Children & Families
Commission of Orange County

Agenda Item No. 5
October 5, 2011 Meeting

DATE: September 23, 2011

TO: Children and Families Commission of Orange County

FROM: Michael M. Ruane, Executive Director

SUBJECT: Proposed Strategic Planning Process and Recommendations for a Three-Year Budget and Planning Process

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SUMMARY:
As directed by your Commission in May, with approval of the FY 2011/12 budget, this report provides an overview of the FY 2010/11 year-end financials and the related implications for the Long Term Financial Plan. Staff will review the attached presentation, including recommendations, at the October meeting.

Background
At your September meeting, your Commission received a preliminary report on the FY 2010/11 year-end financial results. The attached presentation addresses three related items:

- FY 2010/11 year-end financial results and impact on Long-Term Plan
- Proposed transition to three-year budget planning process
- Proposed framework and plan for three-year budget and addressing impact of legal resolution of AB 99.

Based on direction from the Commission at the October meeting, staff will return with a proposed three-year budget and implement the proposed planning process related to future year funding and resolution of AB 99.

STRATEGIC PLAN & FISCAL SUMMARY:
No fiscal impact at this time. This report provides an update on the Commission's Long Term Financial Plan. Amendments to the approved budget will be considered as part of the public hearing and budget review (Agenda Item 6).

PRIOR COMMISSION ACTIONS:

- September 2011 - Annual External Audit Process and the Preliminary Year-End Financial Results
- May 2011 – FY 2010/11 Budget
- April 2011 – Long Term Financial Plan – Impact of State Budget Diversion

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RECOMMENDED ACTIONS:

1. Approve staff recommendations and report
2. Provide policy direction to staff

ATTACHMENT:

1. Budget Update and Proposed Strategic Planning Process

Contact: Christina Altmayer

Attachment 1

Budget Update and Proposed Strategic Planning Process

October 5, 2011

Commission Meeting

Agenda Item No. 5

Today's Agenda

- Review FY 2010/11 year-end financial results and impact on Long-Term Plan
  - Review budget vs. actual financial results
  - Evaluate long-term revenue implications
  - Discuss projected funding capacity for FY 2011/12 through FY 2013/14
- Discuss transition to three-year budget planning
- Discuss framework and plan for three-year budget and addressing impact of legal resolution of AB 99.

FY 10/11 Year End Results

- Prop 10 Revenue
  - Actual revenue was 3% below FY 2009/10 actuals and approximately $600,000 higher than previously forecasted. Staff had reduced budget during the year due to high monthly variations.
    - Revenue: $28.8 actual vs. $28.2 forecast
    - First quarter FY 11/12 actuals pending; recommend updating FY 2011/12 to increase revenue forecast from $26.8 to $27.3 million. (5% decline of FY 2010/11 actuals)
    - Increase in actual revenue positively contributes to forecasted June 30, 2012 fund balance and long-term outlook.
- Expenses
  - Administration – Actual expenses were $606,560 less, or 12.9% than budget.
    - Consistent with Commission plan, administrative cost reductions began in FY 2010/11 and continued with the FY 2011/12 budget.

FY 2011/12 Year-End Results

- Program expenses
  - Program expenses were $3.3 million less than budget (6.5%); approximately half of the savings ($1.5 million) cash flow and will be carried to the FY 2011/12 amended budget
  - $1.8 million is actual expense savings. Key areas of under-spending included:
    - Health Access and Education $700,000
      School Readiness Nursing* $450,000
      Family Support Services $300,000
      School Readiness Contracts* $700,000

  * Reflects savings from multi-year contract closeouts. New contracts effective July 1, 2011.
  - Complete breakdown and analysis of budget vs. actuals and proposed budget amendments included in Agenda item 6.

Updated July 2012 Fund Balance Forecast

Forecast as of	10/1/11	3/31/11
Cash balance	**$90,058,071**	**$97,307,807**
Feb - Apr revenue received by June 30, 2011		6,500,000
Less remaining cash payments for 10/11		(18,000,000)
Cash balance at June 30, 2011	90,058,071	**85,807,807**
Receivables at June 30, 2011	4,940,587	4,600,000
Liabilities at June 30, 2011	(15,255,568)	(17,500,000)
Forecasted Ending Fund Balance		
Net Forecasted Available Funding as of July 1, 2011	**79,743,090**	**72,907,807**
Less Payment to State	(51,400,000)	(51,400,000)
Net Available	28,343,090	21,507,807
Projected FY 11/12 Revenue (5% decline from FY 10/11 actuals)	**27,369,425**	26,500,000
Less FY 11/12 Budget (includes adjustments)	**35,271,025**	35,271,025
FY11/12 Carryover and Budget Amendments	2,391,595	
FY 11/12 Amended Budget	**37,662,620**	
Net Forecasted Fund Balance as of July 1, 2012	**$18,049,895**	**$12,736,782**
Difference		**$5,313,113**

Overall, June 2012 year-end forecast more positive than previously forecasted due to increased revenue and program savings.

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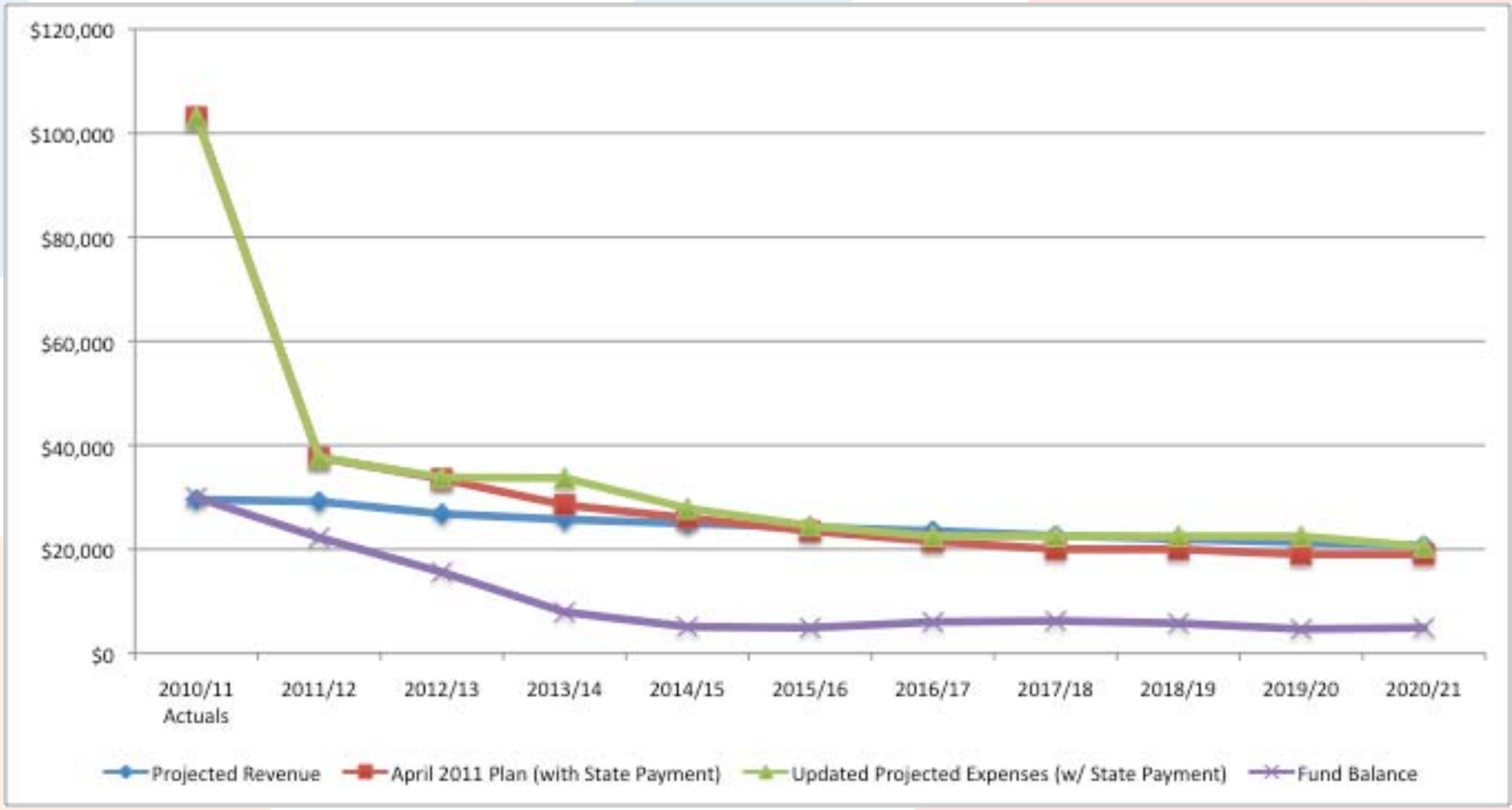
Updated Long Term Financial Plan

- Long Term Financial Plan has been updated.
  - Assumes payment to State of California 5 by June 2012, consistent with AB 99 (encumbered in FY 2010/11)
  - Reflects positive revenue actuals in FY 2010/11, increases FY 2011/12 revenue forecast to 5% of FY 2010/11 actuals; sustains on average 3% decline in annual for remainder of planning horizon
  - Adjusted forecasted administrative expenses to within 10% of a reduced operating budget
- Proposed Funding Plan
  - Continue stable funding for through FY 2013/14 (net of one-time catalytic funding)
- Other Options
  - Continue to planned reductions for next two years and redirect funding for Commission priorities (see proposed framework options)

Updated Long Term Financial Plan

Reflects AB99 Payment



Updated forecast allows Commission to stabilize funding through FY 2013/14 while developing longer term strategy for FY 2015 and beyond

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Proposed Changes to the Budget Process

- Currently, Commission adopts an annual budget reflective of annual program and administrative expenses
  - Multi-year contracts, if awarded, subject to annual approval in the budget process
  - Multi-year contracts eliminated by the Commission as result of AB 99; funding limited to one-year
    - Triggered uncertainty among funded programs and agencies impacting program sustainability, recruitment of professional and specialized staff, and agency planning
- Proposed change would create a rolling three-year budget
  - Years 2 and 3 would reflect multi-year commitments
  - Allow for greater planning for other funded initiatives in cases where contract entity to be developed
  - Provide flexibility to adjust budget as part of annual review

Proposed Strategic Planning Process

- Commission will need to continue to look at long-term investment strategies to meet declined funding as well as options should AB 99 be successful litigation be successful.
- Proposed Planning process includes:
  - Overall policy direction
  - Development of program priorities within existing goals areas and priority outcomes
    - **Early identification and preventative services for young children to improve health and educational outcomes and reduce *future* system costs**
    - **Sustainable system of critical services for young children**
    - **Improved educational outcomes for all OC children in terms of reading and math proficiency**
  - Immediate and long-term funding analysis.

Proposed Process

- Based on Commission direction today, staff will develop supporting documentation on how funding strategies will be employed.
- Funding panels will be convened and evaluate by funding area how Commission could balance investments across three potential funding strategies:
  - Catalytic Investments – One-time investments designed to leverage funding, offset future operating demands, or provide innovative multi-year service strategies
  - Program Endowments – Creation of endowment funds to support critical programs developed by the Commission to support a critical community needs
  - Ongoing Program Support – Ongoing support for programs most critical to achieving mission.
- Develop a plan for guiding long-term funding and potential results of AB 99 litigation.

Staff Recommendations

- Utilize savings in FY 2010/11 budget to sustain level funding for FY 2012/13 and FY 2013/14.
  - Provides $30 million in annual funding (equal to current year budget, net of one-time catalytic funding)
  - Continue to monitor and identify cost-savings and catalytic opportunities, especially for FY 2014/15 and beyond.
- Develop a three-year budget reflective of this funding strategy with corresponding multi-year agreements. Return to the Commission with proposed three-year budget by December, 2011.
- Initiate multi-year planning and review process engaging Commissioners through the funding panel reviews.