



Metropolitan King County Council

MEMORANDUM

July 5, 2006

TO: Councilmember Dow Constantine, Chair, Operating Budget Committee
Members, Operating Budget Committee

From: Carrie S. Cihak

RE: Public Health 1st Quarter Financial Plan

Dear Committee Members:

At the May 24, 2006 meeting of the Operating Budget Committee, Mr. Hamacher reported to the Committee on the County's 1st Quarter Financial Report. The 1st Quarter Report updates financial plans for several County funds, including the Public Health Fund. Mr. Hamacher's report noted that the Public Health Fund 1st Quarter Financial Plan (see attached) shows a significant decrease in budgeted revenue. Chair Constantine asked us to please follow up with the Committee on drivers of the changes in the PH 1st Quarter Financial Plan and also asked that we meet with Executive staff on creating more clarity in how the PH Financial Plan is presented. This memo reports on what we have learned.

Background on the 2006 Adopted Public Health Financial Plan

The Public Health fund expenditure appropriation in the 2006 Adopted budget is \$185.7 million. This expenditure level is supported by a variety of revenues including federal grants and Medicaid payments, patient and permit fees, State revenues, and City of Seattle contributions for contracted services. The 2006 Adopted budget also includes County General Fund support of public health of about \$23 million, an increase of 33% or \$5.7 million over the 2005 General Fund contribution.

The increase in General Fund support for Public Health in the 2006 budget represents not an expansion in services but a need to fund a larger portion of existing services with County discretionary funds, primarily due to a loss in Medicaid-related revenues for clinical health services for individuals. The need for a substantial increase in the General Fund contribution to support existing services is caused by a structural mismatch between revenues and expenditures for these programs. Clinical services

provided by Public Health are supported by patient fees, County General Fund and federal and state revenues, primarily Medicaid, FQHC* fee-for-service, and Medicaid Administrative Match. In recent years, these federal and state revenues have grown more slowly than anticipated or have actually declined. Meanwhile, the cost of providing services rises. Moreover, the proportion of uninsured patients (those not eligible for or enrolled in Medicaid and without private insurance) visiting Public Health clinics has risen, so fewer visits generate any revenue beyond minimal amounts of patient fees.

The result of these changes is that a smaller and smaller portion of the cost of providing clinical services is covered by State and federal revenue sources. This trend has been occurring over the last few years. Prior to 2005, this structural gap was covered through the use of Public Health Fund balance. By 2005, that fund balance had run out and the structural gap had grown such that a \$1.25 million 2005 mid-year supplemental General Fund transfer to the Public Health Fund was required. That was followed by the \$5.7 million increase in General Fund support required to balance the Fund in the 2006 adopted budget.

The focus on funding of clinical services occurs against the backdrop of erosion in funding for core public health services such as communicable disease control, emergency preparedness, and data collection and assessment – functions that can only be filled by the public health department.

Revenue Declines in the 1st Quarter Public Health Financial Plan

The 1st Quarter Financial Plan shows that the structural pressures on the Fund described above are larger than were expected at the time the 2006 budget was adopted. Compared to adopted, the 1st Quarter PH Financial Plan shows a decrease of \$6.8 million in projected revenues categorized as “Intergovernmental Payments” and “Charges for Services”. These categories include Medicaid and other revenues associated with clinical services. The decrease in revenues appear to be driven by (1) a true decrease in State/federal Medicaid support (policy change), (2) a change in how we project revenues (technical change), and (3) larger than expected increases in the proportion of uninsured patients at Public Health clinics (demographic change). However, we have not been able to untangle the magnitude of each of these impacts.

On the policy side, federal policy changes taking effect July 1 will require Medicaid enrollees to prove citizenship which will likely result in a fall in enrollment and thereby revenue. However, Executive staff report that the 1st Quarter estimates are based on actual collections thus far this year, which may mean these projections do not yet account for the potential significant drop in Medicaid enrollment/revenue driven by the proof-of-citizenship requirements. This raises the concern that projected revenues may fall even further with the policy change taking effect.

* Federally Qualified Health Centers are organizations that meet certain federal criteria and receive enhanced Medicaid reimbursement rates. FQHCs must provide primary care services to underserved populations on a sliding fee scale and regardless of the patient's ability to pay. The Public Health Department clinics qualify for FQHC.

With regard to the technical change, the Department has now filled a long-standing vacancy in the Chief Financial Officer position, who has reportedly established more rigorous mechanisms for projecting these revenues. While more rigorous projections may show a large decrease at this point in time, they may be more accurate and subject to less variability moving forward (with the caveat regarding Medicaid proof-of-citizenship requirements).

With regard to the demographic changes, a larger percentage of the clients seeking care at the Public Health clinics lack health insurance and therefore Public Health receives less reimbursement revenue. However, this trend has been occurring for some time and an increase in the percentage of uninsured was factored into the 2006 adopted financial plan. Therefore, an acceleration in this trend would have to be occurring for this to impact the revenue estimates.

One-time Measures to Balance the Public Health Financial Plan

With regard to balancing the financial plan, Executive staff report that:

The presentation confirms that revenues are continuing to decline while the need to maintain expenditures to support the organization remains nearly at the adopted level. As 2006 unfolds, the Executive and Public Health are closely monitoring the situation in order to maintain services at the level contemplated in the adopted budget. To do this will require the following four steps:

- *Remaining fund balance reserves will be consumed and used in 2006. The fund balance target will be maintained but the fund has no further emergency reserves to draw on to subsidize future operations.*
- *The first quarter omnibus appropriation will provide additional CX amounting to \$754 thousand to pay for COLA costs that cannot be made up by declining revenues.*
- *Public Health Property in Renton will be sold for \$1 million.*
- *The department will manage to achieve \$1.3 million in under expenditure. This is less than the three quarters of one percent that all CX departments are expected to achieve.*

Council staff note that these steps to balance the financial plan are largely one-time measures used to cover on-going service needs. Absent significant cuts in services, balancing the plan this year with one-time revenue sources will require a significant increase in General Fund resources to fill the gap in 2007.

Improving the Clarity of the Public Health Financial Plan's Presentation

The current presentation of the financial plan does not provide policymakers with a clear picture of what is affecting Public Health's financial picture (see attached). We met with Exec staff on June 7th to discuss how the financial plan's presentation could be improved and we identified the following:

- Meaningful written descriptions of why line items are changing
- Create lines below "total revenues" and "total expenditures" to track what is happening with the contingency accounts and include a schedule for the contingency line items. Because Public Health typically gets many grants that come in over the course of the year, the Council provides about \$8 million in contingency expenditure authority for as-yet-unidentified grants. When grants are actually received, the amounts are then spread from the contingency accounts to appropriate expenditure and revenue accounts. This proposed change will prevent the contingency accounts from getting muddled with changes in the estimates of other revenues and expenditures and will allow us to track what is actually happening in the Fund more easily.
- A description of what revenues are included in each of the Plan's revenue categories.
- A detailed line item schedule of what is changing in each revenue category.
- Organizing the financial plan along the "lines of business" that broadly describe public health programs (population and environmental health, targeted community health services, individual health services, and administrative services).

We have asked Exec staff to create some "mock-ups" for us to evaluate at a future meeting.

If you have additional questions or concerns, please let me know.

cc: The Honorable Julia Patterson, Chair, King County Board of Health
Shelley Sutton, Interim Chief of Staff and Policy Staff Director
Operating Budget Committee staff
Bob Cowan, Director, Office of Management & Budget
Lorenzo Hines, Chief Financial Officer, Public Health – Seattle & King County

**Form C
Non-CX Financial Plan**

Fund Name: Public Health
 Fund Number: 000001800
 Prepared by: Mark Leif (revised by the Office of Management and Budget)

Quarter: First 2006
 Date Prepared: May 4, 2006

Category	2005 Actual	2006 Adopted	2006 Revised	2006 Estimated	Estimated-Adopted Change	Explanation of Change
Beginning Fund Balance:	14,440,730	8,491,590	9,701,024	9,701,024		
Revenues						
LICENSES & PERMITS	10,469,298	10,719,405	10,719,405	10,719,405		Divisional projections at project level based on FEB ARMS
FEDERAL GRANTS-DIRECT	13,341,680	12,486,692	13,094,730	13,057,814	691,162	Divisional projections at project level based on FEB ARMS
FEDERAL GRANTS-INDIRECT	38,165,913	34,547,829	34,694,840	34,029,892	482,068	Divisional projections at project level based on FEB ARMS
STATE GRANTS:	17,765,064	19,009,840	18,880,910	19,474,289	464,449	Divisional projections at project level based on FEB ARMS
STATE ENTITLEMENTS	9,633,257	9,652,190	9,652,190	9,547,880	(14,510)	Divisional projections at project level based on FEB ARMS
INTERGOVERNMENTAL PAYMENT	44,784,235	50,298,648	40,628,638	48,521,957	(3,776,691)	Divisional projections at project level based on FEB ARMS
CHARGES FOR SERVICES	13,698,919	15,738,922	16,297,785	12,750,189	(2,966,733)	Divisional projections at project level based on FEB ARMS
MISCELLANEOUS REVENUE	2,810,297	3,182,104	3,702,041	3,887,651	685,647	Divisional projections at project level based on FEB ARMS
NON REVENUE RECEIPTS		7,125,042	5,569,878		(7,125,042)	Contingency revenue reserve account
OTHER FINANCING SOURCES	3,254					
CURRENT EXPENSE	14,684,799	19,019,033	19,019,033	19,019,033		Divisional projections at project level based on FEB ARMS
CURRENT EXPENSE CHLD & FAM SET-ASIDE	3,886,254	3,981,047	3,981,047	3,981,047		Divisional projections at project level based on FEB ARMS
POTENTIAL SUPPLEMENTAL REQUEST				754,159	754,159	Supplemental request related to subbudgeted COLA costs
POTENTIAL SALE OF PROPERTY				1,000,000	1,000,000	
Total Revenues	179,405,975	185,858,519	188,427,987	175,742,916	(9,915,603)	
Expenditures						
SALARIES & WAGES	(74,395,001)	(76,547,616)	(80,605,179)	(76,240,341)	607,275	Divisional projections at project level based on FEB ARMS
PERSONAL BENEFITS	(22,653,219)	(25,693,418)	(26,340,653)	(26,108,763)	(216,345)	Divisional projections at project level based on FEB ARMS
SUPPLIES	(19,359,301)	(18,712,797)	(16,712,215)	(18,730,323)	(17,666)	Divisional projections at project level based on FEB ARMS
SERVICES & OTHER CHARGES	(46,887,641)	(41,884,210)	(43,660,074)	(41,884,210)	(17,666)	Divisional projections at project level based on FEB ARMS
INTRAGOVERNMENTAL SERVICE	(15,200,031)	(12,084,502)	(12,025,684)	(13,324,750)	(1,240,248)	Divisional projections at project level based on FEB ARMS
CAPITAL OUTLAY	(691,119)	(1,691,862)	(1,763,919)	(1,632,379)	129,489	Divisional projections at project level based on FEB ARMS
DEBT SERVICE	(190,006)	(913,867)	(513,857)	(513,857)		Divisional projections at project level based on FEB ARMS
INTRA COUNTY CONTRIBUTIONS	(71,013)	(34,250)	(34,250)	(69)	34,181	Divisional projections at project level based on FEB ARMS
CONTINGENCIES		(10,844,241)	(5,408,779)		10,844,241	Contingency expenditure reserve account
CONTRA EXPENDITURES		2,816,174	2,816,160		(2,816,174)	Salary contra savings incorporated in salary projections
ENCUMBRANCE CARRYOVER				425,884	425,884	Encumbrance carryover included in divisional projections above
EPIDEMIOLOGY EXPENDITURE RESTRICTION						
Total Expenditures	(175,291,631)	(185,668,519)	(187,216,579)	(177,809,928)	7,322,827	
Estimated Underexpenditures				843,928		
Other Fund Transactions						
NON-BUDGET PROCEEDS FROM EMS DONATIONS	89,830					
Total Other Fund Transactions	89,830					
Ending Fund Balance	9,701,024	8,491,590	9,912,146	8,479,032		
Designations and Reserves						
GASP RESERVE FOR EMS TRAINING & MEDIC ONE	(491,257)		(491,257)	(491,257)		
INVENTORY RESERVE	(1,195,715)		(1,195,715)	(1,195,715)		Reserve for consumable inventory
RESERVE FOR ENCUMBRANCES	(779,025)					
DESIGNATED FOR REAPPROPRIATION	(89,384)		(89,384)	(89,384)		
DESIGNATED FOR FOHC CLAIMS	(1,890,661)		(1,890,661)	(1,890,661)		
DESIGNATED FOR PRIV FOUNDATIONS & NON-PROFITS	(66,848)		(66,848)	(66,848)		
ENVIRONMENTAL HEALTH FEE RESERVES	(3,289,885)		(3,289,895)	(3,895,322)		Adjustment for EH reserve from 2005 to 2006
Total Designations and Reserves	(7,892,888)		(7,023,860)	(7,450,287)		
Ending Undesignated Fund Balance	1,808,136	8,491,590	1,888,286	1,027,745		
Target Fund Balance	1,000,000	1,000,000	1,000,000	1,000,000		

Financial Plan Notes:
 1. 2005 Actuals are based on 14th month ARMS as adjusted in preliminary CAFR by Finance
 2. Retained beginning 2005 Fund balance = \$10,554,824 + \$3,885,925 adjustment for cash to accrual per GAAP principles
 3. 14th month YTD revenues adjusted in preliminary CAFR by Finance to debit EH revenues instead of a credit to adjusted beginning fund balance.
 4. The target Public Health Fund balance goal is \$1,000,000
 5. CX is budgeted at 95% in the Public Health Fund with 2% reserved centrally.
 6. Financial plan assumes sale of property owned by Public Health.
 7. 2006 Estimated column includes \$779,028 encumbrance carryover spread in account lines.