



**Agenda Item 4
March 4, 2015**

DATE: February 18, 2015

TO: Children and Families Commission of Orange County

FROM: Christina Altmayer, Executive Director 

SUBJECT: Financial Update Report

ACTION: Receive financial update and Board of Equalization (BOE) administrative costs status report.

SUMMARY:

This report provides an update on the Children and Families Commission's financial outlook through mid-year, focusing on revenue received through December 2015. The report also provides a status report on the Commission's continued efforts to address the increasing Board of Equalization administrative fees. Commission staff is continuing to closely monitor actual revenue as well as actions related to BOE. This report provides a status update. No action is requested at this time.

DISCUSSION:

The California State Board of Equalization (BOE) collects Proposition 10 revenue and administers the California Children and Families Trust Fund. The BOE determines the annual backfill to the Proposition 99 Fund and Breast Cancer Fund as well as operational costs for tax collection and enforcement programs. The November 2014 Proposition 10 revenue was adjusted for both the backfill and administrative costs as determined by the BOE.

Year-to-Date Revenue Update

Historically, Proposition 10 revenue has declined. Fiscal Year 2013/14 revenue of \$26.4 million represented a 2.33% decline from FY 2012/13 which experienced a 6.77% decline from FY 2011/12. Since FY 2001/02, the average annual decline has been 3.86%.

Current year revenue has been posted by First 5 California through December 2014 totaling \$12.89 million compared to the budget plan of \$12.62 million. The current year budget estimates a 3.75% decline. Actual decline through December 2014 was 8.2% from the prior year, although this does not include the FY 2013/14 BOE adjustments withheld in January 2014 but does include the FY 2014/15 BOE adjustments. The Financial Highlights are presented as Attachment 1.

Board of Equalization Administrative Costs Status Report

According to the Governor's Budget, BOE has the authority to spend \$17.8 million in FY 2014/15 and \$17.9 million in FY 2015/16 for operational costs incurred for tax collection and enforcement activities. Actual administrative costs are presented for the last two years.

<u>BOE administrative costs</u>	<u>FY 2012/13</u>	<u>FY 2013/14</u>
Tax Administration Program	\$11,943,000	\$11,964,000
Licensing Program	<u>3,888,000</u>	<u>4,624,000</u>
Total Administrative Costs	\$15,831,000	\$16,588,000

The BOE administrative costs are likely to continue to increase over time. The BOE staff does not anticipate any decline in costs as the State is likely to allow rehiring of positions, eliminate the furloughing of state employees, and allow for future salary increases. If an additional tobacco tax increase is approved, there is the potential that the new tax would result in increased program costs. The increased costs would be allocated to all eligible revenue sources, with Proposition 10 taking the majority share.

The BOE was required to convene a stakeholder meeting to discuss potential approaches for future funding of the tobacco licensing program. By April 1, 2015, BOE will be required to submit a report describing three alternative approaches for future funding of the tobacco licensing program. At the recent Legislative Advocacy Day in Sacramento, the rising BOE costs were included in all discussions with legislators and a briefing was held with the newly elected BOE Board Member, former Assemblywoman Diane Harkey. Commission staff will work directly with her office to address this issue. Commission Counsel is continuing to review the documents provided by BOE in response to the Commission's Public Records Request.

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:

- October 2014 - Adopted resolution approving the Fiscal Year 2013/14 Annual Report, Comprehensive Annual Financial Report and Single Audit Report, approved amendments to FY 2014/15 Operating Budget, and adopted resolution approving the Amended Annual Operating Budget for FY 2014/15
- February 2014 - Approved Proposed Funding Renewal Actions for Program Agreements for FY 2014/15 through FY 2016/17
- November 2013 – Received the Long-Term Financial Plan Update

RECOMMENDED ACTION:

Receive financial update report.

ATTACHMENTS:

1. Financial Highlights
2. Board of Equalization Fact Sheet

Contact: Christina Altmayer

Financial Highlights As of January 31, 2015

Comparison of Budget vs. Actual Fiscal Year 2014-15 Unaudited Period Ending 1/31/15

	FY 2014-15 Amended Budget	FY 2014-15 Actual Expenses	
Financing Sources			
Tobacco Tax Revenue	\$25,230,753	\$10,937,880	43.4%
Interest Earnings	150,000	116,316	77.5%
Other Revenue	<u>5,350,598</u>	<u>271,695</u>	5.1%
Revenue Total	\$30,731,351	\$11,325,891	
Expenses			
Healthy Children	\$15,391,725	\$2,153,148	14.0%
Strong Families	2,397,872	880,804	36.7%
Early Learning	9,928,928	926,667	9.3%
Capacity Building*	<u>2,717,024</u>	<u>852,933</u>	31.4%
Program Services	\$30,435,549	\$4,813,552	
Admin. Functions**	<u>2,536,182</u>	<u>1,151,028</u>	
Total Operating Exp.	\$32,971,731	\$5,964,580	

*Includes Evaluation costs of \$287,815

**Administrative costs and functions are defined by State Commission guidelines (Fiscal Memo No. 05-01, dated April 14, 2006) pursuant to Chapter 284, Statutes of 2005 (AB 109). Actual Administrative expenses of \$1,151,028 and encumbrances of \$650,489 were 5.5% of the Fiscal Year 2014-15 Amended Budget of \$32,971,731. Final administrative expenses are projected to be 9% at year end.

Total Encumbrances as of January 31, 2015 including multi-year contracts through FY 2016-17

Healthy Children	\$34,729,824
Strong Families	\$2,340,736
Early Learning	\$19,036,254
Capacity Building	\$2,969,641
Admin. Functions	\$650,489

Revenue and Cash Balance Update

The Commission's total Tobacco Tax Revenue through December 2014 as reported by First 5 California is \$12,885,646. Prop 10 revenues for July through December are 2% higher than the budget plan. Revenue has been received through November, and the November revenue posted by First 5 California was reduced by the Board of Equalization administrative/licensing fees and backfill amounts.

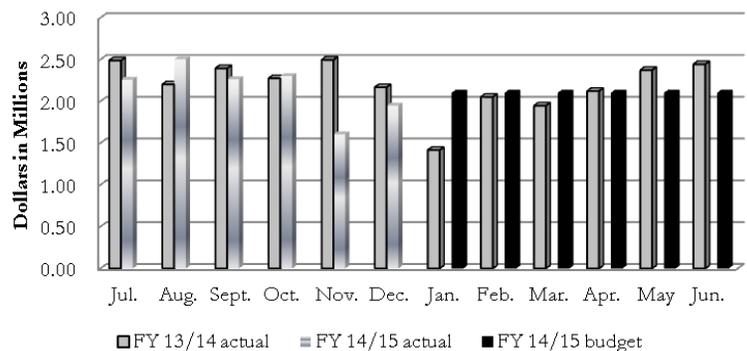
Interest earnings for July 2014 through January 2015 are \$116,316.

Catalytic Funding Update

\$9,953,816 in Catalytic Funding was expensed in FY 2012-13 and FY 2013-14. Expenses booked in the current year total \$1,572,965 as of January 31, 2015. Another \$6,250,000 was previously distributed for Catalytic Homeless Programs but has not yet been expensed.

As of January 31, 2015, \$21,120,219 was encumbered for Round 1 and Round 2 programs. Over \$16 million is encumbered for Children's Dental and \$4 million for Developmental Services.

Fiscal Year 2013-14 & 2014-15 Tobacco Monthly Revenues



Forecasted Fiscal Year 2014-15 Ending Fund Balance

From Commission Long Term Financial Plan

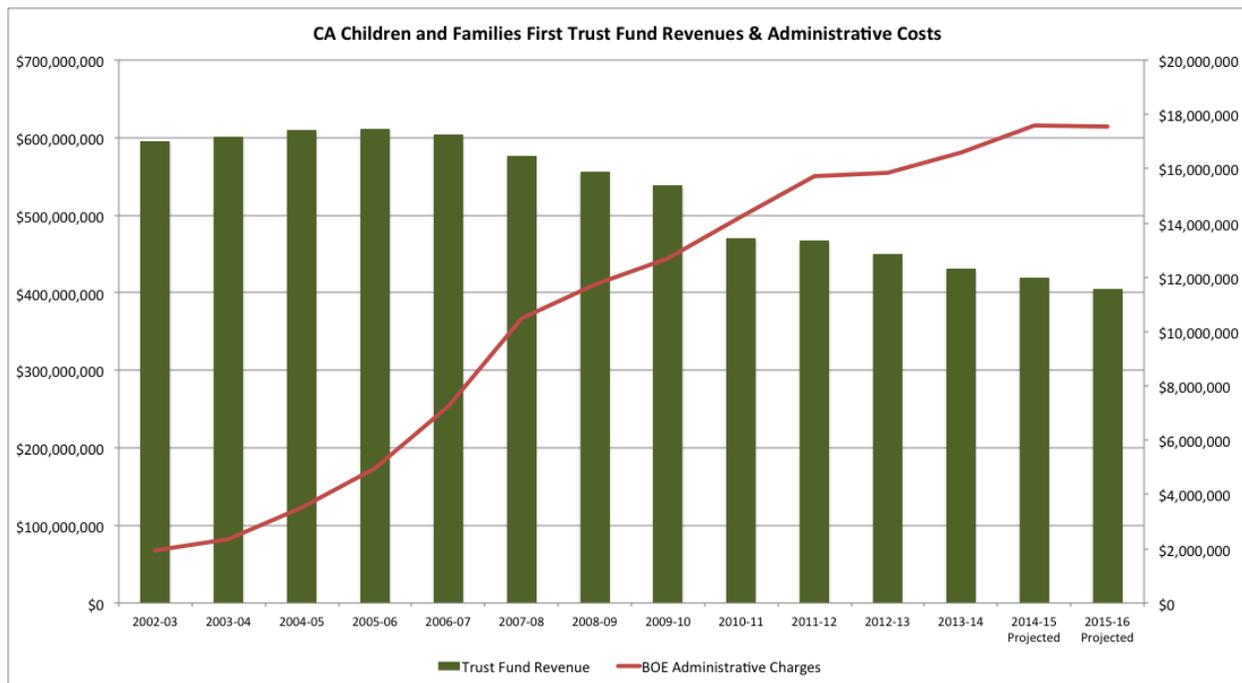
Beginning Fund Balance, July 1, 2014	\$61,718,344
Forecasted Revenue	30,731,351
Budgeted Program Expenses	(30,435,549)
Budgeted Administrative Expenses	(2,536,182)
Catalytic Projects	<u>(45,348,949)</u>
Projected June 30, 2015 Fund Balance	\$14,129,015*

*Based on Commission action through December 2014. Projected fund balance does not include Catalytic funding. For financial planning purposes, Catalytic funding has been designated by Commission action and removed from available fund balance.



Board of Equalization Rising Costs Impact on Children's Services in California

Proposition 10 – approved by the voters in 1998 – allows for the reimbursement of the State Board of Equalization (BOE) for expenses incurred in the administration and collection of the tobacco taxes. These costs have risen 600% in the past ten years, while tobacco tax receipts have decreased by nearly 30%, as shown below:



Continued Increases Projected: BOE fees are likely to increase over time based on historical trends, BOE staff projections due to filling vacancies, and the impact of any future tobacco taxes. BOE staff has indicated that any new tax would result in a significant increase in BOE tobacco tax collection, with Proposition 10 taking the majority share.

State-Level Interest in Rising BOE Costs: In May 2014, the Assembly Budget Subcommittee, Chaired by Assemblyman Tom Daly directed through the Supplemental Budget report a review of BOE's tobacco program. By April 1, 2015 BOE will be required to submit a report describing three alternative approaches for future funding of the tobacco licensing program.

Need for Relief: To ensure the protection of Proposition 10 funds for the intended purpose of supporting young children's healthy development, we suggest the following alternatives:

- A one-percent (1%) maximum on the amount BOE can charge Proposition 10 revenue for reimbursement of tobacco tax collection and administration. Proposition 10 County Commissions throughout the state must abide by similar caps on administrative expenses, such as a 10% ceiling on administrative expenses of their total budget.



- Capping the charges to Proposition 10 funds to the 2005/06 level, adjusted for inflation, reflecting a baseline administrative cost prior to the significant growth in BOE charges associated with the AB71 enhanced enforcement implementation.
- Eliminating any “enforcement” costs as eligible expenses to be paid by Proposition 10 funds. This would be consistent with the language of the voter- approved Proposition 10 legislation that allows for BOE reimbursement for “administration and collection” of tobacco taxes.

Impact on First 5 Commissions

Impact of BOE Administrative Costs – FY2013/2014		
Commission	Share of Statewide Births	Annual Cost of BOE
Los Angeles	25.96%	\$3,696,330
San Diego	8.69%	\$1,237,320
Orange	7.59%	\$1,080,715
Riverside	6.10%	\$868,260
Alameda	3.79%	\$538,996
Fresno	3.22%	\$458,297
First 5 CA		\$3,560,000