Children & Families
Commission of Orange County

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**Agenda Item No. 4**
**April 1, 2009 Meeting**

**DATE:** March 20, 2009

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

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

**SUBJECT:** Long-Term Financial Plan Update

**SUMMARY**
The Long-Term Financial Plan assists the Commission in evaluating the long-term implications of funding decisions and to provide a mechanism for addressing program sustainability and funding limitation challenges. Since the Commission's first Long Term Financial Plan in 2000, the Commission has annually developed a plan prior to the adoption of the annual budget to set the context for these budget decisions and allocations. The Long-Term Financial Plan presents a recommended strategy for Commission funding allocations and does not formally reserve or assign funding to any specific contract or agency.

The 2009 updated Long Term Financial Plan includes updated fund balance projections, revenue forecasts, and projects resources available to support programs through fiscal year 2017/18. Although the forecast is through FY 2018, the primary focus on the planning is the next five years (FY 2010 through FY 2014).

**Highlights of the Long-Term Financial Plan**
The Long Term Financial Plan includes the assumptions as summarized below. Attachment 1 includes a detailed listing of the key fund balance, revenue and expense assumptions.

- **Fund Balance Available** – This reflects the availability of previously received revenues to support future program expenses. Fund balance reflects "cash" the Commission may have on hand that is formally reserved or encumbered based on prior contract actions that Commission has taken.

- **Revenue Forecast** – Revenue forecast includes the Commission's allocation of Prop 10 revenue. Orange County received 7.8% of the total Prop 10 revenue allocated to counties in fiscal year 2008/09. This share is expected to decline slightly over the planning period. Prop 10 revenues were projected to decline at 3-4% annually; however, Prop 10 revenue could be significantly impacted during this next fiscal year by the additional tobacco tax and pending Prop 1D.

  Attachment 2 presents the Proposition 10 revenue forecast for Orange County from FY 2008/09 through FY 2015/16 under three potential revenue scenarios:
  - Baseline scenario assuming projected decline (on average 3 percent) and consistent with Orange County's share of statewide births

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- Updated February 2009 revenue forecast by Department of Finance, including impact of the recent increase of the federal tax on tobacco
- Diversion of Prop 10 revenue as a result of passage of 1D. Passage of 1D would reduce all county commissions' funding by $214 million annually from FY 2009-10 through FY 2013-14. The pro-rata share based on Orange County's portion of Projected Birth Rates is approximately 7.8% annually.

- **Expenses** – Expense forecast includes funding levels consistent with FY 2008-2009 baseline. Based on the action in July 2008, the Commission has significant contract obligations and encumbrances for fiscal years 2010 and 2011 as indicated in the table below. The financial plan includes other minimal obligations carried through Fiscal Year 2016. Incremental program funding, above encumbrances, is also projected for each fiscal year.

| | |
|---|---|
| FY 09/10 Encumbrances (*dollars in millions*) | $41,735.5 |
| FY 10/11 Encumbrances (*dollars in millions*) | $26,236.3 |

Staff will make a presentation at the April meeting (Attachment 3) on the long-term financial impacts and potential strategies to address the revenue loss. Based on Commission direction, staff will consider a range of cost reduction strategies including immediate and/or scaled reductions impacting current and future year obligations.

**FY 2009 – 2010 Operating Budget Update**
Based on Commission direction, the FY 2009-2010 Operating Budget will be developed in conjunction with funding actions for specific categories of expenses. Preliminary meetings with Commission management were scheduled during March 2009 to develop a draft version of the FY 2009-2010 Operating Budget.

## STRATEGIC PLAN & FISCAL SUMMARY:
The Long-Term Financial Plan has been specifically reviewed in relation to the Strategic Plan, and the assumptions are consistent with the strategic goal areas.

## PRIOR COMMISSION ACTIONS:
1. July 2008 – Authorized one, two and three year contract extensions for "safety net" services and authorized fund balance encumbrances for the multi-year contract amounts.
2. July 2008 – Authorized a $10 million, five-year agreement with the Affordable Housing Clearinghouse to facilitate the development of transitional shelters.

**RECOMMENDED ACTIONS:**

1. Receive Long Term Financial Plan Report.
2. Direct staff to return with updates to the Long-Term Financial Plan which reflect the outcome of the May Special Election as well as updated Prop 10 revenue forecasts.

**ATTACHMENTS:**

1. Summary of Long-Term Financial Plan Assumptions – April 2009
2. Summary of Long-Term Financial Plan Revenue Forecast
3. Long-Term Financial Plan – Fiscal Presentation

**Contact**: Brenda Manriquez

# Children & Families Commission of Orange County
# Long Term Financial Plan
# Summary of Assumptions – April 2009

Fund Balance Available

- FY 2008-09 Adopted Budget begins with actual Fund Balance from FY 2007-08 Audited Financial Statements.
- Encumbrances approved for multi-year contract renewals are presented as the total commitment expected to be paid by fiscal year.
- Multi-year encumbrances were authorized by the Commission (July and November 2008 agenda items) resulting in a significant reduction in the prior designated Long Term Commitments account.
- Fund Balance Available represents the monies available for use on an annual basis. This balance is equivalent to the Unrestricted Fund Balance in the Commission's Annual Financial Statements.
- *Investible Balance* - Investible balance differs from Fund Balance due to the encumbrances for the identified fiscal years. While encumbrances cannot be viewed as available for use, they are available to invest until requests for payment are received.

Revenues

- Proposition 10 Revenue assumptions are presented in Attachment 1.
- Interest Earnings – Investments remain consistent with the current portfolio & earn interest at an average of 1.5 – 2% annually. Interest earnings are based on projected investible balances.
- Other Revenues – Other revenues that are specifically designated to a program, such as grants, are presented within the major itemized categories.

Expenses

- Expenses are presented as three categories: administrative/evaluation, program expenses and school readiness
- Administrative & evaluation expenses are held constant over the planning period at the FY 09/10 level.
- Program Expenses: Program expenses are split between the encumbered contracts in fund balance and the portion not covered by the current fiscal year encumbrances.

# Children and Families Commission of Orange County
## Prop 10 Revenue Projections

| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Baseline Projection** ① | 34,560 | 34,627 | 34,163 | 33,717 | 31,062 | 30,165 | 29,293 | 28,447 | 27,625 | 26,827 | |
| **CA Dept of Finance Projections - Updated Feb 2009** ② | 34,510 | 30,548 | 29,412 | 28,521 | 27,688 | 26,580 | 25,517 | 24,241 | 23,029 | 21,648 | |
| **Prop 1D Passage Projection** ③ | 34,510 | 13,876 | 12,719 | 11,809 | 10,957 | 10,300 | 25,517 | 24,241 | 23,029 | 21,648 | |
| | | $20,751 | $21,444 | $21,908 | $20,105 | $19,865 | $3,776 | $4,206 | $4,596 | $5,179 | $121,830 |
| | | | | | | $104,073 | | | | | |

**Notes:**

① Prop 10 tax allocations through FY 12/13 are based on projections distributed by First 5 California and the State Department of Finance. For FY 13/14 through FY 17/18, Prop 10 tax allocations are based on the pro-rata share of revenues equal to the projected annual Orange County birth rates in comparison to the total state birth rates.

② Updated projections from the California Department of Finance through FY 12/13 were released in February 2009 following the approval of the State Budget. For FY 13/14 and later, the same trending identified by the DOF projections was applied. Factors used in calculating the First 5 California tax revenue projections include:

- Department of Finance January 2009 tax revenue projections
- SCHIP estimates provided to First 5 California by the Board of Equalization (BOE)
- BOE administration fees from the 2009 Governor's Budget
- Latest backfill amount of $21.2 million calculated across all years

③ Prop 1D passage would reduce County Commissions' funding by $214 million annually from FY 2009-10 through FY 2013-14. The pro-rata share based on Orange County's portion of Projected Birth Rates is approximately 7.8% annually.

# Children & Families Commission of Orange County

## April 1 , 2009

Agenda Item No. 4

Long Term Financial Plan

Updated 3/24/09

# Long Term Financial Plan

Since 2000, the Commission has annually adopted a Long Term Financial Plan:

- Guide annual financial allocations
- Develop sustainability strategies
- Balance short and long-term financial priorities
- Different from annual budget and specific contract actions
  - Does not specifically allocate or budget funding to programs and/or contracts

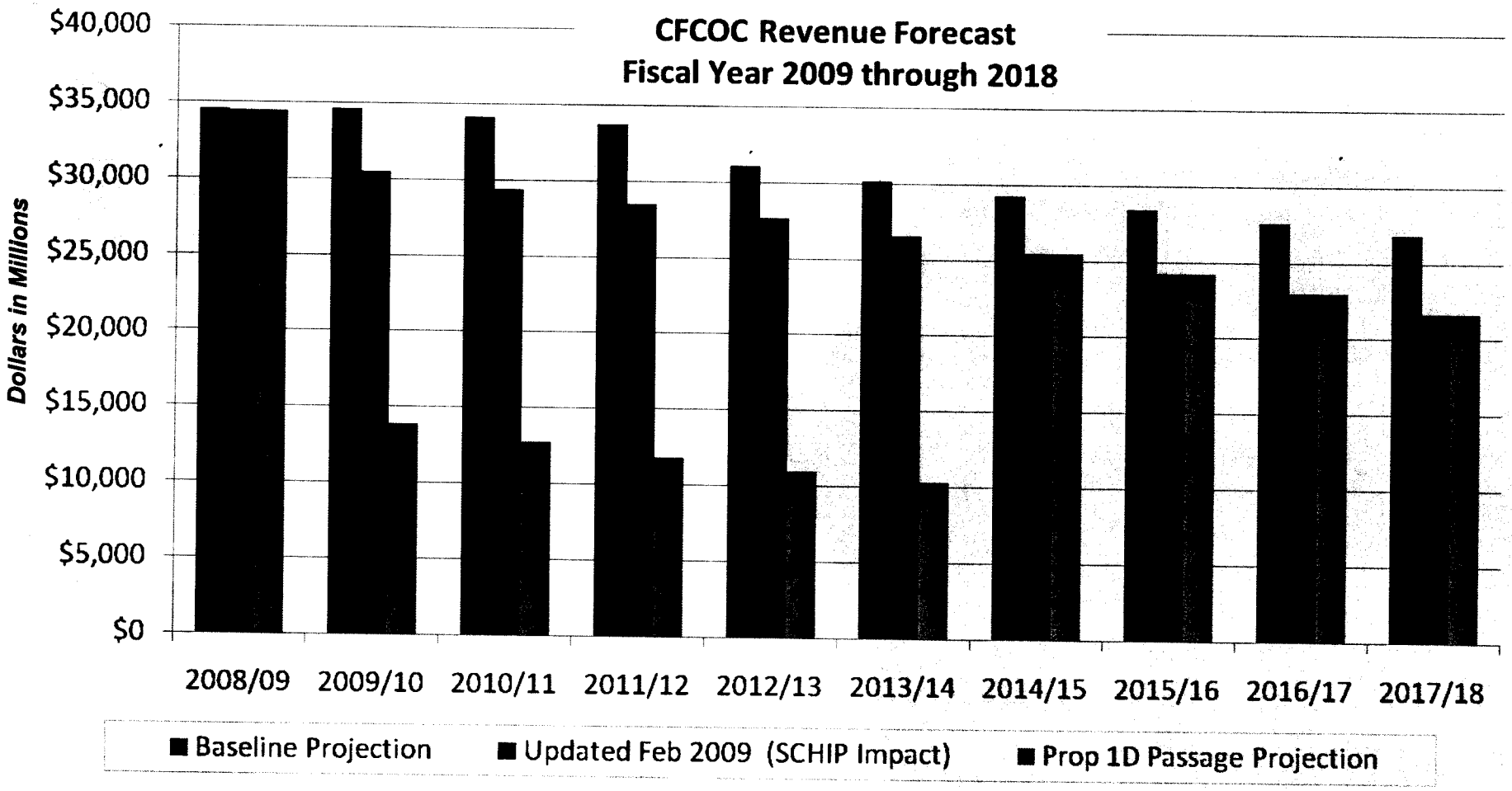
# First 5 Funding

- Current Allocation of First 5 Funding
  - Prop 10 represents .50 cents of the .87 cents tobacco tax
  - Funds are distributed on the following basis:
    - 20% to State First 5 for defined program areas
    - 80% to local county Commissions based on their share of Statewide births (residence of mother)
  - Fiscal 2008/09 Revenue projections
    - Total Tax Collection: $557.3 million
    - State Share: $111 5 million
    - Total County Share$445.8 million
    - OC Share: $ 35.1 million

# Key Factors Impacting 2009 Long Term Financial Plan

- Known Variables:
  - Projected decline in tobacco tax revenue of approximately 4% annual
  - "Rippling Impact" of increased tobacco tax associated with SCHIP reauthorization; estimated impact is $4 to $5 million annually
- Unknown Variables:
  - Precise impact of Proposition 1D Prop 10 revenue redirection
  - Other unknown impacts of May Revised Budget Actions
  - Impact of loss of State First 5 CA fund balance on State funded programs, i.e. School Readiness, Special Needs Demonstration Program, to which the Commission is a funding partner

# Revenue Forecast



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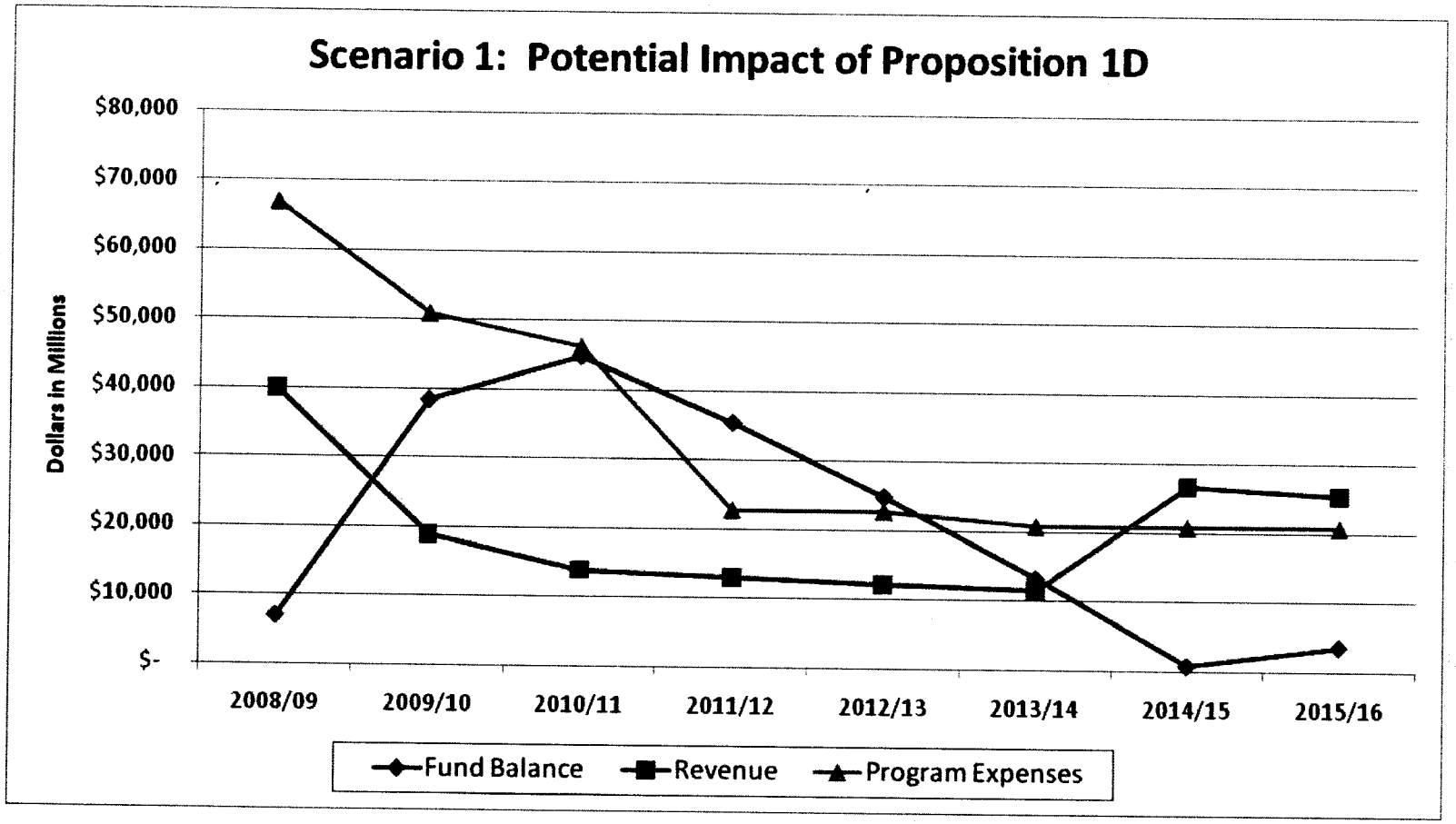
# Long Term Financial Plan Forecasting Scenarios

- Commission staff has been developing various scenarios to test and anticipate program impacts based on reduced revenue and/or passage of Prop 1D balancing:
  - Long Term Commitments Account – Commission's commitment to long-term sustainability provides some capacity to mitigate immediate revenue shortfalls
  - Existing Encumbrances and Obligations – July 2008 action obligated funding for priority programs through June 30, 2011
  - Future program investments – Commission's investments in new initiatives has considered long-term program sustainability.
- Mitigating the impact of Prop 1D will require reconsideration of all current and future obligations

# Prop 1D Impact: One-year 51% reduction in program investments, even with reliance on fund balance




***Notes:***
***FY 08 and 09 Program Expenses include First 5 CA funded programs***
***Projected FY 2009 Year End Fund Balance reflects encumbrances approved in July 2008***



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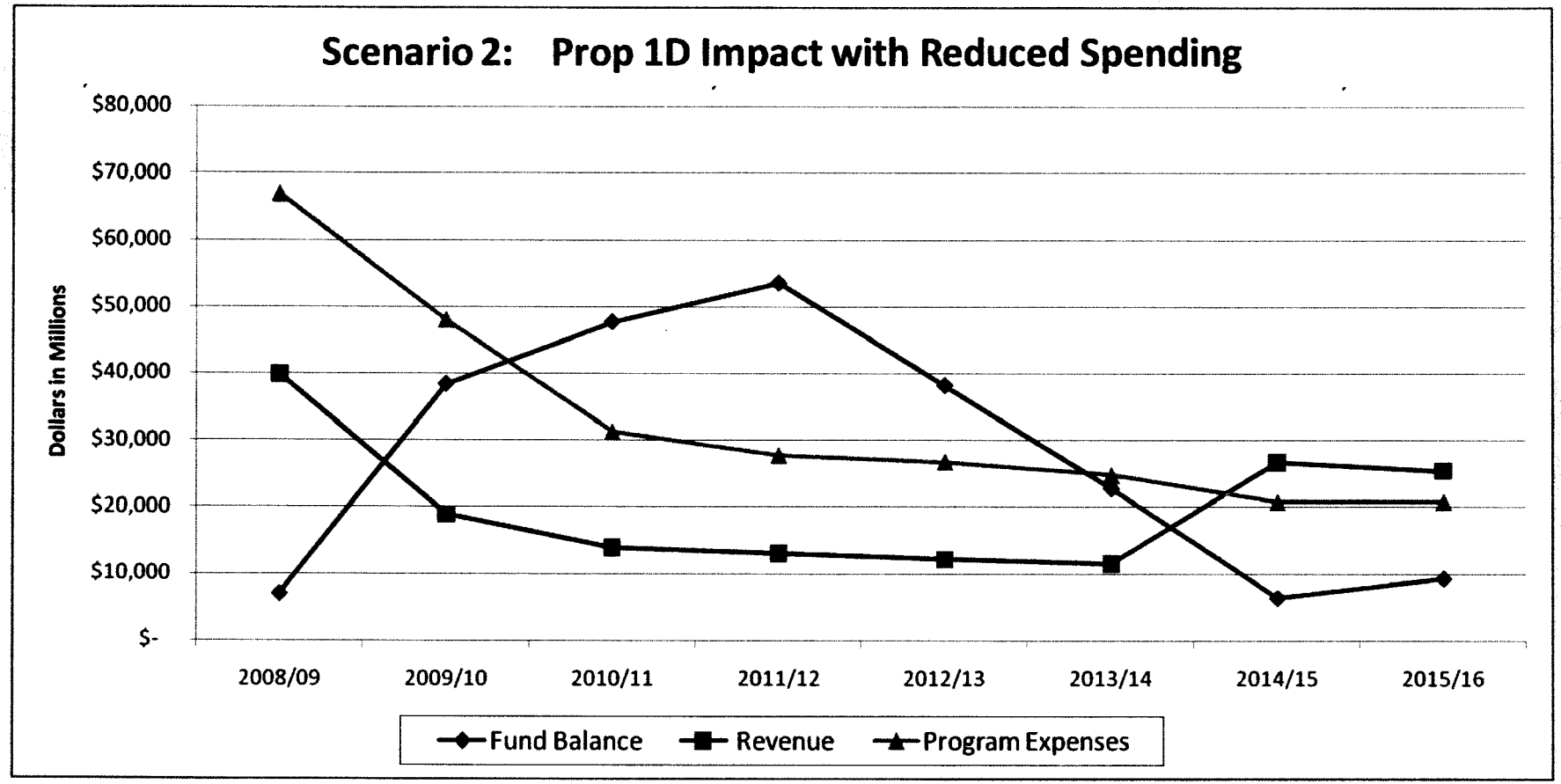
# Reductions in current commitments now could minimize longer, drastic cuts




***Notes:***
***FY 08 and 09 Program Expenses include First 5 CA funded programs***
***Projected FY 2009 Year End Fund Balance reflects encumbrances approved in July 2008***



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# Strategies to Address Revenue Declines

- Existing Commitments - FY 2010 and FY 2011 contract obligations can be fully funded; may need to revisit to address future year reductions:
  - Funded encumbrances of $42 mil in FY 10/11
  - Funded encumbrances of $26 mil in FY 11/12
  - All contracts are subject to annual renewal and adjustment
  - Capacity to adjust existing agreements and reallocate funding
- Future Obligations – Program expenses in future years funded through annual revenue
- Fund Balance Available – Ability to mitigate funding reductions through reliance on fund balance available

# Next Steps

- Aggressively continue legislative advocacy efforts; legislation to eliminate Prop 10 still pending
- Develop alternative funding options consistent with Commission direction balancing:
  - Impact on existing and future obligations
  - Drawdowns on fund balances
  - Leveraging other funding
  - Develop pro-active funding plans based on anticipated revenue