



**Agenda Item No. 2  
April 6, 2011 Meeting**

**DATE:** March 28, 2011

**TO:** Children and Families Commission of Orange County

**FROM:** Michael M. Ruane, Executive Director

A handwritten signature in black ink, appearing to read "Michael M. Ruane", is written over the printed name.

**SUBJECT:** Long Term Financial Plan – Impact of State Budget Diversion

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**SUMMARY:**

Staff has prepared an updated presentation for the Long Term Financial Plan evaluating the impact of the State Budget action to divert \$1 billion in Proposition 10 revenue. The implications of the diversion are significant, and will require further financial impact and program analysis. The attached presentation provides the first of several impact analyses to be developed by staff identifying the impact of the required State payment. Staff has already begun the program impact analysis and will continue to develop further options based on Commission direction.

The Long Term Financial Plan update is a planning and alternatives review process, and does not commit funding specifically to any program or contract. Implementing actions are required through the approval of the annual budget and/or authorization of specific program contracts.

**BACKGROUND**

The annual Long Term Financial Plan (LTFP) is updated annually in advance of the budget process to provide a framework and guidance for the budget development.

While the LTFP does not commit program funding to specific goal areas or programs, staff has tested various scenarios as a framework for developing the fiscal year 2011/12 and future year budgets. This update focuses primarily on the impact of the Governor's and State Legislatures approved redirection of Proposition 10 revenue and the \$51 million payment required by the Orange County Children and Families Commission.

Commission staff will review the attached presentation at the March Commission meeting, respond to and address any questions, and implement Commission policy direction and follow-up actions.

**PRIOR COMMISSION ACTIONS:**

1. October 2010 – FY 2009-10 Year-end Report and Public Hearing and FY 2010-11 Financial Update
2. February 2011 – Long Term Financial Plan Update
3. March 2011 – Long Term Financial Plan Update

**RECOMMENDED ACTIONS:**

1. Receive Long Term Financial Plan Update.
2. Review initial impact assessment and provide direction to staff.

**ATTACHMENT:**

1. Long Term Financial Plan Update Presentation

**Contacts:** Christina Altmayer

**FY 2010/11  
Long Term  
Financial Plan  
Update**

**April 6, 2011**

**Commission Meeting**

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# Long Term Financial Plan Update

- Current working plan, reviewed in February, planned for a gradual reduction in CFCOC programs over the next five years. Consistent with prior plans, Commission relied on the Reserve for Future Funding cycles to supplement decline in Prop 10 revenue.
- Given the passage of the State budget and the assumed redirection of Prop 10 funding, staff has done updated long term funding scenarios.
- Evaluate options and potential strategies to meet \$51 million demand per State Legislature budget bill
  - While legal strategies are pursued, Commission staff is also analyzing options to meet State payment demand by June, 2012.



# April Updates

- Revenue

- Actual Prop 10 Revenue receipts through February 2011 are available. Year end forecast is projected to be between 2% and 4% lower than budgeted revenue of \$29.5 million (projected variance between \$500,000 and \$950,000 from budget).
- January monthly disbursements were higher and February disbursements were lower than prior year actuals.
- Staff will continue to monitor actual revenue.

- Expenses

- Budgeting and program plans were developed consistent with Long Term Financial Plan, prior to State budget action.

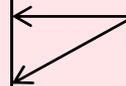


# Legislative Budget Action:

Redirection of Prop 10 funding: Payment of 50% of June 30, 2010 fund balance = \$51 million

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY	
SCHEDULE OF GOVERNMENTAL FUND BALANCE AS OF JUNE 30, 2010	
Beginning Fund Balance (per 6/30/10 Audited Financial Statements)	\$122,521,616
Revenues	36,305,503
Expenditures	(56,088,242)
Ending Fund Balance	\$102,738,877
<b><u>Ending Fund Balance Components</u></b>	
Committed Funds:	
Reserved for Imprest Funds	15,000
Reserved for Encumbrances	43,044,502
Reserved for Contractual Obligations	24,677,280
Reserved for Capital Projects	2,500,050
Designated for Program Operations	2,495,502
Designated for Future Funding Cycles and Operating Budget	<b>30,006,543</b>
Total Committed Funds	\$102,738,877
Uncommitted Funds:	0

70% of fund balance has existing or pending contracts



# State Budget Action

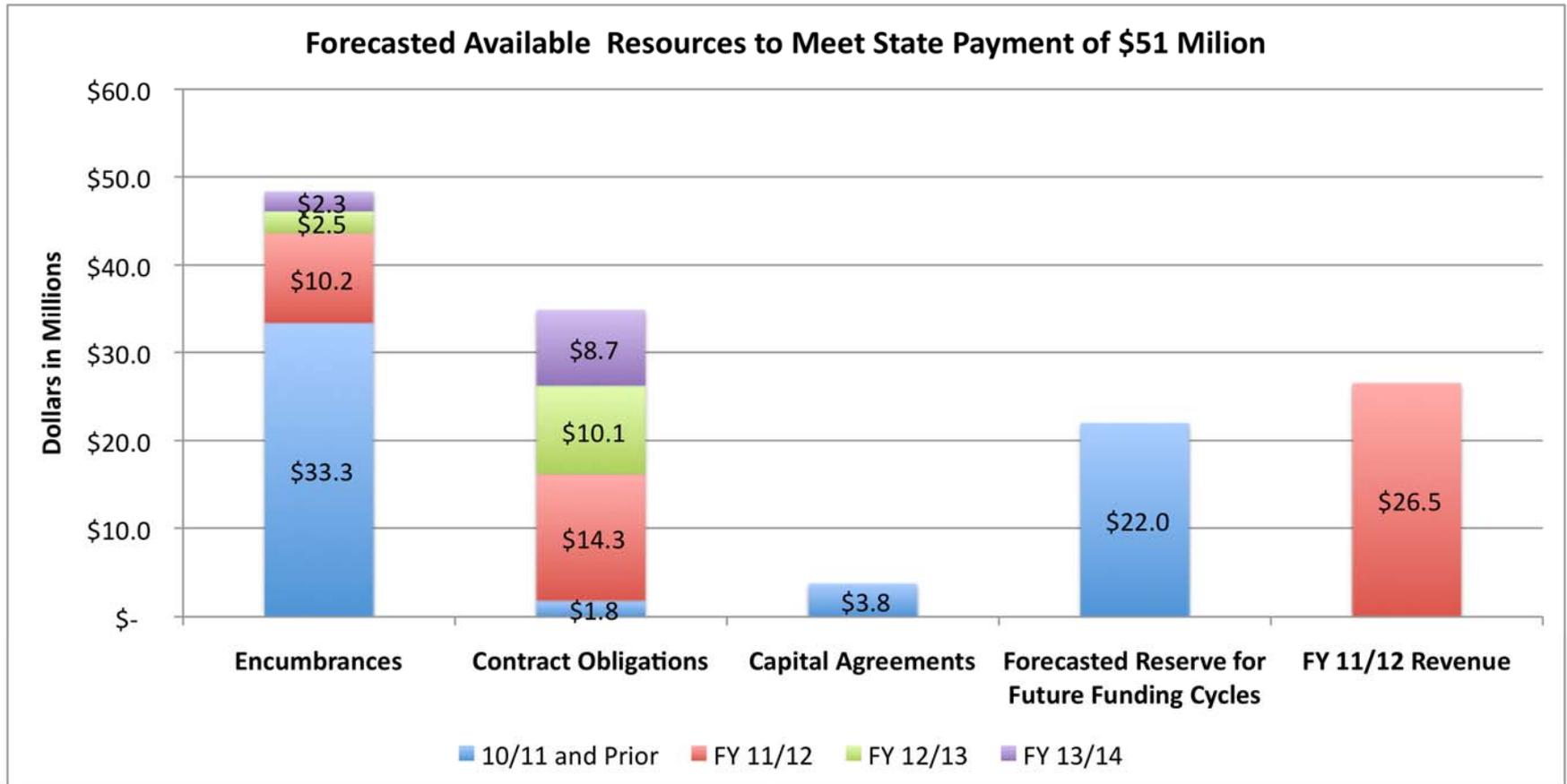
- Legislature approved \$1 billion in Prop 10 revenue that would be redirected to support state health and human services
  - Requires County Commissions to contribute \$950 million and the State Commission to contribute \$50 million to the state budget
  - Commissions would have until June 30, 2012 to provide the funds
  - Orange County's share would be \$51.4 million or 173% of total annual revenue.



# How could OC meet the \$51 revenue demand?

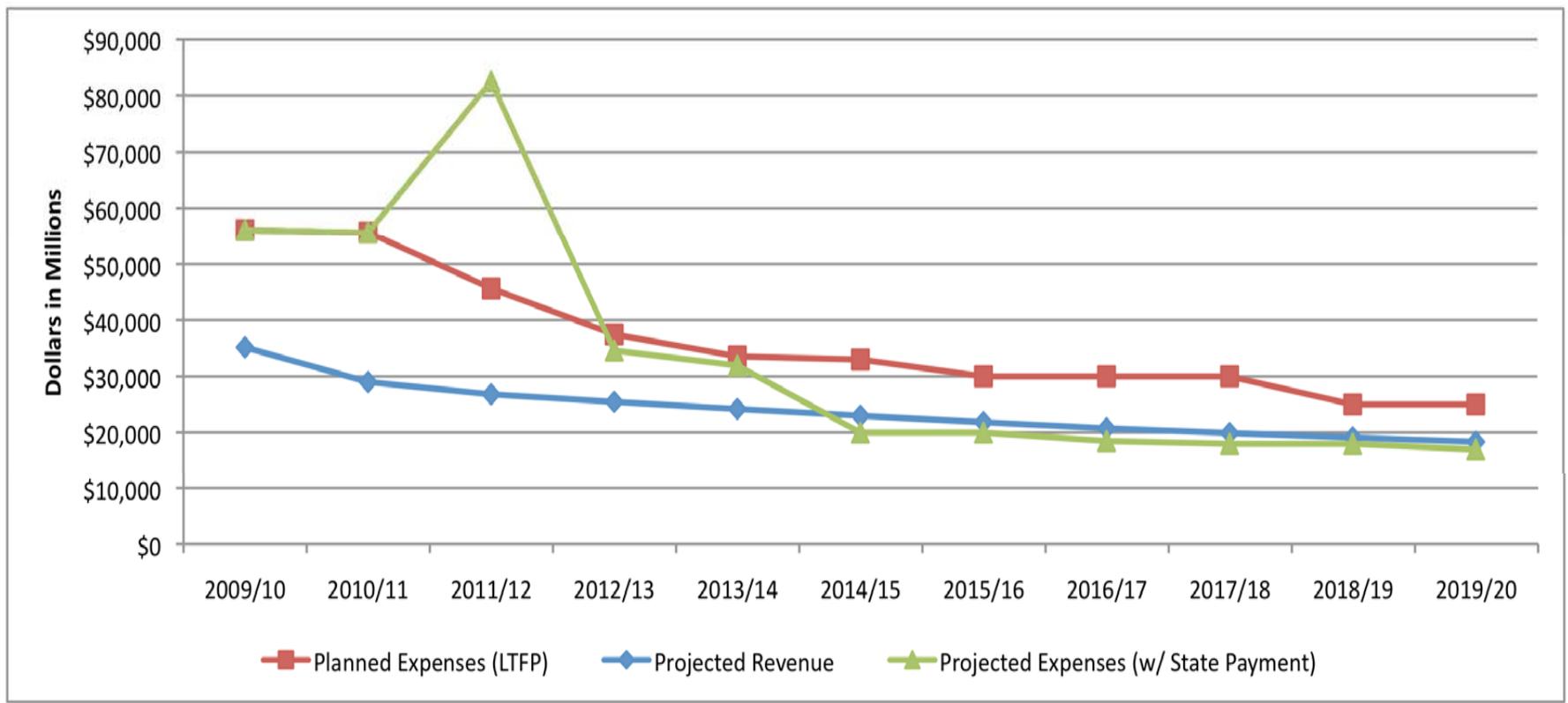
- Eliminate portion or all of Reserve for future Funding Cycles
  - Fund balance as of June 30, 2010 of \$30 million; updated projection is \$22 million
- Cancel or Reduce existing contracts and approved funding obligations
  - Direct service agreements
    - Since June 30, 2010 our encumbrances and contract obligations have increased impacting our flexibility to meet payment demand. As of February 2011, Commission had \$48 million in executed contracts (encumbrances) and other \$35 million in pending contracts.
    - \$33 million represents current year and prior year contracts
    - Future year agreements and pending contracts, total of \$50 million, could be cancelled or reduced
    - Staff is also analyzing prior year agreements with little or no activity
  - Capital agreements
    - \$3.8 million in pending and executed capital agreements
- FY 11/12 Revenue
  - Revenue forecasted at \$26.8 million; projected 5% decline from FY 10/11

# Potential Resources to Meet \$51 Revenue Demand



**Note: This is based on analysis of encumbrances and contract obligations as of Feb 28, 2011. It does not reflect approximately \$10.5 million in Commission actions scheduled for April or renewal of AmeriCorps/VISTA.**

# Long Term Impact of State Redirection of Prop 10 Funding



- FY 11/12 reflects the \$51 million payment to the State
- Difference between the red and green lines reflects the impact of the loss of the Reserve Funds for Future Programs

# How to meet State payment requirement by June 2012?

- Develop alternative scenarios considering:
  - Loss of Reserve for Future Funding – Eliminates Commission’s prior strategy of sustainable services
  - Potential reductions in prior and future agreements
    - Existing service agreements for FY 10/11 and prior have limited capacity to be redirected (\$33 million). May be able to identify some savings from prior year programs that did not materialize as planned. May disproportionately affect transitional shelter capital projects.
    - Assuming that the Commission completely exhausts the Reserve for Future Funding, balance of \$29 million would need to come from FY 11/12 revenue and/or some combination of release of encumbrances
      - FY 11/12 funding in total reduced from \$55.6 million (FY 10/11) to \$26 million (53% decline)
      - FY 12/13 funding would be equal to revenue, plus any balance of encumbrances still available
- Long Term Financial Plan Outlook
  - Elimination of Reserve for Future Funding requires Commission to transition to a funding portfolio equal to annual revenue forecast
  - To the degree that savings are realized from existing or prior year encumbrances, Commission may mitigate some of the year over year loss in funding. This may disproportionately affect programs that required significant start-up.

# Programmatic Implications

- Staff is continuing to evaluate how reductions would be executed at the goal and program level
  - Developing alternatives and impact analysis
- In developing reductions, three alternative implications are being considered:
  - To what degree, should program reductions consider other state, county and federal reductions?
  - To what degree, should program reductions consider dependence on Prop 10 funding for survival?
  - To what degree, should program reductions consider Prop 10 funding as the platform for other program services?
- Commission administrative costs are capped at 10% of operating budget and will also be proportionally reduced.



# Impact of Federal, State and County Reductions

*To what degree, should program reductions consider other state, county and federal program reductions that impact infants and young children?*

- Impact of State and Federal reductions – In general, Prop 10 funding builds on existing infrastructure to tailor programs to 0 to 5 population and/or improve quality
  - Funding for homeless prevention and safety net clinics
  - Head Start, childcare and potentially state preschool services
  - \$1.7 billion in reduced Medi-Cal spending, elimination of dental care services
  - Commission will not have capacity to mitigate impact, but could consider these reductions in evaluating future portfolio

# Agency Dependence on Prop 10 Funding

*To what degree, should Commission consider dependence on Prop 10 funding for survival?*

- Some agencies are highly dependent on Commission funding. In some cases Commission may support greater than 75% of total budget, including direct Commission funding and leveraged dollars.
- Examples: High risk prenatal services, children's dental programs
- Loss of Commission funding will be so significant as to jeopardize the viability of the programs.

# Prop 10 Funding as a Platform for Other Services

*To what degree, should program reductions consider Prop 10 funding as the platform for other program services?*

- Certain programs Commission has funded as platform that community partners and/or school districts leverage for other program delivery
  - Examples: School nurses and school readiness coordinators have also increased preschool and Head Start capacity and school based health services
  - Reduction in Prop 10 funding will likely also cause rippling effects on other programs building off these resources

# Next Steps

- With today's agenda actions, baseline budget scenario, assuming no redirection, has been completed consistent with original Long Term Financial Plan
- Despite legal challenge to Prop 10, staff will assume and plan for payment requirement in June 2012
  - Requires implementation of preferred strategy no later than July 1, 2011 to achieve necessary reductions
  - Program financial alternative analysis based on Commission direction
  - Staff recommends evaluating impacts on a two to three year budget perspective
- Commission policy direction is also needed on contract actions for pending and prior funding renewals.