



**Executive Officer's Report
March 2, 2011 Meeting**

DATE: February 22, 2011

TO: Children and Families Commission of Orange County

FROM: Michael M. Ruane, Executive Director

A handwritten signature in black ink, appearing to read "Michael M. Ruane".

SUBJECT: Executive Officer's Report

The Executive Officer's Report for March 2, 2011, will include the following items.

A. Informational Items (Report)

1. Financial Highlights (included in Attachment 1)

B. State Budget and Legislative Update (Report and Action)

A report and update on any new state budget or legislative proposals that may impact county commissions will be presented at the March meeting.

C. Quarterly Investment Report (Report)

As required by California Government Code Section 53646, and the Commission's Investment Policy Statement dated March 3, 2010, the Commission Treasurer submits the Quarterly Investment Report (Report) to the Commission. The Report summarizes Commission investments in the OCIP Money Market Fund for the period October 1 through December 31, 2010. The Report also contains information on market conditions during the reporting period.

D. Matching Fund Program with Merage Children's First Program (Report and Action)

The Commission has an existing partnership with Children First, a Merage Foundation. The Children First Foundation has two primary functions: First, to provide grants and retiree placements to early childhood organizations serving children under six-years old; and second, to support the demonstration project at the El Sol Academy (charter school) in Santa Ana. The El Sol Academy provides preschool, literacy and health services to low income children. There is now a clinic on the campus that provides health services to children and families. In addition, one of the other key programs of the Children First Foundation is to match retired doctors, nurses and teachers with placements at early childhood organizations. This further leverages the Commission's investments and creates a more sustainable strategy for support.

The current partnership has been successful, and has provided an excellent opportunity to expand services which improve the school readiness of children in low income communities. At this time, it is recommended that the matching fund program with the Children First Foundation be renewed at an annual funding level of \$75,000 (this represents level funding

from FY 2009/10). The Commission grant serves as a challenge grant for Children First's upcoming fund raising efforts.

The El Sol Academy demonstration project includes programs for early literacy, health and dental services sponsored by the Commission. The Commission allocation of \$75,000 will go to support both the health services at the El Sol Academy and the matching fund program with the following parameters:

- Organizations must be existing or prior Commission grantee
- Maximum contribution is limited to \$20,000 per individual organization
- Organization serves children under six-years of age
- The total contribution amount must be matched by Children First Foundation on a 2:1 basis

The Orange County Community Foundation serves as the fiscal intermediary for the matching grant program, and would continue to serve in this role. Commission staff will also be involved in the review process for the matching grant program and establish any required terms and conditions through a letter agreement.

E. HomeAid Partnership - Laura's House Expansion Project *(Report)*

Following the February Commission meeting, staff has begun to assist Laura's House staff in getting more information and potentially clearing the lien on the property. Significant progress has been made in clearing the lien, as Laura's House staff was able to locate the agency's audit from 1995, 1996 and 1997 that identify the pay-off of the property and have also found the payment stub and receipt from the lender. HomeAid has been able to assist Laura's House in working with First American Title to review the documents and process the re-conveyance and issue title insurance. Laura's House is also in the process of getting an appraisal of the property to ensure value. Staff anticipates returning to the Commission for action at the April 2011 meeting.

ATTACHMENTS:

1. Financial Highlights
2. Quarterly Investment Report

FINANCIAL HIGHLIGHTS

January 31, 2011

Revenue Update

The Children and Families Commission of Orange County has received and recorded **\$12,021,810** in total revenues fiscal year to date.

- The Commission's total Tobacco Tax Revenues for December 2010 as reported by First 5 California is \$14,107,057. Prop 10 revenues for July through December 2010 are approximately 4.4% lower than the year to date estimated budget plan of \$14.75 million. As of January 31, \$11.6 million has been received for July through November 2010.
- \$311,530 – Interest Earnings received for July 2010 through January 2011.

Expenditure Update

The total actual operating expenditures and encumbrances year to date are **\$68,452,082**.

The following is an overview of the actual operating expenditures and encumbrances for the year to date ended January 31, 2011:

- \$68,452,082 – Total Year To Date Actual Operating Expenditures and Encumbrances
 - \$64,850,763 for Children's Programs
 - \$38,340,303 – Healthy Children Programs
 - \$12,830,019 – Strong Families Programs
 - \$9,335,133 – Ready to Learn (School Readiness) Programs
 - \$4,345,308 – Quality Services including Capacity Grants, AmeriCorps/VISTA, POMS (Evaluation costs of \$1,556,318)
 - \$3,442,677 for Administrative Functions

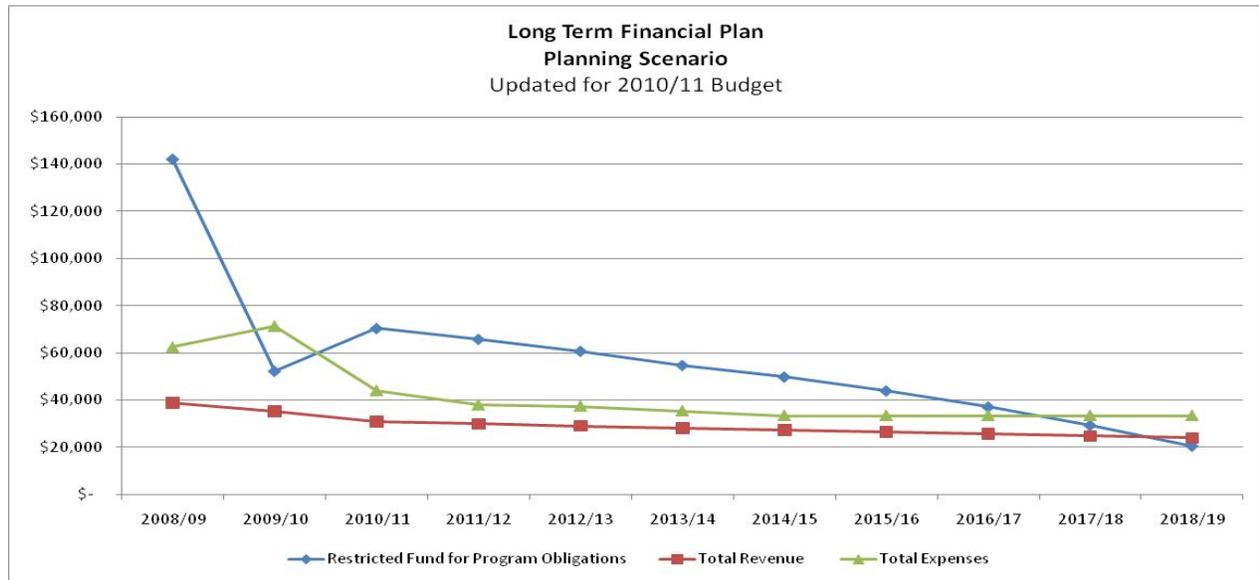
Administrative costs and functions are defined by State Commission guidelines (Fiscal Memorandum No. 05-01, dated April 14, 2006) pursuant to Chapter 284, Statutes of 2005 (AB 109). Actual Administrative expenditures and encumbrances of \$3,442,677 were 6.2% of the year to date ended January 31, 2011 Operating Budget of \$55,672,894.

Consistent with 10-Year Financial Plan

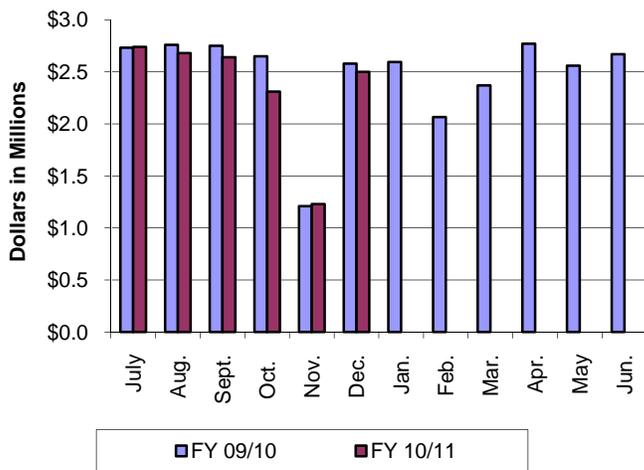
The Commission has dedicated funding for long-term support of programs consistent with the current Ten-Year Financial Plan.

Children and Families Commission of Orange County Snapshot Period Ended January 31, 2011

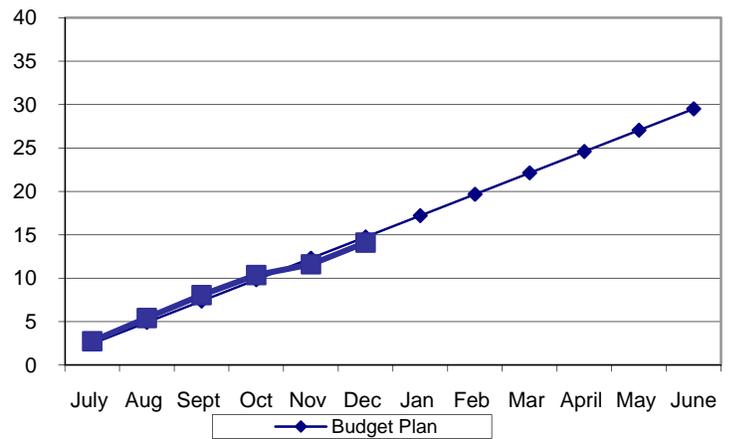
1) Long Term Financial Plan



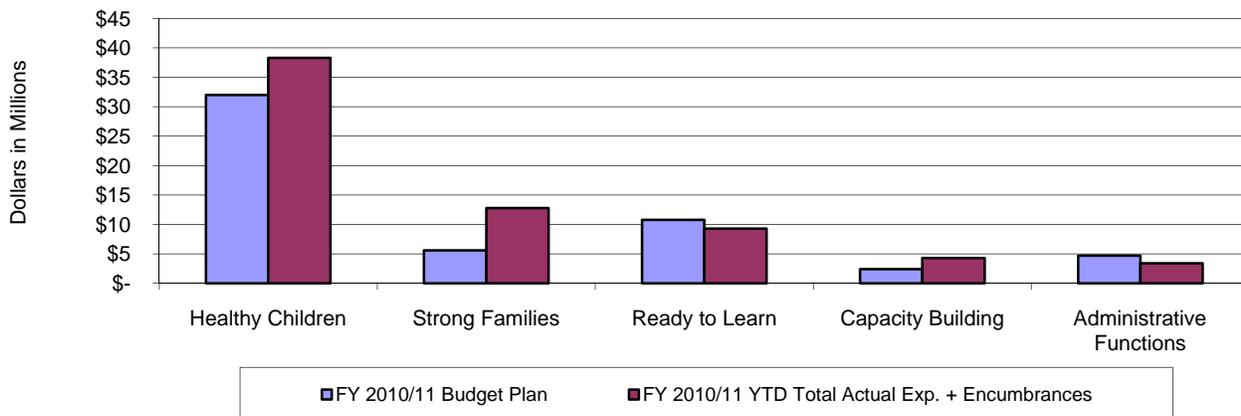
2) FYS 09/10 & 10/11 Tobacco Monthly Revenues *



3) FY 2010-11 Cumulative Tobacco Tax Revenue Budget Plan Vs. Actuals To Date *



4) FY 2010-11 Budget Plan Vs. YTD Total Actuals



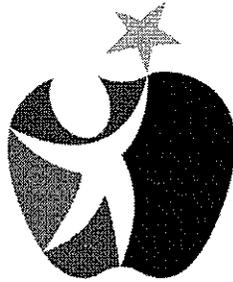
*SOURCE: County Funds Distribution Report – First 5 California

**Children and Families Commission of Orange County
Comparison of FY 2010-11 Budget vs. Actuals - Unaudited
Period Ended 01/31/11**

FINANCING		
	FY 2010-11 Amended Budget	FY 2010-11 Actual Revenues
General Purpose Revenues	30,935,000	12,033,175
Special Purpose Revenues	450,000	(11,366)
TOTAL REVENUES	\$31,385,000	\$12,021,810
Other Financing		
From Capital Reserve	\$1,499,950	
Prior Year Encumbrance Released	1,109,640	
Fund Balance	21,678,304	
TOTAL FINANCING	\$55,672,894	

EXPENSES			
	FY 2010-11 Amended Budget	FY 2010-11 Actual Expenses	Encumbrances As of 01/31/11
Healthy Children	32,146,179	9,901,898	28,438,405
Strong Families	5,654,899	165,275	12,664,744
Ready to Learn	10,796,575	-599,748	9,934,881
Capacity Building	2,386,193	1,068,445	3,276,863
PROGRAM SERVICES	\$50,983,846	\$10,535,870	\$54,314,893
Administrative Functions	4,689,048	2,305,488	1,137,189
TOTAL OPERATING EXPENSES	55,672,894	\$12,841,358	55,452,082

Quarterly Investment Report



Children & Families
Commission of Orange County

For the Period October 1 through December 31, 2010

Quarterly Investment Report
October 1, 2010 through December 31, 2010

OVERVIEW

Pursuant to California Government Code Section 53646, and the Commission's Investment Policy Statement dated March 3, 2010, the Treasurer submits this Quarterly Investment Report to the Commission. The Investment Report summarizes investment activities for the Commission for the three-month period from October 1 through December 31, 2010.

The Commission has invested solely in (1) the Orange County Investment Pool's Money Market Fund ("Money Market Fund") and (2) in a Specific Long-Term Investment Program ("SLTIP"), a longer term reserve fund. All funds are managed by the Orange County Treasurer's Office.

The on-going monitoring of the Commission's investment program by staff and Sperry Capital Inc., the Commission's independent financial advisor, indicates that the investments are in compliance with the Commission's adopted Investment Policy Statement as well as with the California Government Code.

The overall performance of the Orange County Investment Pool's Money Market Fund for the quarter has tracked with money market benchmark indices. In addition, the Commission appears to have sufficient liquidity together with anticipated revenues to meet the Commission's budgeted expenditures over the next six months.

MONEY MARKET FUND

The funds in the Money Market Fund are invested for liquidity. The Commission's investment in the Orange County Money Market Fund as of December 31, 2010 totaled \$105,239,422.

SPECIFIC LONG-TERM INVESTMENT PROGRAM

On March 3, 2010, the Commission considered recommendations formulated by the Commission's Investment Oversight Committee at their January and February meetings, and authorized the repositioning of SLTIP funds (approximately \$35 million) to the Money Market Fund to improve the overall performance of the Commission's investment funds. On March 8, 2010, the seven U.S. Treasury securities in the SLTIP were sold and the proceeds were invested in the Money Market Fund. Therefore, no funds were invested in the SLTIP at the close of the quarter on December 31, 2010.

MARKET CONDITIONS

U.S. Treasury Yields: Due in large part to the lingering effects of the credit and liquidity crisis, the fourth quarter of 2010 continued to see high demand for U.S. Treasury securities in short-term maturities. The yield on 3-month Treasury Bills began the quarter at 0.16%, traded in a very narrow range, and closed at 0.12% on December 31. However, the 5-year and 10-year Treasury Bonds both rose dramatically in yield and dropped in price in the fourth quarter. The yield on 5-year Treasury Bonds began the quarter at 1.27% and closed for the quarter at 2.01% on December 31. The yield on 10-year Treasury Bonds began the quarter at 2.53% and closed for the quarter at 3.30% on December 31.

U.S. Treasury Yield Curve: It is important to note that the widely watched 10-year U.S. Treasury Bond, a key indicator of broader financial conditions, decreased in price and increased in yield by 76 basis points. Many observers attribute the relative difference to long-term investors anticipating higher inflation rates in the future.

	Quarter Ending December 31, 2010	Quarter Ending September 30, 2010
3 Month	0.12%	0.16%
5 Year	2.01%	1.27%
10 Year	3.30%	2.53%
30 Year	4.34%	3.69%

Economic Highlights

Although the stock market showed gains in 2010, the American economy's rebound has been less robust. In the third quarter, the economy grew 3.2% over the previous year, in line with the historical average, but slower than it should be at this point in the recovery. The labor market in particular has continued to struggle. The excess slack in the economy has held headline inflation to around 1.1%, and core inflation (excluding food and energy) is hovering near historical lows of below 1% per year. Looking ahead, inflation is expected to begin a gradual rise, but see little danger of it accelerating out of control in the near term.

The Federal Reserve does, however, focus on the "unacceptably" high unemployment rate and worryingly low core inflation rate. Given this, most capital market observers expect the Fed to finish the full dose of their \$600 billion quantitative easing, "QE2," medicine. Most capital market observers do not foresee "QE3" unless inflation fails to bottom and growth slows significantly. As for the federal funds rate, the capital market consensus does not anticipate rate hikes in 2011.

Unemployment

The national employment report for December was again disappointing. Although more than 103,000 jobs were created in December, the number was below expectations. Most of the jobs being created were in the leisure and hospitality industries and health care. Jobs in other business sectors were flat.

The national unemployment rate declined slightly to 9.4%. The California unemployment rate increased slightly to 12.5%, and the Orange County unemployment rate dropped to 8.9% in December 2010.

COMPLIANCE MONITORING

During the reporting period, funds in the OCIP were invested in compliance with applicable statements of investment policy and were free of non-compliance incidents.

PORTFOLIO PERFORMANCE SUMMARY

The following table presents an overview of the Orange County Investment Pool's Money Market Fund for the months ending October 31, November 30, and December 31, 2010.

Orange County Investment Pool – Money Market Fund					
Period Ending	Pool Market Value	Monthly Average Yields			CNTY MMF
		CNTY MMF	OCIP Net	MMF Avg	AVG Days to Mat
December 31	\$1,836,629,503	0.31	0.44	0.13	54 Days
November 30	\$1,909,825,613	0.25	0.89	0.14	58 Days
October 31	\$1,391,396,900	0.30	(0.82)*	0.15	57 Days

*Consistent with the County's approved plan to liquidate its original \$80 million investment in a structured investment vehicle known as Whistlejacket, and restructured under the name of Serpentine Funding Limited, the County liquidated its position in October 2010. The loss is reflected in the October OCIP net yield.

SUMMARY STATEMENTS

Attached for further information and reference is the Statement of Activity from the December 31, 2010 Orange County Treasurer's Investment Management Report.

- A. Statement of Activity: This Statement reports the beginning and ending balances of the Commission's funds invested in the Money Market Fund. All deposits, withdrawals, investment earnings, and administrative fees for the reporting period are also posted. The Commission's December 31, 2010 ending balance was \$105,239,422.

APPORTIONMENT OF INTEREST EARNINGS

The Orange County Treasurer apportions interest earnings in the commingled pools to all investors each month. According to the Treasurer's forecast, apportionment of the Commission's interest earnings for the months of November and December are scheduled to be posted to the Commission's cash account in the County general ledger by approximately February 25, 2011.

Attachments:

- A. Statement of Activity



COUNTY OF ORANGE
OFFICE OF THE TREASURER-TAX COLLECTOR
 HALL OF FINANCE & RECORDS
 12 CIVIC CENTER PLAZA, ROOM G76
 P. O. BOX 4515
 SANTA ANA, CA 92701

February 22, 2011

STATEMENT OF ACTIVITY
For the Month Ended December 31, 2010

Orange County Children and Families Commission
 c/o Michael Ruane, Executive Director
 17320 Redhill Ave #200
 Irvine, CA 92614

<u>Cash in Treasury - Fund 225</u>						
<u>Date / Description</u>	<u>Beginning Balance</u>	<u>Deposits</u>	<u>Withdrawals</u>	<u>Investment Income</u>	<u>Treasury Admin Fee</u>	<u>Ending Balance</u>
12/01/10, November Admin Fee	\$105,888,766.70	\$2,316,472.65	(\$3,049,178.01)	92,496.63	(9,135.84)	
12/07/10, August Interest						
	<u>\$105,888,766.70</u>	<u>\$2,316,472.65</u>	<u>(\$3,049,178.01)</u>	<u>\$92,496.63</u>	<u>(\$9,135.84)</u>	<u>\$105,239,422.13</u>
<u>Accrued Investment Income - Fund 225</u>						
<u>Date / Description</u>	<u>Beginning Balance</u>	<u>Accrual</u>	<u>Payment</u>	<u>Ending Balance</u>	<u>Apportionment Annualized Yield (Gross)</u>	
12/07/10, August Interest	\$351,978.55		(92,496.63)			
01/03/11, December Interest		43,594.72				
	<u>\$351,978.55</u>	<u>\$43,594.72</u>	<u>(\$92,496.63)</u>	<u>\$303,076.64</u>		0.482%, December

(A)