



Children & Families
Commission of Orange County

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CLERK OF THE BOARD

**Executive Officers Report
March 5, 2008 Meeting**

DATE: February 21, 2008

TO: Children and Families Commission of Orange County

FROM: Michael M. Ruane, Executive Director

SUBJECT: Executive Officer Report

The Executive Officers Report for March 5, 2008 will include the following items.

A. Informational Items (Report)

1. Financial Highlights (Attachment 1)
2. State Association and State Commission Meetings

B. Quarterly Investment Report (Report)

As required by California Government Code Section 53646, and the Commission's Investment Policy Statement adopted on May 2, 2007, the Commission Treasurer submits the Quarterly Investment Report to the Commission (Exhibit A). The Investment Report summarizes Commission investments in both the OCIP and the SIP, for the period October 1 through December 31, 2007. The Report also contains information on market conditions during the report period.

C. Perinatal Substance Exposed Infants (Information)

Previously, the Orange County Grand Jury studied County efforts to improve birth outcomes of substance exposed newborns. Several programs that provide services to pregnant women were highlighted in the report including the Perinatal Assessment and Coordination Team (ACT), Maternal Outreach Management System (MOM's) Program, and Heritage House – all funded by the Commission. The Grand Jury recommended that the Health Care Agency initiate and support an ongoing steering committee to direct the focus of improving outcomes related to substance exposed newborns; with a goal of initiating and supporting a prevalence study help target prenatal and perinatal resources to address this problem.

A Steering Committee, which includes representation from the Commission, has completed a final report and a one page summary of the study is attached. Compared to non-users, substance users are more likely to have initiated prenatal care later or received no prenatal care and have babies born with shorter gestational age and lower birth weight. The results of this study will be shared with Commission grantees to assist in further targeting of appropriate strategies.

D. Follow-up to Commission Workshop on Services to Homeless Children *(Information)*

Since the January Commission workshop on services to homeless children, a review of potential opportunities has been initiated along with an assessment of current efforts in Orange County. The Ad-Hoc Committee of Commissioners convened to address follow-up actions has met and there will be a brief update at the Commission meeting.

E. State Budget and Legislative Update *(Information)*

At the meeting, staff will provide an update on recent state budgetary actions and legislation that may impact the Commission and sponsored programs. Any response required to pending state legislation will also be presented for action.

F. Release of the 2008 Orange County Community Indicators Report *(Information)*

The 2008 Community Indicators Report will be released at the March 4, 2008 Board of Supervisors meeting and the March 5, 2008 Commission meeting. The Community Indicators Report tracks economic, social, environmental and quality of life indicators and measures annual progress in Orange County. The Commission serves as co-sponsor of the annual publication and the Commission Executive Director serves as Project Director for the report.

Copies of the 2008 Community Indicators Report will be available at the March 5th Meeting.

G. Matching Fund Program with Merage Children's First Foundation *(Information and Action)*

The Commission has an existing partnership with Children's First, a Merage Foundation. The Children's first Foundation has two primary functions: 1) providing grants and retiree placements to early childhood organizations serving children under 6 years old, and 2) supporting a demonstration project at the El Sol Academy (charter school) in Santa Ana to provide preschool, literacy and health services to low income children. 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.

Both the early learning objectives and the demonstration project at El Sol Academy are consistent with the recommendations in the Bridgespan Strategic Assessment to expand early literacy and learning opportunities in communities with the greatest needs.

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 (it was previously at a *not to exceed* level of \$50,000 due to the lack of matching funds). The parameters for matching fund program specifically:

- Organizations must be existing or prior Commission grantee
- Maximum contribution is limited to \$20,000 per individual organization
- Organization serves children under 6-years of age
- The total contribution amount must be matched by Children First Foundation. This serves as a challenge grant for Children First's upcoming fund raising efforts

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.

The El Sol Academy demonstration project is supported through existing funding programs for early literacy, health and dental services, and project evaluation is also sponsored by the Commission. No specific allocation is required at this time.

Attachments:

1. Financial Highlights
2. Exhibit A (Quarterly Investment Report)
3. Perinatal Substance Exposed Infants Study

FINANCIAL HIGHLIGHTS

January 31, 2008

Investment Update

The Children and Families Commission of Orange County investment portfolio consisting of U.S. Treasury bills is **\$40,392,000** with laddered maturities extending through October 2009. The Commission's investment portfolio report is included in Attachment 1C. Unrealized gains and losses that are noted have not become actual. They become realized gains and losses when the security in which there is a gain or loss is actually sold. The U.S. Treasuries in the Commission's investment portfolio are held until maturity.

Revenue Update

The Children and Families Commission of Orange County received and recorded **\$19,843,020** in total revenues year to date. The detail of all revenues received is included in Attachment 1B.

- \$18,253,307 – Tobacco Tax Revenues for July 2007 through December 2007. As reported by the state, Prop 10 revenues for July 2007 through December 2007 were approximately \$253,307 or 1.4% higher than the year to date estimated budget plan of \$18,000,000. Commission cash receipts for tobacco tax revenue include payments through November totaling \$14,943,070 as included in Attachment 1B.
- \$4,837,917 – Interest Revenues received for July 2007 through December 2007 are approximately \$754,584 or 18.5% higher than the year to date estimated budget plan of \$4,083,333. The increase in rate of return earned by the Commission's funds on deposit at the County Treasurer has contributed to the higher than expected interest earnings.

Expenditure Update

The total actual operating expenditures and encumbrances year to date are **\$60,437,748**. Overall budgeted expenditures and encumbrances were approximately \$17,807,170 or 42% higher than the year to date current operating budget plan of \$42,630,578. This variance is due to timely contract executions resulting in encumbrance reservations against the fiscal year 2007-2008 budget.

The following is an overview of the actual operating expenditures and encumbrances for the year to date ended January 31, 2008:

- \$60,437,748 – Total Year To Date Actual Operating Expenditures and Encumbrances
 - \$56,132,488 for Children's Programs
 - \$31,755,985 – Healthy Children Programs
 - \$5,500,538 – Strong Families Programs
 - \$14,015,286 – Ready to Learn (School Readiness) Programs
 - \$4,960,680 – Quality Services including Capacity Grants, AmeriCorps/VISTA, POMS (Evaluation costs of \$1,851,241)
 - \$4,305,260 for Administrative Functions

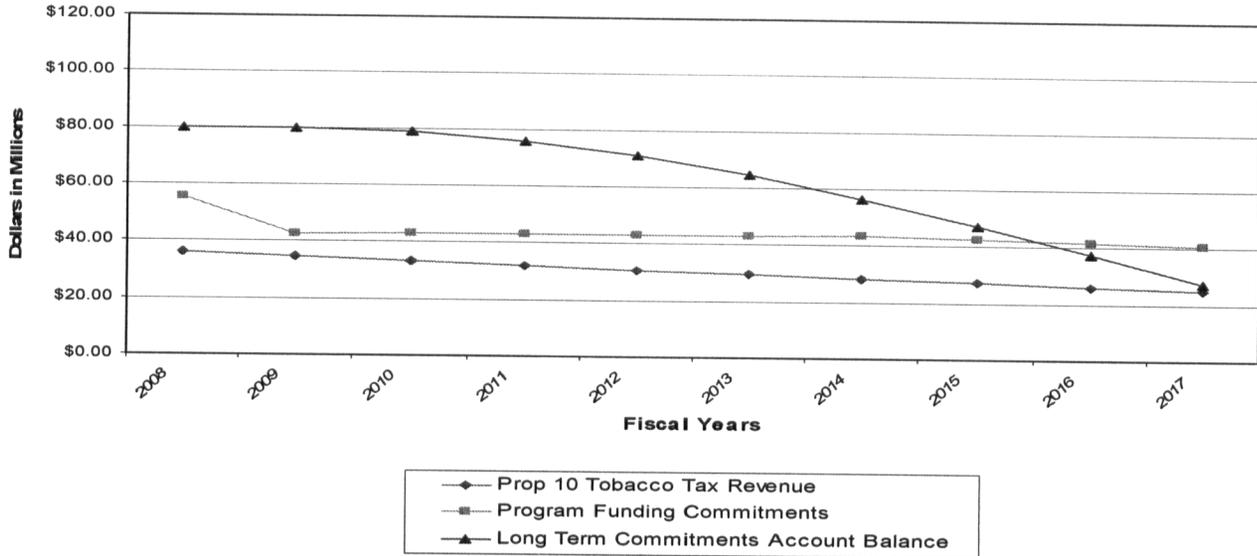
Administrative costs and functions are defined by State Commission guidelines (Fiscal Memorandum No. 05-01, dated April 14, 2006) pursuant to Chapter 284, Statutes of 2005 (AB 109). Actual Administrative expenditures and encumbrances of \$4,305,260 were 4% of the year to date ended January 31, 2008 Operating Budget of \$107,708,288.

Consistent with 10-Year Financial Plan

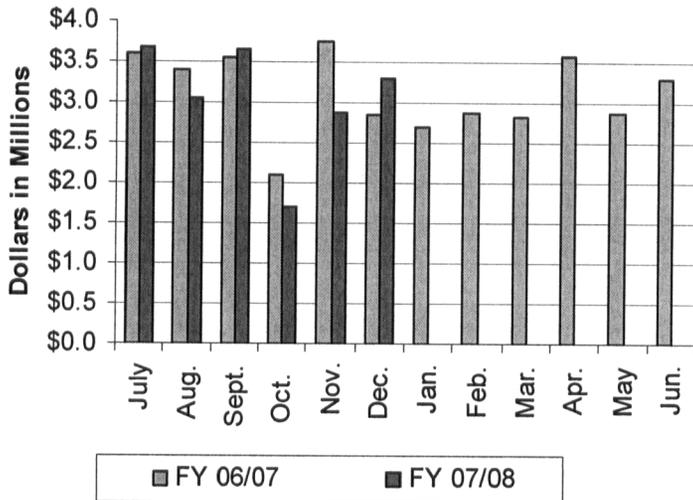
The Commission has dedicated funding for long-term support of programs consistent with the current Ten-Year Financial Plan.

Children and Families Commission of Orange County Snapshot Period Ended January 31, 2008

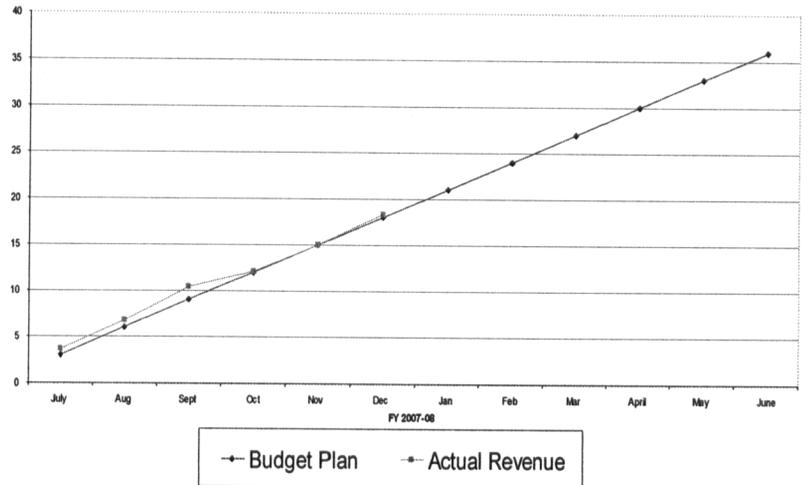
1) Ten-Year Financial Plan Projections



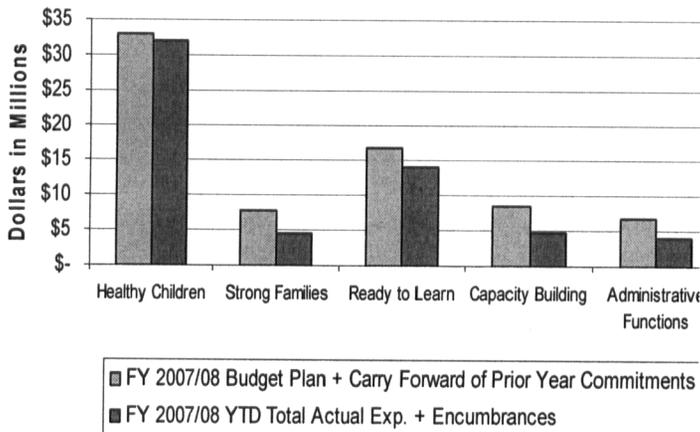
2) FYS 06/07 & 07/08 Tobacco Monthly Revenues *



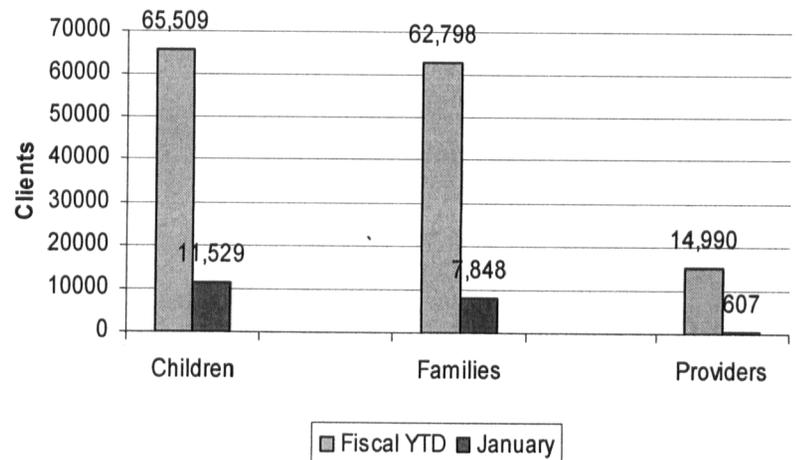
3) FY 2007-08 Cumulative Tobacco Tax Revenue Budget Plan Vs. Actuals To Date *



4) FY 2007-08 Budget Plan Vs. YTD Total Actuals



5) Clients served in January and Fiscal YTD



* SOURCE: County Funds Distribution Report (July 07 – December 07) First 5 California

Children and Families Commission of Orange County
Comparison of FY 2007-08 Budget vs. Actuals - Unaudited
Period Ended 1/31/08

High Level Summary

	FY 2007-08 (budget + carry forward for prior year commitments)	FY 2007-08 YTD Total Actual Expend. & Encumb. Thru 1/31/08	Budget vs. Actuals	Actuals % of Final Budget Amount
FINANCING				
<u>General Purpose Revenues</u>				
Tobacco Tax Revenue	36,000,000	14,943,070	-21,056,930	42%
All Other General Purpose Revenues	8,070,000	4,961,855	-3,108,145	61%
General Purpose Revenues Subtotal	44,070,000	19,904,925	-24,165,075	45%
Special Purpose Revenues	5,649,564	-61,905	-5,711,469	-1%
TOTAL REVENUES	49,719,564	19,843,020	-29,876,544	40%
Multi-Year Commitments - Operating Budget	0	0		
Fund Balance Available	46,500,000	43,587,439		
PY Carry forward Encumbrances	11,488,724	14,087,217		
TOTAL FINANCING	107,708,288	77,517,676	-29,876,544	72%
REQUIREMENTS				
<u>PROGRAM SERVICES</u>				
Healthy Children	33,059,512	31,755,985	-1,303,527	96%
Strong Families	7,632,423	5,400,538	-2,231,886	71%
Ready to Learn	16,643,485	14,015,286	-2,628,199	84%
Capacity Building	8,395,398	4,960,680	-3,434,718	59%
TOTAL PROGRAM SERVICES	65,730,819	56,132,488	-9,598,331	85%
Administrative Functions	6,850,172	4,305,260	-2,544,912	63%
Contingency Funding	500,000	0	-500,000	0%
TOTAL OPERATING EXPENSES	73,080,990	60,437,748	-12,643,242	83%
Transfer to Long Term Commitments Account	10,000,000	0	-10,000,000	0%
Undesignated/Unreserved	24,627,298			
TOTAL REQUIREMENTS	107,708,288	60,437,748	-22,643,242	56%
FINANCES LESS EXPENSES	0	17,079,928	17,079,928	

**Children and Families Commission of Orange County
Investment Portfolio Report
As of January 31, 2008**

Attachment 1C

<u>Issuer</u>	<u>Purchase Date</u>	<u>Maturity Date</u>	<u>Days to Maturity</u>	<u>Yield (%)</u>	<u>CUSIP</u>	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>	<u>Accrued Earnings</u>	
									<u>For Month</u>	<u>To Date</u>
Treasury Bill (issued at a discount)										
U.S. Treasury Security	1/31/2008	7/31/2008	182	2.0100	912795F71	\$ 4,949,191.67	\$ 4,949,190.00	\$ (1.67)	\$ 279.17	\$ 279.17
Subtotal for: Treasury Bill						4,949,191.67	4,949,190.00	(1.67)	279.17	279.17
Treasury Bond (semi-annual coupons)										
U.S. Treasury Security	8/25/2006	4/30/2008	614	4.9197	912828FC9	4,996,093.75	5,035,155.00	35,721.22	20,842.72	65,276.51
U.S. Treasury Security	9/6/2006	4/30/2008	602	4.8511	912828FC9	5,001,562.50	5,035,155.00	34,924.00	20,565.04	60,604.98
U.S. Treasury Security	9/15/2006	10/15/2008	761	4.7986	912828BM1	4,835,937.50	5,034,375.00	89,781.13	19,917.52	155,189.84
U.S. Treasury Security	9/26/2006	1/15/2009	842	4.5856	912828BV1	4,855,468.75	5,056,250.00	116,156.66	19,092.58	92,213.88
U.S. Treasury Security	10/2/2006	4/15/2009	926	4.6332	912828CE8	4,821,484.40	5,063,280.00	147,911.05	19,210.51	140,418.02
U.S. Treasury Security	10/11/2006	7/15/2009	1008	4.7447	912828CN8	4,856,445.30	5,110,155.00	185,635.15	19,775.23	76,539.52
U.S. Treasury Security	10/16/2006	10/15/2009	1095	4.8011	912828CX6	4,803,125.00	5,108,595.00	220,427.19	19,866.67	135,298.96
Subtotal for: Treasury Bond						34,170,117.20	35,442,965.00	830,556.40	139,270.27	725,541.71
Grand Total						\$ 39,119,308.87	\$ 40,392,155.00	\$ 830,554.73	\$ 139,549.44	\$ 725,820.88

All of the above investments and any investment decisions made for the month January 31, 2008 were in full compliance with the Commission's investment policy as adopted on May 2, 2007.

The Commission had adequate cash flows for six months of operations.

Signed by: _____
Director of Finance

**Quarterly Investment Report
For the Period October 1, 2007 through December 31, 2007**

OVERVIEW

Pursuant to California Government Code Section 53646, and the Commission's Investment Policy Statement adopted on May 2, 2007, the Treasurer submits the Quarterly Investment Report to the Commission. The Investment Report summarizes investment activities for the three-month period from October 1 through December 31, 2007.

Currently the Commission invests solely in the 1) Orange County Investment Pool's Money Market Fund ("Money Market Fund"), and 2) the Sustainability Fund invested in a Specific Long-Term Investment Program ("SLP"). All funds are managed by the Orange County Treasurer's Office.

The funds invested in the Money Market Fund are invested for liquidity. The funds invested in the Sustainability Fund invested in a SLP are invested in specific U.S. Treasury Notes, with maturities not to exceed three years. The U.S. Treasury Notes are invested in a "laddered" maturity approach.

The on-going monitoring of the Commission's investment program by staff and Sperry Capital Inc., the Commission's independent investment 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 has tracked with money market benchmark indices. In addition, the Commission appears to have sufficient liquidity together with anticipated revenues to meet the Commissions' budgeted expenditures over the next six months.

MONEY MARKET FUND

The Commission's investment in the Orange County Money Market Fund on December 31, 2007 totaled \$121,140,196.

SPECIFIC LONG-TERM INVESTMENT PROGRAM

The market value (i.e. the price of each security at the close of the market on the last trading day of the month) of the U.S. Treasury Notes in the SLP was \$40,125,000 on December 31, 2007, with an average yield of 4.8%. As the individual U.S. Treasury Notes mature, the proceeds are reinvested by the Orange County Treasurer.

MARKET CONDITIONS

U.S Treasury Yields: Due in large part to the concern over subprime mortgage securities, the fourth quarter witnessed a continued flight to quality as investors sought the protection of U.S. Treasury securities investments. The yield on the 10-year Treasury began the quarter at 4.56% and closed at 4.04%.

Yield Curve: The U.S. Treasury yield curve reflected uncertainty at the end of the fourth quarter. On December 31, three-month U.S. Treasury Bills yielded 3.36%, the 10-year U.S. Treasury yielded 4.59%, and the 30-year U.S. Treasury yielded 4.45%.

Markets & Rates: After reducing the Fed Funds rate by 50 basis points from 5.25% to 4.75% in September, the Federal Open Market Committee (FOMC) again eased interest rates by lowering the Fed Funds rate by 25 basis points to 4.50% in October, and again by 25 basis points to 4.25% in December. The Fed continues to walk a tightrope between the need to satisfy the capital market's growing need for liquidity and the Fed's concern over inflation.

The fourth quarter was another difficult period for the capital markets. The biggest area for concern for the Fed and the capital markets continued to be the subprime mortgage market. Capital market participants were focused on the challenge to accurately value billions of dollars of Structured Investment Vehicles (or "SIVs"). American, European, and Asian commercial and investment banks were forced to write off tens of billions of dollars of subprime and corporate bonds. Due to the write-offs, Citigroup and Merrill Lynch sought massive capital infusions from Middle East and Asian sovereign investment funds for liquidity.

STRUCTURED INVESTMENT VEHICLES

The OCIP has invested in SIV securities for almost ten years. In December, the Orange County Treasurer advised the Board of Supervisors that Moody's Investors Service placed four of the AAA-rated SIVs held by the OCIP on Credit Watch. The SIVs in the County Extended Fund continued to make timely interest payments to investors, and eventually, were affirmed as AAA-rated securities.

During preparation of this report, the status of the one SIV investment ("Whistlejacket") that drew media attention changed with Deloitte & Touche, serving as Receiver, freezing all debt payments pending development and approval of a recovery plan for the SIV.

Exhibit A

Additionally, a second SIV investment (“SIGMA”) made a timely \$50 million principal and interest payment to the OCIP which closed out one of the Pool’s positions in SIGMA, meaning that the Money Market Fund would no longer be invested in SIGMA, with a remaining portion held only in the Extended Fund.

A third SIV investment (“K2”), held only in the Extended Fund, was returned to the balance sheet of its sponsoring bank, Dresdner. This restored liquidity, and the SIV’s “AAA” rating.

Staff will continue to monitor OCIP investments and provide updates to the Commission on further developments.

INDEPENDENT REVIEW OF THE ORANGE COUNTY INVESTMENT POOL

In December, the Board of Supervisors voted to renew the investment authority of the Treasurer Tax - Collector for one year. In addition, the Board directed the County Executive Officer to retain an independent analyst to evaluate the risk potential of the County’s three investment pools. The scope included reviews of the County Investment Policy Statement, and of all investments, including SIVs, with a report back to the Board in January 2008.

COMPLIANCE MONITORING

During October, November and December, funds invested in the OCIP and in the Commission’s SLP 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 months ending October, November, and December 2007.

Orange County Pool - Money Market Fund					
<u>Period Ending</u>	<u>Total Pool Market Value</u>	<u>Average Yields</u>			<u>AVG Days to MAT</u>
		<u>Month</u>	<u>Net</u>	<u>MMF AVG</u>	
October 31, 2007	\$1,782,577,124	5.35%	5.18%	5.16%	38 Days
November 30, 2007	\$1,982,353,313	5.05%	5.05%	5.13%	27 Days
December 31, 2007	\$2,241,143,754	4.91%	4.88%	5.10%	21 Days

SUMMARY STATEMENTS

Attached for further information and reference are three statements from the December 31, 2007 Orange County Treasurer's Investment Management Report.

- A. Investment Balances Statement: The balances for all funds managed by the Treasurer are reported on this Statement. The December 31, 2007 balance of the Commission's SLP (\$39,127,930), expressed as book value (i.e. cost of the investment), can be found under "Non Pooled Investments" on page two of the Statement.
- B. Statement of Activity: This Statement reports the beginning and ending balances of the Commission's funds 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, 2007 ending balance was \$121,140,196.
- C. Investment Portfolio Report: This Report presents detailed information for each of the U.S. Treasury Securities that comprise the Commission's SLP. The December 31, 2007 book value was \$39,127,930, and the market value was \$40,125,000.

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 period ended December 31, 2007 will be posted to the Commission's cash account in the County general ledger by late February, 2008.

Attachments:

- A. Investment Balances Statement
- B. Statement of Activity
- C. Investment Portfolio Report

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SUBSTANCE EXPOSED BABIES

ORANGE COUNTY HEALTH CARE AGENCY

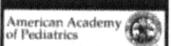
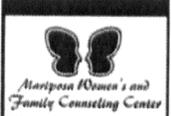
A two-phased multi-method assessment of prenatal substance use was conducted in Orange County (OC) from April to July 2007. The purpose of the study was to assess the prevalence rate of babies exposed to alcohol, tobacco or other drugs (ATOD) prior to birth. Nearly 2,600 pregnant women participated in the anonymous assessment, which included urinalysis of women giving birth at participating hospitals and self-report assessments of women presenting at prenatal care providers. The sample represented about 15% of the births that occurred county-wide during the study period. Results may help to inform program development including better prenatal education and screening in order to improve birth outcomes for babies born in OC.

KEY FINDINGS OF THE STUDY INCLUDE:

- The prevalence rate of ATOD use at any time during pregnancy was **15.1%** and **8.9%** during the past month of pregnancy based on self-report surveys.
 - of other ethnicities and women with less education.
- Based on self-reported use, alcohol was the most common substance used during pregnancy (**12.9%**), followed by tobacco (**4.9%**).
 - The west and south regions of OC showed higher rates of alcohol and drug use during pregnancy than the north and central regions.
- The prevalence rate of illicit drug use at any time during pregnancy was **3.5%**. Because drug users are less likely to self-report, this rate was based on positive urinalysis (2.4%) plus the 1.1% who tested negatively but from chart review were known to have used drugs during pregnancy.
 - Compared with non-users, substance users were more likely to:
 - Have a family member with a substance use problem.
 - Have initiated prenatal care later or to have received no prenatal care.
 - Be exposed to second-hand smoke during pregnancy.
 - Have babies born with shorter gestational age and lower birth weight.
- The most common illicit drugs detected in urinalysis were opiates, amphetamines and marijuana.
 - Pregnant women in OC reported much lower prevalence rates for alcohol and tobacco use than pregnant women nationwide. However, rates of illicit drug use were comparable to national rates and have not decreased over the past 15 years.
- Non-Hispanic white women and women with higher education were more likely to use ATOD during pregnancy than women

Based on a substance use prevalence rate of 15.1% found in the present study, an estimated 6,800 babies are born each year in OC exposed to alcohol, tobacco, and/or illicit drugs prior to birth and are at risk for developmental, physical, behavioral, and social disabilities.

Please go to www.ochalthinfo.com/seb to download or call (714) 834-3166 to request a copy of the full report.



**SUBSTANCE
EXPOSED
BABIES
STUDY**

