financial Indicator Examples



- Percent of program costs covered for programs that charge a fee and operate as commercial enterprise (home health, primary care, needle disposal programs, etc.)
- **Warning trend:** Less than 100% coverage
- **Formula:** Costs for providing service/Charges billed for providing service

Financial Indicator Examples



- Number of days of revenue earnings in AR
- **Warning trend:** High values indicates long periods of time to collect revenue owed
- **Formula:** Net Customer AR/(Net Customer Service Revenues/365 days)

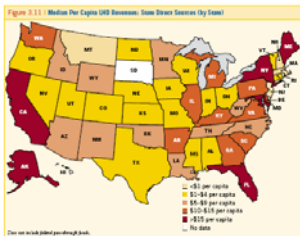
Days Revenue in Accounts Receivable

2004 <i>Our LHD</i>	2004 Peer Group Median LHD	2004 State Median LHD	2004 U.S. Median LHD
40 days	45 days	50 days	58.18 days

- **Definition**
Net patient accounts receivable (Net patient service revenue) / Days in period
- **Interpretation**
Measures the number of days that it takes an organization to collect its receivables

Is a lower day's revenue in accounts receivable always good?

National Profile of LHDs – 2005 (NAACHO)



Analysis of Decreasing Revenue

- Revenues decreasing?
 - Community experiencing economic decline? Temporary or continuing trend?
 - Decline related to change in population? Perhaps group that had generated large portion of revenue?
 - Due to problems inherent in revenue structure? i.e., overdependence on one-time revenues, short-term grants?

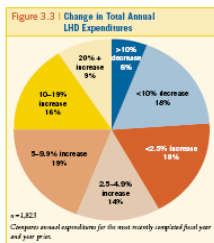
Analysis of Decreasing Revenue (cont'd)

- Revenues decreasing?
 - Can revenues be increased by:
 - Revising revenue collection procedures?
 - Reducing days of revenue in AR?
 - Instituting/increasing service fees?
 - Establishing special tax?
 - Investing idle cash?

Analysis of Increasing Revenues

- Can you assume increased levels of revenue will continue?
- Will increased revenues cover any increased costs? If not, is there a plan?

Change in Expenditures-National (NACCHO, 2005)



The North Carolina Public Health Academy

31

Increasing Expenditures Analysis

- Due to increased levels of existing services or addition of new services?
- Are there increased revenues to pay for increased services?
- Should user charges be instituted or increased?
- Should services be reduced?
- Is personnel productivity or service efficiency declining?
- Can management changes or technology help?

The North Carolina Public Health Academy

32

Increasing Expenditures Analysis (cont'd)

- Is increase linked to increase in fixed costs (retirement benefits)?
- Is there an increase in mandated services? Are these services unfunded?
- Are per capita expenditures rising faster than per capita revenues?
- Can expenditures be reduced? (consolidating support services, cross training personnel, contracting services, by use of technology & information systems, eliminating programs no longer important/linked to strategic plan).

The North Carolina Public Health Academy

33

Improved Policies on Expenditures

- Reports comparing actual revenue and expenditures to budgeted amounts will be prepared regularly
- Performance measures and productivity indicators will be integrated into the budget (Performance based budgeting)

The North Carolina Public Health Academy

34

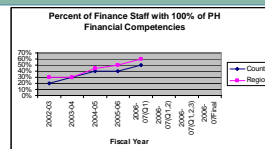
Financial Management

1. Annual operating performance budget top 10 PH programs
2. Expenditures invested in population-based health services and 10 essential services
3. Competencies for public health financial staff
4. Cost reduction
(http://bookstore.pfh.org/product_info.php?products_id=227)

The North Carolina Public Health Academy

35

Financial Indicator Examples



- **Warning trend:** Decreasing number of public health financial employees with the optimal financial skills/Number of public health employees in an agency responsible for financial expertise
- **Formula:** Number of financial employees demonstrating financial planning and management skills in table/number of employees responsible for financial planning and management

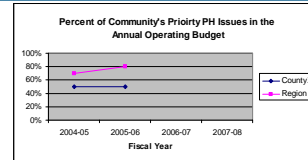
The North Carolina Public Health Academy

36

Community Health

- Community priority areas funded
- Leveraged public health resources
- Improved community health outcomes

Financial Indicator Examples

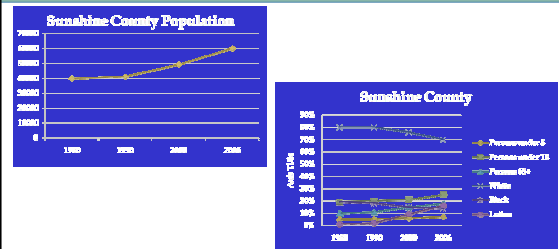


- Priority health areas from community assessment with resources allocated in LPHA annual budget
- **Warning trend:** Low % of community priority health needs with resources allocated in budget
- **Formula:** # of priority needs funded in budget/# of priority health needs

Community Demographic Indicators

1. Population growth or decline
2. Population age
3. Persons below poverty
4. Residential growth

Community Demographics



Sustaining Health Financial Condition Leads to Success

- Financial condition is an agency's ability to finance its services on a continuous basis
 - Maintain existing service levels
 - Withstand local and regional economic disruptions
 - Meet the demands of natural growth, decline, and change
- Success is the fulfillment of the Public Health Mission and Vision
 - Assuring conditions in which people can be healthy
 - Healthy people in a healthy world through prevention

References

- Rabin, J., Hildreth, W.B., & Miller, G. (1996). Budgeting: Formulation and Execution. Carl Vinson Institute of Government, The University of GA
- Groves, S. and Valente, M. (2003). Evaluating Financial Condition. ICMA, Washington, DC

Thank You

- Calls and emails are most welcomed!

lesneski@email.unc.edu

919.966.6617