



Strengthening Oklahoma's Safety Net,
One Community At A Time

Board Bulletin

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CHC Budgeting Process

One of the core responsibilities of a Community Health Center (CHC) board is to develop the budget. Budget preparation involves reviewing current reality plus projecting anticipated needs from year to year. While budgeting is not an exact science, it does provide a framework for monitoring the health center's financial situation and should be measured against actual numbers for future planning. Boards should engage in budget development four months prior to the CHC's fiscal year end. Timelines for budget development must also consider 330 grant requirements. The following steps serve as a framework for budget development - not only for new grantees but for existing CHC grantees as they submit 330 grant applications. The challenge is to balance program efficiency with grant funding.

Budgeting Steps

- ◆ **Needs Assessment** - CHCs should periodically review who is using their services and how often, what is the payor mix, and what services should be maintained, expanded, added or deleted. Boards, along with senior management staff, need to review the target population demographics to determine projected revenue and have a thorough understanding of their marketplace. This will also help identify areas in need of improvement (e.g., registration, billing, collections, outreach, etc.) that are crucial to CHC viability.
- ◆ **Know 330 Budget Requirements** - 330 grantees must understand federal funding requirements. OMB Circular A-110 includes instruction relative to the Uniform Administrative Requirements (e.g., forbids federal grantees from subcontracting with someone debarred from federal program participation). OMB Circular A-122 explains how federal money can be spent (e.g., alcoholic beverages are not an allowable cost). A-133 requires an annual audit for organizations receiving \$500,000 or more in federal funding.
- ◆ **Prepare a Projected Visit Report** - CHCs must make visit assumptions based on user trends, payor mix, new sites or department expansions with new hires, and provider productivity targets. Information from the needs assessment will be used to see if the number of users has increased or decreased; if community changes resulted in an increase/decrease in visits; community demographic changes that impact user profiles; and if certain payors have different utilization rates. Prior year productivity levels by provider should be reviewed to determine if improvement has been made and if health center resources support increased provider productivity (e.g., number of exam rooms, support staff).
- ◆ **Determine Revenue** - Divide visits by payor mix and then multiply visits by charge per visit. Next, the contractual allowances must be determined by comparing charge per visit to net revenue by visit. To properly budget revenue, there must be an understanding of the gross charges (what it costs to provide care to the patient) and contractual allowances (difference between the amount a CHC charges and the amount they agree to accept for the service). Once the contractual allowances are subtracted, multiply a collection percentage based on past experience to calculate projected revenue.
- ◆ **Identify Expenses** - After comparing prior year financial statements with the current year budget, factors to consider in expense budgeting include: health center growth (number of visits), inflation or salary increases, fringe benefit changes, fixed (e.g., facility cost) versus variable expenses (e.g., medical supplies). The focus of the budget is staffing as salary and fringe are typically 60-75% of a CHC budget.
- ◆ **Review Budget** - Make sure the budget balances. If the budget results are different from expectations, review patient revenue assumptions, staffing ratios, salaries, capital and other expense requests. Reassess whether the volume and productivity assumptions are realistic. Know what expenses can be cut and where efficiencies can be realized. *Note:* Be conservative when projecting patient revenue. 330 grant funds are last in the order of spending and overly aggressive patient projections could result in an unobligated balance of federal funds resulting in the loss of grant dollars. To review OPCA's entire *Board Bulletin* series, visit the 'CHC Boards' section of www.okpca.org.

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