



**Agenda Item No. 6
November 6, 2013 Meeting**

DATE: October 24, 2013

TO: Children and Families Commission of Orange County

FROM: Christina Altmayer, Executive Director

A handwritten signature in black ink, appearing to read "Christina Altmayer", is written over the printed name in the "FROM:" field.

SUBJECT: Long-Term Financial Plan

SUMMARY:

The Long-Term Financial Plan has been used by the 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 used to monitor and predict revenue trends and program funding over a 10 year period. The financial plan has been updated with FY 2012/13 year-end financial results and the Amended FY 2013/14 Budget.

DISCUSSION:

The Ad Hoc Administrative Committee met and reviewed the Long-Term Financial Plan and made several recommendations regarding funding limits for the planned grant renewals for the three-year renewal term from July 1, 2014 through June 30, 2017. The Committee also recommended that staff explore investment strategies given the low rate of return on the current investment portfolio, and expand leveraged and collaborative funding opportunities that could provide increased sustainability to key Commission initiatives. Attachment 1 includes a presentation that summarizes the 2013 update of Long-Term Financial Plan and proposed renewal strategies.

Year End Financial Results and Revenue Forecasts

The Commission ended FY 2012/13 with a positive year-end balance due to underspending of program and administrative expenses. This net savings was realized despite a year over year decline in revenue of 6.8%. Orange County Proposition 10 revenue is projected to decline, consistent with declining rates of smoking. There has been a decline in the proportion of statewide births from 8.8% in 2000 to almost 7.6% in 2011, but Orange County share of statewide births is not projected to decline further at this time.

Program Renewal Strategy

Based on the revenue projections, the Long-Term Financial Plan assumes a continued reduction in funding for program grants. The following table indicates the funding available to support programs, as well as the associated percent reduction.

Commissioners

Executive Director

	<i>Dollars in Millions</i>			
	FY 13/14	FY 14/15	FY 15/16	FY 16/17
Annual Program Funding per LTFP	\$24.46	\$21.47	\$19.91	\$18.55
Percent Reduction from Prior Year		-12%	-7%	-7%

The Renewal panels will meet in December and January in preparation of making recommendations for renewal funding awards in February 2014. The Ad Hoc Administrative Committee recommendations include:

- Three year term starting July 1, 2014 through June 30, 2017
- Renewal allocations be set consistent with the LTFP assumptions, but panels are encouraged to support further reductions where possible
- Reductions in funding should focus on opportunities for lowering cost based on prior catalytic investments, changes in external funding environments, and achievement of further program efficiencies.

Renewal Panels will meet with staff and review program data in December and January in preparation for Commission action in February.

Investment Strategies

The Commission investments are currently yielding a .36% gross annual rate of returns which is consistent with the county pool. The Ad Hoc Administrative Committee acknowledged the significant restrictions placed on the Commission based on government code and the investment policy, but also encourage staff to investigate other opportunities to try and increase the rate of return on the Commission funds that are open to investment. The Commission staff will work with the County Treasurer's office to look at options for investments that would be compliant with the government code but may allow for slightly higher rates of return. Additionally, Commission staff will explore other investment opportunities.

Strategies to Increase Revenue Sustainability Strategies and Related Catalytic Investment

Successful implementation of the Commission's Long-Term Financial Plan requires the aggressive leveraging of the Commission's investment to sustain and expand services. Historically, the Commission has invested Proposition 10 resources to address gaps in services for young children and their families in areas such as oral health, vision services, primary and specialty care. As Proposition 10 revenues continue to decline, achieving the mission will require the Commission to be increasingly innovative and creative in working with community partners and other funders to develop sustainable services. This innovative/creative role, providing stewardship for complex initiatives, will require a larger emphasis as the Commission looks ahead to the next 15 years.

The Commission's catalytic funding portfolio includes a project specifically focused on strengthening the Commission and its partners' capacity to leverage regional, state and national funding. A key focus is to support the systems that promote healthy children, early learning, and strong families; versus supporting individual programs. A project update will be provided to the

Commission at the December 2013 meeting including proof of concept strategies that would serve as a model to showcase Commission roles related to:

- Leadership and stakeholder engagement
- Continuous learning and improvement to promote population-level solutions
- Spread, scale and sustainability

Achievement of the goals and objectives set forth in the Commission's Strategic Plan has benefitted by participation in national, statewide and regional networks to share learning and promote strategies that are outcomes-based and results oriented. These networks have also been valuable in promoting the development of community, philanthropic and government partnerships. One significant national project that the Commission has participated in is the "Children's Outcome Project".

The Children's Outcome Project is a learning community of innovative and exemplary children's initiatives that identify promising policies and practices to replicate at the state and local level. The project, funded by Nemours, The California Endowment and an anonymous donor, has sponsored the participation of eight exemplary teams from across the United States including the Children and Families Commission of Orange County. Along with Commission staff, the Orange County team has included representatives from the Commission's Community Advisory Committee: David Núñez M.D., Medical Director of the County of Orange, Health Care Agency, Family Health Division and Cathleen Wietstock EdD from the Orange County Department of Education.

The focus of Children's Outcome Project meetings included presentations and discussions focused on topics such as children's healthy development, innovative community building efforts, best practice initiatives, and evaluation frameworks that promote common outcomes. Specific Commission projects that the Orange County team was able to highlight included the Bridges Maternal Child Health Network, Early Developmental Index, Help Me Grow and the more recent focus on the Anaheim community. This project provided a venue for the Commission to advance local initiatives that promote healthy child development with federal, state and local experts. The final project meeting took place in October 2013. The Commission Chair has signed a Proclamation recognizing the outstanding achievement of Nemours: A Children's Health System in sponsoring the Children's Outcome Project.

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 2013 – Public Hearing: FY 2012-13 Annual Report and Financial Audit and Amendments to FY 2013-14 Operating Budget and Strategic Plan

- September 2013 –Status Report on Round 1 and Round 2 Catalytic Projects
- April 2013 – Annual Review of the Strategic Plan, Approval of FY 2013/14 Business Plan and Budget, and Related Implementing Actions
- March 2013 - Long-Term Financial Plan Update

RECOMMENDED ACTION:

Receive presentation on the Long-Term Financial Plan, Program Renewal Strategy and Sustainability Strategy and provide direction to staff.

ATTACHMENTS:

1. Long Term Financial Plan and Program Renewal Strategy Presentation

Contact: Kim Goll

Long-Term Financial Plan and Program Renewal Strategy

November 6, 2013



Children & Families
Commission of Orange County

Long -Term Financial Plan

- Commission has reviewed and updated its long term revenue and program projections annually since 2000
- Long-Term Financial Plan provides:
 - A ten year outlook of anticipated revenue
 - A forecast of funding capacity to sustain programmatic funding
 - A framework for evaluating annual budget decisions
- Long -Term Financial Plan does *not*
 - Authorize any specific funding actions
 - Obligate the total pool of program funding to any specific programs or projects

Revenue Update

- FY 2013/14 revenue
 - 6.77% decline from prior year (FY 11/12 to FY 12/13)
 - FY 2013/14 Amended Budget assumes a 3% decline compared to First 5 CA updated projection of 2.6% decline
- FY 2013/14 and future years projected revenue amounts were initially based on First 5 CA revenue projections but have been revised by Commission staff for a more conservative projection.

	FY 2010/11 Actual Per Audit	FY 2011/12 Actual Per Audit	FY 2012/13 Actual Per Audit	FY 2013/14 Amended Budget	FY 2014/15 Projection	FY 2015/16 Projection	FY 2016/17 Projection	FY 2017/18 Projection
Tobacco Tax Revenue (First 5 CA Projection)	28,809,921	28,988,350	\$27,024,505	\$26,213,770	\$25,230,753	\$24,347,677	\$23,373,770	\$22,438,819
% change from prior year	-3.02%	+.62%	-6.77%	-3.0%	-3.75%	-3.5%	-4.0%	-4.0%

Long -Term Financial Plan Assumptions

- **Program assumption**

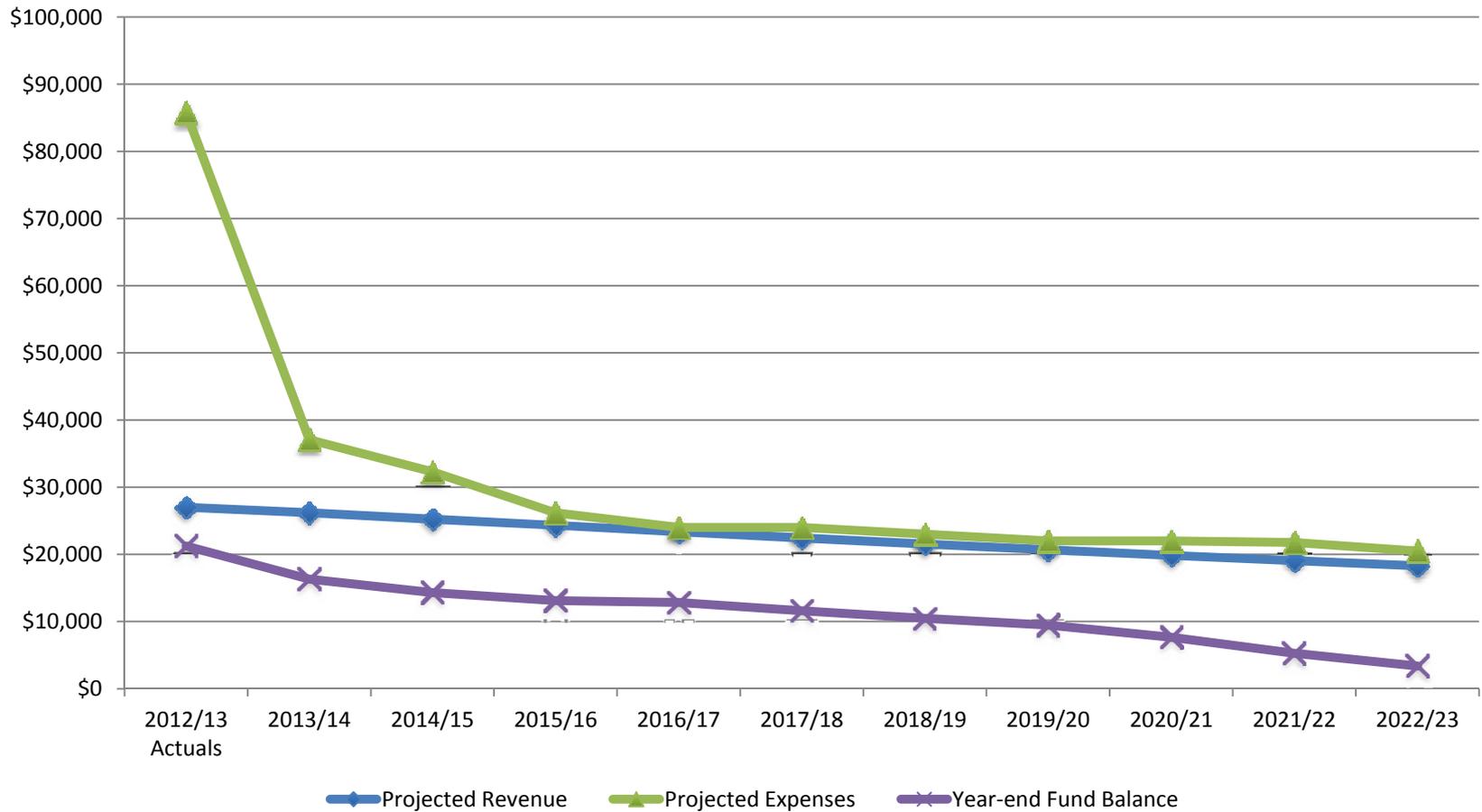
- Catalytic funding related AB 99 is expensed in FY 12/13 for planning purposes (Fund balance projections are separate from Catalytic Funds)

- **Financial assumptions**

- Recognize catalytic savings as they are realized
- Administration limited to 10% of total operating budget, exclusive of catalytic funding
- Fund balance required to be maintained at 25% of current year operating budget
- Annual draws of long-term commitments account is used as planned to supplement annual revenue

Updated Long -Term Financial Plan

Based on June 30, 2013 Year End and Updated Revenue Projections



Proposed Renewal Strategy

- Three-year renewals, with the greatest reduction realized in year 1 consistent with prior LTFP
 - Total reduction of 25% in program funding from FY 2013/14 levels to FY 2016/17
- Sustain priorities identified in prior budget reductions
 - Bridges Maternal Child Health Network
 - School Readiness Nursing
 - Early Learning Specialists
- Reductions will focus on:
 - Opportunities to reduce based on prior catalytic investments
 - Changes in external environment, particularly related to primary care services
 - Reduce high variations in program costs within a funded category

Proposed Renewal Strategy

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Percent Reduction from Prior Year		-12%	-7%	-7%

- Reduction strategy is implemented in parallel with increased and ongoing efforts to better leverage local, regional, state and federal funding opportunities
- Commission will continue ongoing work to reduce administrative and program management costs
- LTFP assumes no further contributions to Catalytic Funding

Ad Hoc Administrative Committee Recommendations

- **Renewal Recommendations**
 - Continue with 3-Year Term of renewal funding and reductions as planned
 - Encourage renewal panels to consider further reductions as possible to support future catalytic investments
 - Notify all grantees of anticipated funding reductions
- **Sustainability Strategies**
 - Investigate alternative investment strategies to improve return on cash balances
 - Continue work to explore and maximize other federal, state, regional, and local funders

Funding Renewal Process

- December & January
 - Funding panels will meet and develop renewal recommendations
- February
 - Full Commission will consider renewal recommendations
- July 1, 2014
 - New contract effective dates