



**Agenda Item No. 2
March 6, 2013 Meeting**

DATE: February 27, 2013
TO: Children and Families Commission of Orange County
FROM: Christina Altmayer, Executive Director 
SUBJECT: Long-Term Financial Plan Update

SUMMARY:

This report provides background and overview of the Long-Term Financial Plan. This report is provided as an update for the Commission on the funding outlook and as information to guide funding assumptions and planning for Fiscal Year 2013/14 and future. No formal Commission action is requested at this time. Staff will review the attached presentation at the March Commission meeting.

Updated Log Term Financial Plan

The Long Term Financial Plan (LTFP) has been used by the Commission over the past twelve years as a tool to balance the projected declines of Proposition 10 revenues with the needs sustainable program funding. While no specific funding decisions or allocations are included in the Long Term Financial Plan, it is used to monitor and predict revenue trends and program funding over a ten year period. The Long Term Financial Plan has evolved over the past several years to incorporate the Commission's increased funding in catalytic projects as recommended by the Bridgespan Group assessment. In February 2012, \$55 million was allocated in catalytic funding as a result of the successful AB99 litigation to support program sustainability and relieve future operating demands on Commission funding.

The attached presentation provides an updated ten year revenue and program forecast based on the most currently available financial information. The reports include updated fund balance, revenue and program information. As reported in the Commission's Comprehensive Annual Report in October, the ending fund balance for FY 2011/12 was \$78.72 million. The \$55 million of Catalytic Round I and II funding is committed against this balance.

The Commission's LTFP has been updated with the latest revenue projections presented to First 5 California by the California Department of Finance. These forecasts anticipate an average 3.5% decline over four years beginning with FY 2012/13. A 4% decline is assumed in the LTFP for FY 2016/17 and later.

Actual Proposition 10 revenue for the first six months of FY 2012/13 is \$13.57 million. To meet FY 2012/13 budget projections, monthly revenue will have to average \$2.4 million for the final six months of the fiscal year. The final six month average in the prior year was \$2.43 million.

Commissioners

Executive Director

Catalytic Approach

The updated LTFP assumes continued implementation of the catalytic strategy previously endorsed by the Commission. Staff recommends that additional revenue above forecasted budget amounts and any year-end program savings be reserved in the LTFP for catalytic investments. Staff has also identified options for investing available catalytic funds for the Commission's consideration. On an ongoing basis, Commission staff will continue to identify catalytic opportunities.

STRATEGIC PLAN & FISCAL SUMMARY:

The fiscal reports and recommended actions presented in this staff report have been reviewed in relation to the Commission's Strategic Plan and are consistent with applicable goals and outcomes.

PRIOR COMMISSION ACTIONS:

- September 2012 - Annual External Audit Process and the Preliminary Year-End Financial Results
- April 2012 – Approved Annual Operating Budget for FY 2012/13
- March 2012 – Fiscal Year 2012-13 Budget Assumptions
- November 2012 – Strategic Financial Plan Update

RECOMMENDED ACTIONS:

Receive presentation on the Long Term Financial Plan

ATTACHMENT:

1. Presentation

Contact: Christina Altmayer

Long Term Financial Plan Update

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Children & Families
Commission of Orange County

Background

Long Term Financial Plan

- Commission has reviewed and updated its long term revenue and program projections annually since 2000
- Long Term Financial Plan provides:
 - A ten year outlook of anticipated revenue
 - A forecast of funding capacity to sustain programmatic funding
 - A framework for evaluating annual budget decisions
- Long Term Financial Plan does not
 - Authorize any specific funding actions
 - Obligate the total pool of program funding to any specific programs or projects
- Today's presentation provides a recap of the Commission's long-term funding strategy and an update on the funding outlook

Commission's Long Term Strategy

- In their 2008, Strategic Assessment report the Bridgespan Group as part of it's Strategic Assessment found that:
 - *“There is pressure to become increasingly strategic with each dollar given projected declines in funding and the state budget crisis. All stakeholders emphasize the importance of focusing to maximize impact and sustainability”*
 - And recommended that the Commission:
 - *Shift a greater percentage of funding to catalytic (versus sustaining) activities*

AB99 Successful Lawsuit

- In February 2012, with successful litigation on the State's attempt to redirect Prop 10 funding, the Commission expanded its catalytic funding strategy:
 - Given declining revenue forecast, Commission authorized one-time funding to programs that would support long-term program sustainability and reduce operating demands on Commission funds
 - Funding allocated in two cycles; Round 1 and Round 2
- Round 1 Catalytic Programs: \$45 million
 - Reduce future funding obligations
 - Ready for Commission consideration
- Round 2 Catalytic Programs: Up to \$10 million
 - Potential to offset some current funding obligations within the next three years
 - Provide potential for out-year revenue support and reduce reliance on Commission

Catalytic Funding Strategy

- Based on Commission direction and action, the catalytic funding strategy has:
 - Provided for one-time program investments that will be “repaid” through continued services for children and families beyond the period of funding
 - Reduced future year demand for funding, while sustaining critical services
- On an ongoing basis, continued support for this catalytic approach is recommended:
 - Prioritize programs that are “ripe” for catalytic investments annually
 - Unanticipated revenue or program savings would be redirected into a catalytic fund
 - Catalytic fund would be reviewed and prioritized as part of annual budget
 - Maintain 25% reserve of total annual operating budget policy previously approved by the Commission

Updated Long Term Financial Plan Projections

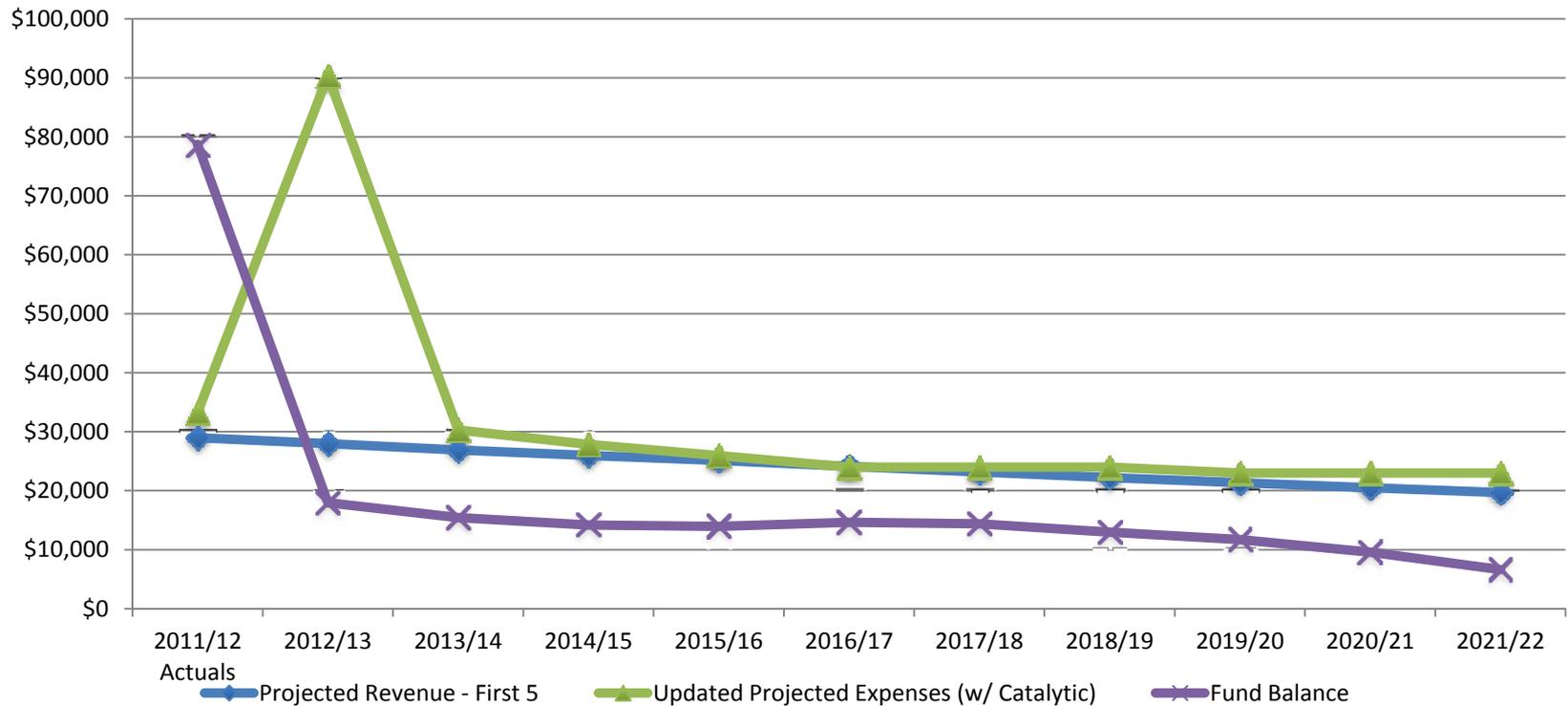
Revenue Update

- Current year revenues
 - 5.72% below prior year as of December
 - Amended Budget assumes a 3.5% decline compared to First 5 CA updated projection of 3.85% decline
 - Average monthly revenue would need to be \$2.4 million for the remaining six months. Final six month average in prior year was \$2.43 million
- First 5 CA revenue projections through FY 2015/16 based on CA Department of Finance information updated January 10, 2013. FY 2016/17 assumes a 4% decline.

	FY 2009/10 Actual Per Audit	FY 2010/11 Actual Per Audit	FY 2011/12 Actual Per Audit	FY 2012/13 Amended Budget	FY 2013/14 Projection	FY 2014/15 Projection	FY 2015/16 Projection	FY 2016/17 Projection
Tobacco Tax Revenue (First 5 CA Projection)	29,706,126	28,809,921	\$28,988,350	\$27,971,800	\$26,894,886	\$25,969,702	\$25,130,880	\$24,125,645
% change from prior year	-11.05%	-3.02%	+62%	-3.5%	-3.85%	-3.44%	-3.23%	-4.0%

Updated Long Term Financial Plan

Based on June 30, 2012 Year End and Updated First 5 CA Revenue Projections



Long Term Financial Plan assumes:

1. Latest January 2013 First 5 California revenue forecast
2. Catalytic Round I and II Funding of \$55 million
3. Administration limited to 10% of total operating budget annually
4. Fund balance maintained at 25% per Commission policy. May need to be revisited in FY 2021/22.

Catalytic Savings

- Catalytic Savings
 - Original year-by-year forecasted catalytic savings
 - FY 12/13 \$2,075,000
 - FY 13/14 \$2,450,000
 - FY 14/15 \$4,850,000
 - TOTAL \$9,375,000
- Current realization of savings
 - FY 2012/13 Approved Budget achieved savings of \$2,075,000
 - FY 2013/14 budget will fully incorporate anticipated \$2,450,000 in savings
- Long Term Financial Plan
 - Minimum of \$2.5 million in savings to be realized in FY 2014/15 compared to original projection of \$4.8 million in catalytic savings

Implications for FY 2013/14 Budget

- **Long-Term Financial Plan – FY 2013/14**
 - Program Budget - \$27,500,000 (\$2 million decrease from prior year initial budget)
 - Admin. Budget - \$2,800,000 (\$465,000 decrease from prior year, 14%)
 - **Total Operating Budget - \$30,300,000**
- **Future Catalytic Funding would not be included in operating budget**
 - One-time/catalytic funding would be segregated from Operating Budget
 - 10% Admin. limit calculated on total Operating Budget (Program + Admin), excluding catalytic
- **Staff will return in April with the FY 2013/14 Business Plan and Budget**

Future Catalytic Approach

Summary of Recommended Catalytic Approach

- Consistent with prior Commission direction
 - Realized savings and additional revenue above projections would be available for catalytic funding
 - Staff will continue to identify future catalytic opportunities in future years
- Catalytic approach
 - Security to protect Commission funds
 - Proactively address sustainability issues
- Mitigate risks of revenue fluctuations
 - Closely monitor revenue
 - Annual review of Long Term Financial Plan and Reserve funds
 - Redirect savings and positive revenue into catalytic programs once realized

Current Catalytic Funding

	<u>Initial Plan</u>	<u>Allocated</u>
• Round 1 Catalytic funding	\$45,000,000	\$45,000,000
– Children’s Dental Program	20,000,000	20,000,000
– Early Developmental Services/Autism Program	7,000,000	7,000,000
– Year Round Emergency Shelter	7,000,000	7,000,000
– Early Literacy and Math	5,000,000	5,000,000
– Healthy Child Development	5,500,000	5,500,000
– VISTA/AmeriCorps	500,000	500,000
• Round 2 Catalytic funding	\$10,000,000	\$7,500,000
– Capacity Building Grant Program	up to 5,000,000	3,500,000
– Partnership for Children’s Health	up to 5,000,000	3,000,000
– Prevention Services Project	500,000	500,000
– Nutrition and Fitness	500,000	500,000
• TOTAL Catalytic allocations	\$55,000,000	\$52,500,000

New Catalytic Opportunities

Funding Options

- Potential options to direct available catalytic funds immediately or in the future:
 - \$2.5 million unallocated Round 2 Catalytic funding available to support priorities if directed by the Commission.
 - \$1 - \$1.5 million available for Vision
 - \$250,000 - \$500,000 available for new capacity building funding in FY 2013/14
 - Remaining funds available for implementation of current Round 2 catalytic programs (Magnolia Initiative, Neighbor to Neighbor, Partnership for Children’s Health, or Nutrition and Fitness)
 - Future Catalytic Opportunities
 - Additional savings above \$2.8 million in FY 2014/15 could be redirected toward new catalytic programs
 - Future year opportunities
 - Partnership for Children’s Health
 - Community Clinics / Health Centers
 - Fund Leveraging for Bridges Maternal Child Health Network expansion
 - Health Access / service needs related to changing health systems