



**Agenda Item 6
March 2, 2016**

DATE: February 24, 2016

TO: Children and Families Commission of Orange County

FROM: Christina Altmayer, Executive Director 

SUBJECT: Long-Term Financial Plan and Fiscal Year 2016/17 Budget Assumptions

ACTION: Receive report on Long-Term Financial Plan and catalytic funding; and approve assumptions for development of the proposed fiscal year 2016/17 budget

SUMMARY:

Proposition 10 and subsequent legislation establish annual fiscal and audit requirements that must be satisfied in order for a county commission to continue to receive its allocation of tax revenues. One requirement is the adoption of an annual budget including assumptions regarding revenue, expenditures, and fund balance. This report presents an update on the Long Term Financial Plan and an overview of the financial and operating assumptions that will guide development of the FY 2016/17 annual operating and program budget. The FY 2016/17 updated Strategic Plan, Business Plan, and Proposed Budget will be presented to the Commission at the May meeting.

DISCUSSION:

The Long-Term Financial Plan has been used by the Children and Families Commission since 2000 as a tool to mitigate the projected decline of Proposition 10 revenues, while providing sustainable program funding. While no specific funding decisions or allocations are included in the Long-Term Financial Plan, it is updated annually and used to monitor and forecast revenue trends and program funding over a 10-year period. The financial plan was last updated and presented to the Commission in December 2015.

Multi-Year Forecasts and Current-Year Revenue Update

Orange County Proposition 10 revenue is projected to continue to decrease, consistent with declining rates of smoking. The Long-Term Financial Plan estimates a 3.50% decline for each year through FY 2024/25. Orange County’s FY 2014/15 actual Proposition 10 revenue was 1.71% below the prior year. The FY 2015/16 Amended Budget assumes a 3.50% decline from the FY 2014/15 actual revenue or \$908,000 less in tobacco tax revenue at \$25.04 million (see table below).

Long-Term Financial Plan Revenue Projections

	FY 2014/15 Actual	FY 2015/16 Budget	Long-Term Financial Plan Projection			
			FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20
Tobacco Tax Revenue	25,943,624	25,035,597	24,159,351	23,313,774	22,497,792	21,710,369
Year-to-year decline	-1.71%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%

The Commission's FY 2015/16 tobacco tax revenue was \$12.93 million through December 31, 2015. Actual revenue is currently level with the same period in the prior year. Revenue is currently projected to end slightly above budget and staff will continue to monitor monthly revenue receipts. Budgeted revenue was increased in December to reflect a 3.50% decline, and adjusting FY 2015/16 revenue again is not recommended at this time based on the first six months of actual revenue. Consistent with Commission practice, revenue receipts higher than budgeted will be directed to the Catalytic Fund for future program allocations, unless otherwise directed by your Commission.

Fund Balance

The Long-Term Financial Plans projects fund balance through FY 2024/25. Fund balance is used as a long term commitments account to mitigate declining tobacco tax and provide consistent and sustainable funding levels throughout the ten-year plan. Fund balance is projected to be \$14.2 million on June 30, 2016, excluding funds previously allocated for Catalytic programs and assuming a full transfer of IGT funds, as authorized by the Commission in February, before year-end. This fund balance projection is consistent with the Commission's policy of maintaining 25% of the annual operating budget in reserve.

Fiscal Year 2016/17 Program Budget

The FY 2016/17 proposed Program Budget will be consistent with year three of the funding renewal actions approved by the Commission in February 2014. Total program funding was reduced by 25% with the greatest reduction realized in FY 2014/15. Fiscal Year 2016/17 is the third year of the three-year renewals. Given the annual decline in tobacco tax revenue, the Commission directed staff to develop three-year funding renewal recommendations under the direction of Commissioner-led renewal panels. The program renewal strategy approved in February 2014 focused on opportunities for lowering costs based on prior catalytic investments, changes in external funding environment, and achievement of further program efficiencies. The reduction strategy will continue with increased and ongoing efforts to better leverage local, regional, state, and federal opportunities.

Fiscal Year 2016/17 Budget Assumptions

Based on Commission feedback, staff will return at the May meeting with the proposed FY 2016/17 Program and Operating Budget, consistent with the requirement that the budget be adopted by June 30th of the preceding year. The major assumptions used for budget development are outlined below, including:

- Revenue - FY 2016/17 tobacco tax revenue is projected to decline by 3.50% from the FY 2015/16 budgeted revenue. Any adjustments to the revenue forecast may occur in October as part of the year-end financial report. Other significant revenue includes anticipated federal and state grants, primarily grants from First 5 California. Revenue from these grants is generally restricted to the specific approved uses of the funds. The budget assumes funding from First 5 California for the first year of IMPACT and discontinuation of the VISTA program, as previously reported.
- Program Budget – The program budget will be consistent with Commission action, specifically program renewal actions approved in February 2014. Staff resources will be charged against the program, where consistent with costing accounting policies, and as determined by a four-week time survey conducted during the current fiscal year.

- Administration – Administration is limited to 10% of total operating budget, and Commission staff will continue ongoing work to reduce administrative and program management costs. Administrative costs are calculated consistent with government accounting standards and the First 5 Association Financial Management Guide.
- Catalytic Funds - Catalytic expenses are estimated and budgeted for the fiscal year in which they are expensed. Current estimation of Catalytic Round 2 expenses will be included in the scope of the program budget against which administrative costs are calculated, as approved by the Commission in December 2014.
- Fund Balance - Fund balance is required to be maintained at 25% of the FY operating budget throughout the course of the Long-Term Financial Plan. The annual draw of long-term commitments account is used as planned to supplement annual revenue decline and sustain program funding. The fund balance is maintained throughout the plan with the exception of the final year in the ten year horizon (FY 2024/25). This will be monitored and adjusted as necessary based on actual revenue and expense experience.
- Interest Earnings – The Commission has invested 100% of its funds in the Orange County Investment Pool (OCIP). All funds are managed by the Office of the Orange County Treasurer. The net year-to-date yield for FY 2015/16 is 0.50%. Commission and Treasurer staff have begun to evaluate Commission cash flow needs over of the next several years to identify cash balances available for longer-term investments with the potential for increased earnings. Any recommendations developed by the Treasurer will be presented to the Commission.

Long-Term Financial Plan Program Assumptions

The Long-Term Financial Plan was reviewed and updated at the December Commission meeting. Three alternatives were presented for the baseline funding levels to be used in the development of the next funding renewal cycle beginning FY 2017/18. The alternative selected extends the base program budget of \$19.6 million used in FY 2016/17 an additional year. A step down of \$1.3 million will be programmed into the FY 2018/19 budget and maintained through FY 2024/25.

Fiscal Year 2015/16 Strategic Plan and Business Plan Update

As required by Proposition 10 legislation, the Commission is required to annually review and as necessary update the adopted Strategic Plan. The Commission completed a comprehensive review of the Vision, Mission and Goals in FY 2013/14. The Strategic Plan was updated in 2014 and 2015. The 2016 update will be included in the May agenda item.

Consistent with the Strategic Plan, the Commission annually approves an operating plan. The Business Plan will reflect the planned work to be undertaken by staff in FY 2016/17. It includes all Proposition 10 mandated work, including activities stipulated in the Proposition 10 legislation and subsequent statutory requirements. The Commission's Business Plan for FY 2016/17 is intended to ensure that the Commission's operating plans for the next fiscal year are consistent with the priorities and objectives established by the Commission, including the goals described in the Commission's Strategic Plan. A continued focus through FY 2016/17 will be the development of

strategies to sustain the Commission's programs and their impact on young children in Orange County.

Catalytic Funding Update

A one-page summary financial report on the catalytic funding awards approved at the February and March 2012 and subsequent Commission actions is included as Attachment 1. This includes the recent Commission action to provide \$2 million for an intergovernmental transfer with CalOptima to sustain investments in children's health. The catalytic investments are intended to sustain and grow major Commission initiatives, despite declining revenues, reduce ongoing demand on the Commission budget, and make system impacts with one-time funding. The Catalytic Funding Summary has also been updated to reflect December Commission action regarding the Champions for Children's Literacy program.

STRATEGIC PLAN & FISCAL SUMMARY:

The fiscal presentation 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:

- December 2015 - Received the Long-Term Financial Plan and Program Update
- October 2015 - Adopted resolution approving the Fiscal Year 2014/15 Annual Report and Comprehensive Annual Financial Report, approved amendments to FY 2015/16 Operating Budget, and adopted resolution approving the Amended Annual Operating Budget for FY 2015/16
- February 2014 - Approved Proposed Funding Renewal Actions for Program Agreements for FY 2014/15 through FY 2016/17

RECOMMENDED ACTIONS:

1. Receive Long-Term Financial Plan and Catalytic Funding updates and provide direction to staff.
2. Approve assumptions for development of the Proposed Fiscal Year 2016/17 Budget.

ATTACHMENT:

1. Catalytic Funding Summary

Contacts: Michael Garcell
Kim Goll

**Children and Families Commission of Orange County
Catalytic Funding Summary**

	Catalytic Funding	Total Program Allocations	Executed / In-Process Agreement	Reserved Funding	Remaining Balance
Round 1 (Feb. 2012)	Children's Dental	20,000,000	20,000,000		
	Early Developmental Services/Autism	7,000,000	7,000,000		
	Year Round Emergency Shelter	7,000,000	7,000,000		
	Early Learning and Math	5,000,000	5,000,000		
	Healthy Child Development/Pretend City	5,500,000	500,000	5,000,000	
	VISTA/AmeriCorps ¹	25,000	25,000		
	Round 1 Total	44,525,000	39,525,000	5,000,000	-
Round 2 (Mar. 2012)	Capacity Building Grant Program	3,250,000	3,140,000	110,000	
	Partnership for Children's Health	3,000,000	322,260	2,668,000	9,740
	Prevention Services	500,000	40,000	460,000	
	Nutrition and Fitness	500,000	375,000		125,000
	Vision	1,500,000	1,500,000		
	Round 2 Total	8,750,000	5,377,260	3,238,000	134,740
Unallocated	Unallocated Catalytic Funding ²	1,675,000			1,675,000
	FY 14/15 additional revenue ³	700,000			700,000
	Unspent Pediatric Health Services catalytic allocation	100,000			100,000
	Total Unallocated	2,475,000	-	-	2,475,000

Notes:

1. \$475,000 of funding originally allocated for VISTA/AmeriCorps has been transferred to Unallocated Catalytic Funding approved October 2014.
2. Unallocated Catalytic Funding includes the additional allocation of \$200,000 FY 2013/14 revenue surplus approved December 2014.
3. Proposed \$700,000 of additional FY 14/15 revenue pending October approval of amended budget.