



**Agenda Item 6
December 2, 2015**

DATE: November 18, 2015

TO: Children and Families Commission of Orange County

FROM: Christina Altmayer, Executive Director

SUBJECT: Long-Term Financial Plan Update

ACTION: Receive Presentation on the Long-Term Financial Plan Update

SUMMARY:

The Long-Term Financial Plan has been used by the Children and Families Commission of Orange County 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, the Plan is updated annually and used to monitor and forecast revenue trends and program funding over a 10-year period. The financial plan has been updated with fiscal year 2014/15 year-end financial results, amended fiscal year 2015/16 Budget, and the latest revenue projections.

DISCUSSION:

The Commission's Finance Manager, Michael Garcell and the Director of Operations and Strategy, Kim Goll will present the updated Long Term Financial Plan (Attachment 1). The presentation includes:

- A summary of the actual financial performance against plan, highlighting the increasing use of catalytic funding;
- Updated financial projections; and,
- Three alternative funding options and a related staff recommendation.

Commission direction on the alternatives is requested. Based on Commission direction, the plans and assumptions that will guide the fiscal year 2016/17 budget and funding renewal cycle will be developed. The assumptions and proposed budget plan will be presented at the March Commission meeting.

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:

- February 2014 - Approved Proposed Funding Renewal Actions for Program Agreements for FY 2014/15 through FY 2016/17

- December 2014 – Received the Long-Term Financial Plan Update
- October 2015 - Adopted resolution approving the Fiscal Year 2014/15 Annual Report, Comprehensive Annual Financial Report, approved amendments to FY 2014/15 Operating Budget, and adopted resolution approving the Amended Annual Operating Budget for FY 2015/16

RECOMMENDED ACTION:

Receive presentation on the Long-Term Financial Plan Update and provide direction to staff.

ATTACHMENT:

Long Term Financial Plan and Program Update

Contact: Michael Garcell

Long-Term Financial Plan Update



Children & Families Commission of Orange County

December 2, 2015



- 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
- FY 2015/16 Plan Updates:
 - Review trends against Commission policies
 - Present three potential long-term funding strategies
 - Develop a plan scenario to guide the FY 2016/17 Budget plan

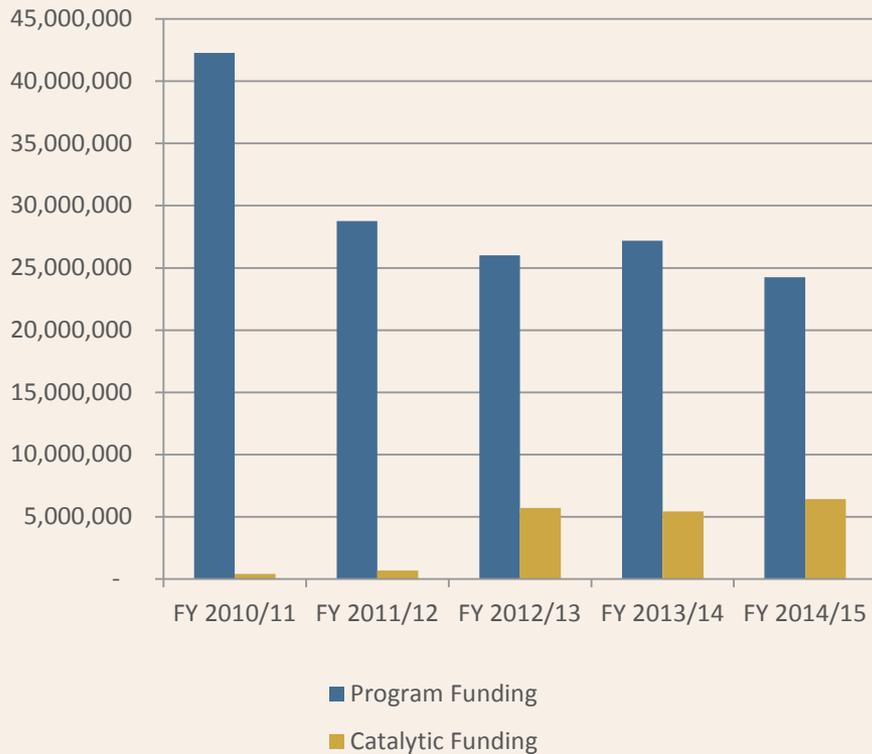


- Realized revenues above budget will be added to unallocated Catalytic Funding for future one-time investments.
- Fund balance is used to supplement long-term decline in annual revenue.
- Administration limited to 10% of operating budget.
 - As approved by the Commission, Round 2 Catalytic Funding included in operating budget allowing the related program costs to be included within administrative cap.
 - No increase in administrative actual expenses.
- Fund balance required to be maintained at 25% of current year operating budget.
 - Fund balance may be assigned for future-year budgets and financial planning.
 - Minimum fund balance is maintained through FY 2024/25 in current plan.
- Consistent with 2008 Bridgespan assessment, Commission has increased transition to catalytic funding.

Program Expense History*



Program and Catalytic Expenses



Catalytic Funding % of Program Expenses



* Not including First 5 California program expenses



- FY 2014/15 Actual Tobacco Tax Revenue:
 - 1.71% decline from prior year (FY 2013/14 to FY 2014/15)
 - First 5 CA reported a slight increase in statewide tax collected from FY 2013/14 to FY 2014/15 before BOE adjustments.
 - FY 2015/16 Amended Budget approved in October assumes 3.75% decline.
 - FY 2014/15 actual revenue created a higher baseline for FY 2015/16 and all future years.

	FY 2008/09 Actual	FY 2009/10 Actual	FY 2010/11 Actual	FY 2011/12 Actual	FY 2012/13 Actual	FY 2013/14 Actual	FY 2014/15 Actual	FY 2015/16 Budget
Tobacco Tax Revenue	\$33,396,055	\$29,706,126	\$28,809,921	\$28,988,350	\$27,024,505	\$26,395,725	\$25,943,624	\$24,970,738
% change from Prior Year	-6.00%	-11.05%	-3.02%	+0.62%	-6.77%	-2.33%	-1.71%	-3.75%

Projected Revenue



- Commission staff is recommending further refinement of the FY 2015/16 revenue budget to a **3.5% decline from the current 3.75% decline.**
 - Current plan assumes 3.5% to 4% annual decline in tobacco tax revenue.
 - First 5 California at October 2015 updated projection to an annual 2.5% decline in future years.
 - Higher than budget FY 2014/15 revenue and decreased annual decline results in an additional \$2.7 million over the ten-year planning period.
 - FY 2016/17 and all future years will assume the same 3.5% decline.

	FY 2013/14 Actual	FY 2014/15 Actual	FY 2015/16 Budget	FY 2016/17 Projection	FY 2017/18 Projection	FY 2018/19 Projection
Current LTFP	\$26,395,725	\$25,943,624	\$25,035,597	\$24,159,351	\$23,313,774	\$22,439,507
Annual Increase (Decrease)	-2.33%	-1.71%	-3.50%	-3.50%	-3.50%	-3.50%
Latest First 5 CA Projection	-4.44%	-0.09%	-2.52%	-2.50%	-2.50%	-2.50%

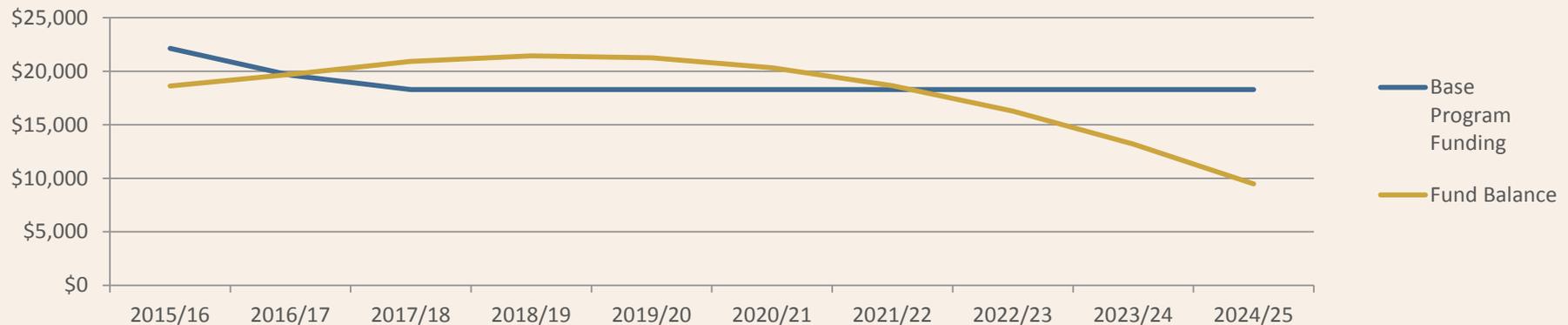


- Staff has developed three potential long-term funding scenarios related to future funding:
 - FY 2016/17 is the final year of the three-year funding renewals.
 - Revenue projections consistent in all three scenarios.
 - All scenarios consistent with Commission-approved financial policies (eg. fund balance, administration limits, etc.)
- Baseline plan maintains assumptions presented in November 2014 with updated revenue and financial results.
- Scenarios balance funding levels for next three years against long-term funding levels.

Scenario #1 – Maintain Baseline Funding



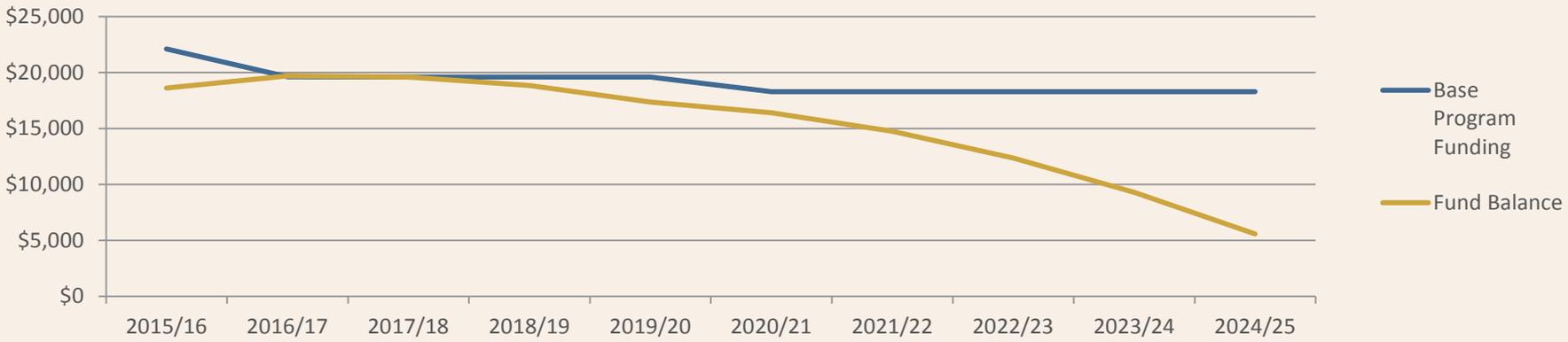
- **Maintains assumptions** from December 2014 plan with updated revenue and financial results.
 - FY 2017/18 program funding would step down to \$18.3 million from \$19.6.
 - Final eight years of the ten-year financial plan include level program funding currently estimated at \$18.3 million.
 - Minimum fund balance required is maintained through the end of the ten-year plan, FY 2024/25.



Scenario #2 – Three Additional Years at 2016/17 Levels



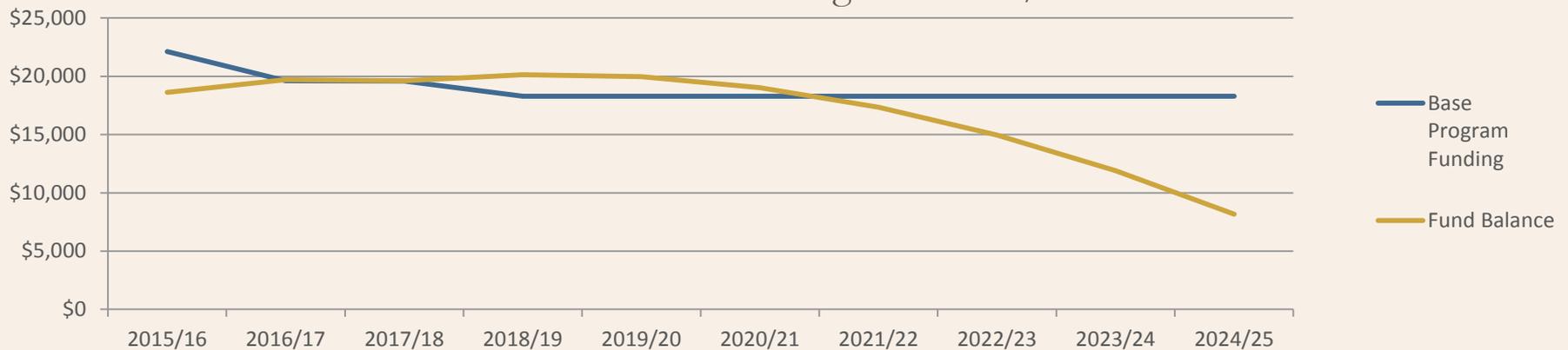
- Adjust revenue assumptions and extend FY 2016/17 program funding for **three years.**
 - Base program budget of \$19.6 million would be extended through FY 2019/20.
 - FY 2020/21 program funding would step down to \$18.3 million.
 - The final five years of the ten-year financial plan include level program funding currently estimated at \$18.3 million.
 - Minimum fund balance is maintained through FY 2024/25.



Scenario #3 – One Additional Year at 2016/17 Levels



- Adjust revenue assumptions and extend FY 2016/17 program funding for **one year**.
 - Base program budget of \$19.6 million would be extended for FY 2017/18.
 - FY 2018/19 program funding would step down to \$18.3 million.
 - The final seven years of the ten-year financial plan include level program funding currently estimated at \$18.3 million.
 - Minimum fund balance is maintained through FY 2024/25.





Scenario 1

- Provides the highest contribution to Fund Balance (FY 16/17, FY 17/18 and FY 18/19)
- Requires a \$1.3 million cut in program funding starting FY 2017/18

Scenario 2

- Provides the lowest contribution to Fund Balance (FY 16/17)
- No cuts to program funding until FY 2020/2021

Scenario 3

- Provides contribution to Fund Balance (FY 16/17 and FY 18/19)
- Requires \$1.3 million cut in program funding starting FY 2018/19

Staff Recommends Scenario 3

- Increases to fund balance will maintain minimum balance through FY 2024/25
- Alignment of declining revenue with program funding
- Consistent with Commission policy revenue above budget would be allocated to undesignated catalytic funding
- Allows for additional time to continue to work on alternative funding and sustainability strategies



- Commission investment between \$4.1 million and \$6.2 million
- Leveraged IGT funds to be transferred to Orange County between \$3.3 million and \$5 million, plus Commission principal
 - Commission investment and IGT funds would return to service providers.
 - Commission would invest three years of funds to leverage nearly five years of services.
 - Funding for services would last for five years and then have to be programmed back into the Commission budget or seek outside/leveraged funding.
- Long-Term Financial Plan
 - Initial funds transfer would be recognized as expense.
 - Demand for related program services would be removed from Commission budget for nearly five years.



- Receive Updated Revenue Forecast
 - Consider revenue adjustment for FY 2015/16 budget from 3.75% decline to 3.5% decline.
- Review current Long Term Financial Plan Assumptions
 - Consider and provide direction for future year program funding levels for long-term financial plan based on latest revenue assumptions.
- Next Steps
 - Monitor actual revenue against budget and plan
 - Provide FY 2016/17 Budget assumptions and plan in March 2016
 - Develop FY 2016/17 Budget consistent with Long Term Financial Plan and previous Commission action.