AGENDA ITEM: 6
DATE OF MEETING: April 21, 2010
ACTION: ____X____
INFORMATION: _________

FINANCIAL OVERVIEW

SUMMARY OF REQUEST

First 5 California staff will present to State Commissioners information on leveraged funds, revenue update, and two fiscal planning scenarios to support discussion on the development of First 5 California's four-year Revenue and Commitment plan (FY 2009-10 through FY 2012-13).

Leveraged Funds

At the January 2010 State Commission meeting, the Commission requested that future fiscal updates include information on the total amount of leveraged funds achieved with First 5 California funding in each fiscal year. In response, First 5 California staff prepared Attachment A, Report of State Leveraged Funds, which provides a historical summary of expenditures through March 2010 that resulted in leveraged funds for First 5 California's initiatives and contracts.

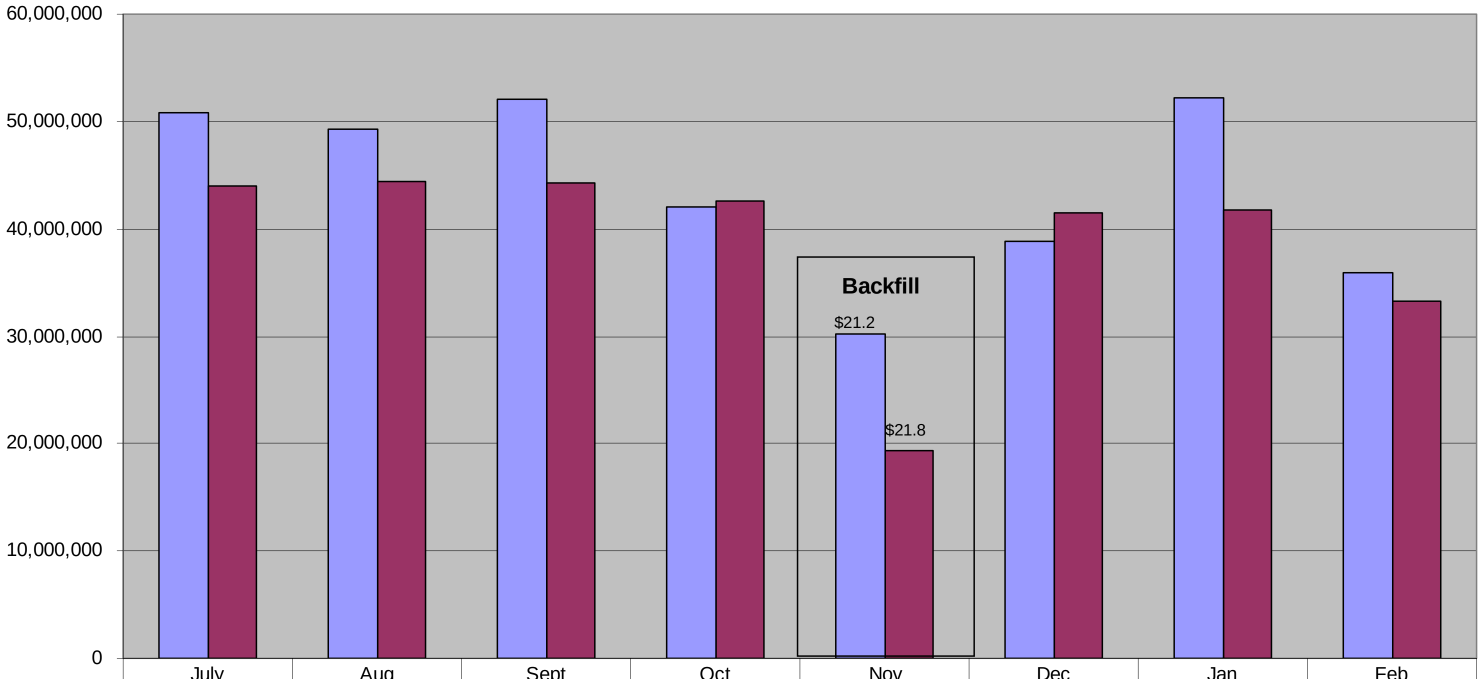
Over the last several years, First 5 California expended approximately $378 million for initiatives and various projects that leveraged approximately $816 million, totaling $1.2 billion in funds for statewide initiatives and projects that benefited children ages 0 to 5.

Revenue Update

At the last State Commission meeting, First 5 California staff reported revenue projections would show a significant decrease in FY 2009-10. The accelerated rate of revenue decline is caused by both intended and unintended factors, which include First 5 California's effective public outreach efforts and smoking cessation programs to reduce tobacco use, the impact of the federal legislation, H.R. 2 which funds the federal Children's Health Insurance Program (CHIP), and the impact of the state's sluggish economy.

The following chart shows a comparison of FY 2008-09 and FY 2009-10 actual revenue received, for state and county combined, during the first eight months of the current fiscal year, July through February.

Two Year Revenue Comparison by Month



	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb
2008	50,807,310	49,284,080	52,004,013	42,074,259	30,157,341	38,831,944	52,188,843	35,959,891
2009	43,925,428	44,378,442	44,242,430	42,636,062	19,393,745	41,416,621	41,714,797	33,215,600

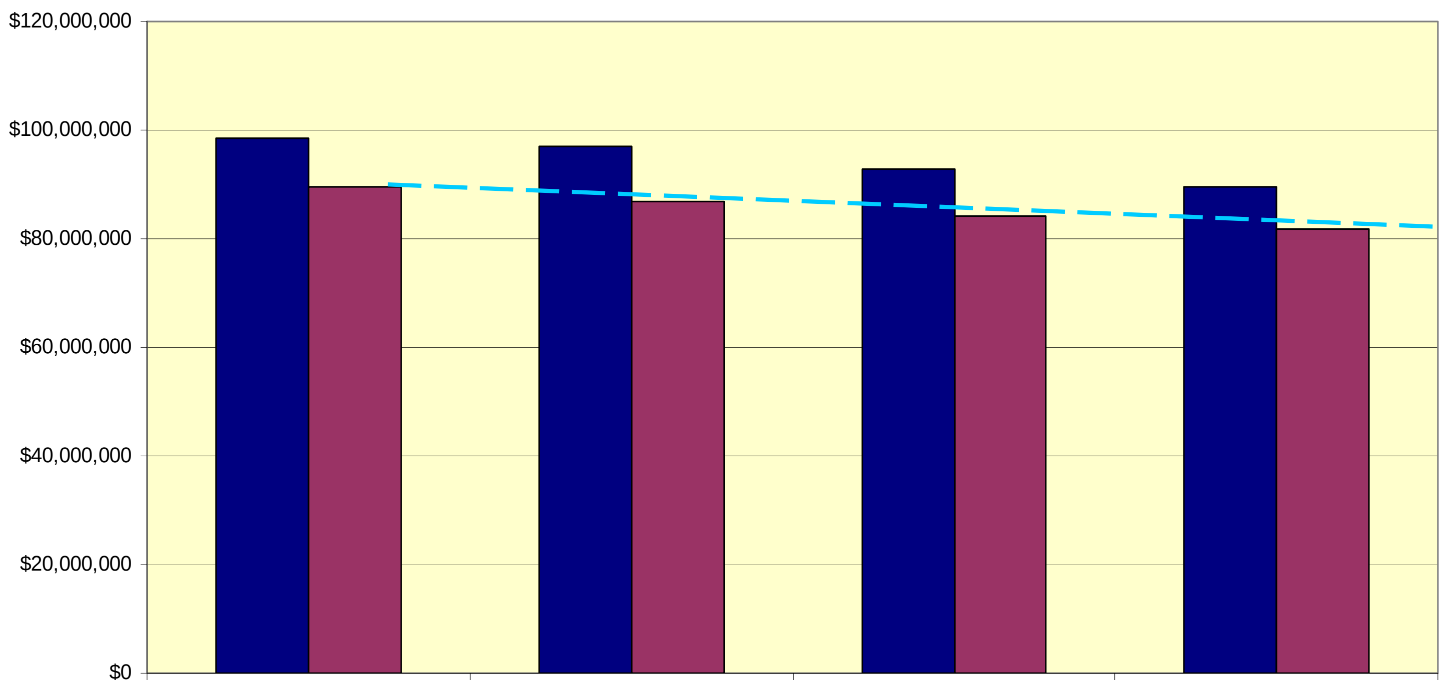
The total state and county commission revenue received during the first eight months in FY 2008-09 was $351,307,681. The total revenue received during the same eight month-period in FY 2009-10 was $310,923,126 for a monthly average of $44,417,589, a decrease of 11.5% from the prior year.

Revenue Projection Adjustments

The following chart shows a comparison of four years of First 5 California annual revenue projections based on Department of Finance (DOF) data. This chart also shows First 5 California's adjusted projections based on the following:

- Eight months of actual revenue received in FY 2009-10.
- Four months projected revenue (based on eight months actual revenue averaged to establish an average monthly revenue times four) for FY 2009-10.
- Decrease of 3% per year for the outlying years.

First 5 California Adjusted Revenue Projections
FYs 2009/10-2012/13



	FY 09/10	FY 10/11	FY 11/12	FY 12/13
DOF	$98,645,600	$96,883,600	$92,883,600	$89,683,600
F5CA	$89,554,003	$86,867,383	$84,261,361	$81,733,520

F5CA line represents a 3% decline each year from current year adjustments.

[1] First 5 California adjusted FY 2009/10 revenue to represent additional SCHIP and economy-related declines

Following the release of the May Revise, DOF will send First 5 California updated revenue projections. However, First 5 California staff believe the adjustments to the projected revenue for each account will provide the Commission a more realistic picture of First 5 California projected revenue during its review of the funding proposals included in the April 21, 2010, Commission meeting agenda.

PLAN SCENARIOS

Planning Scenario 1, Attachment B, and Planning Scenario 2, Attachment C include multiple internal (new and ongoing) and external requests for commitments of funds. To assist the Commission in its review of these documents, the content of each scenario is color coded to reflect the following:

Color	Content
Purple	Funding of Budget Solutions (actions previously taken by the Commission, and those proposed)
Blue	Ongoing First 5 California costs and/or programs not yet approved
Green	Pending Signature Program requests (Action Items 8, 9, 10, 11, 14, and 15)
Red	Subtraction or deficit account balance
Black	Report of all other revenue and expenditure activity

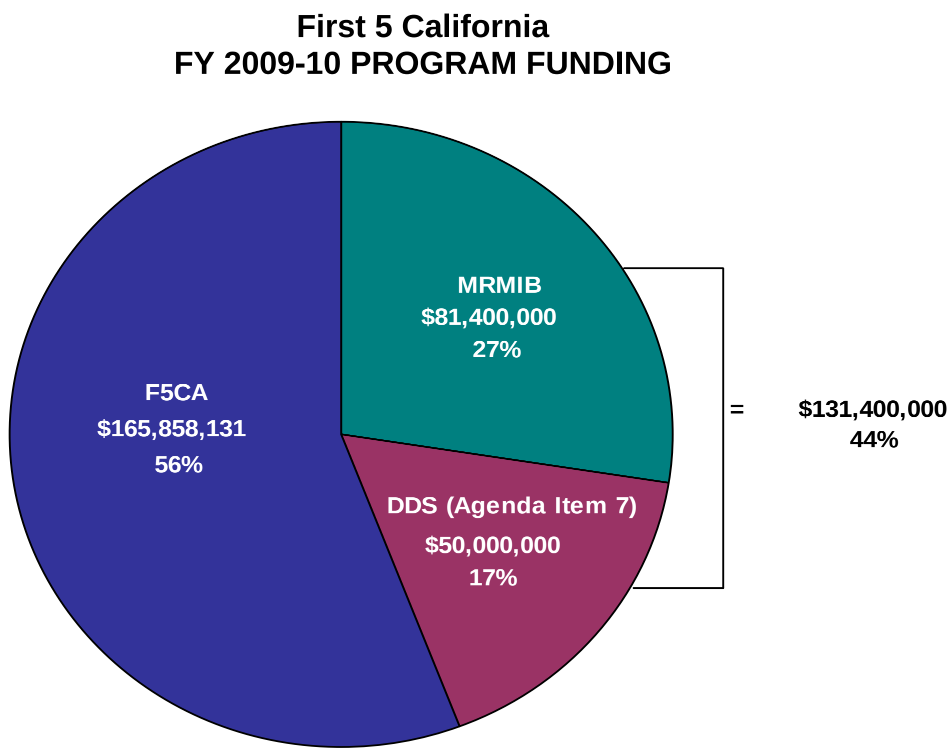
Planning Scenario 1 includes the following two proposed budget solutions:

1. $50 million for the Early Start Program administered by DDS (FY 2009-10).
2. $55 million for the Healthy Families Program administered by MRMIB (FY 2010-11).

Planning Scenario 2 includes $81.4 million for the Healthy Families Program administered by MRMIB in FY 2010-11 that continues the FY 2009-10 commitment.

Each of the scenarios include First 5 California's proposed signature program requests and the ongoing First 5 California costs and/or programs not yet approved.

Another commonality appears in both scenarios for FY 2009-10 program expenditures. The chart below represents the total FY 2009-10 program expenditures for First 5 California, MRMIB, and the proposed DDS request.



If the $50 million for DDS' Early Start Program is approved by the Commission, for FY 2009-10, 44% of all program expenditures will be committed to achieve state budget solutions.

General Observations and Discussion

Revenue

- For the first ten years of operation, First 5 California maintained sufficient fund balances to successfully manage and maintain cash flow to meet all program and operational commitments and has successfully demonstrated sound fiscal stability. Since FY 2008-09, First 5 California has assisted the State with budget solutions which has significantly accelerated the decrease in First 5 California account balances.

- The planning scenarios presented to the Commission are based on revenue projections and not on a set appropriation of funds. First 5 California receives tobacco tax revenue monthly in differing amounts, which may significantly vary from month-to-month and year-to-year. These revenue variances require that First 5 California maintain adequate cash balances to ensure its ability to pay obligations and commitments from each designated account within mandated time periods. First 5 California can increase the management of cash flow by reassessing disbursement strategies, supported by fiscal policy changes.

- The planning scenarios include a 15% revenue reserve on projected revenue to respond to unanticipated changes in revenue receipts.

- The two planning scenarios create a challenge for the Commission. Funding support for both the State's request for MRMIB and DDS funding, First 5 California mission critical programs and projects, and ongoing program and operations maintenance would create deficit fund balances in several of the accounts. Therefore, some compromise will be needed to ensure First 5 California's Revenue and Commitment plan can be sustained by current and projected revenue and maintain sufficient cash reserves needed to meet fiscal obligations.

Expenditures

- First 5 California's statutory funding structure is similar to managing six individual accounts: Communications and Mass Media, Education, Child Care, Research and Development, Unallocated, and Administration.

- Authorization of expenditure commitments that require a use of multiple accounts to meet the authorized amount will require Commission approval to document and justify the percentages or amounts charged in each account. Changes to Commission approved percentages or amounts to manage cash flow would also require additional Commission approval.

- Year-end balances in each account are used to encumber contracts and other legal agreements (obligations) for the upcoming fiscal year.

- State accounting policy prohibits the encumbrance of funds using revenue not received. In all six First 5 California accounts, all obligations made by First 5 California for a specific fiscal year would be encumbered with prior year balances. If the cash balances are significantly depleted, fund encumbrance practices could be impacted, requiring a restructuring of our current fiscal accounting system.

- Each of the following two planning scenarios propose expenditure of funds that could result in insufficient account balances at year end, June 30. In both Planning

- Without sufficient funds on July 1 of any particular fiscal year for any of the six accounts, Commission approval would be needed to transfer the obligated funds from other accounts to the Unallocated Account to meet our contractual obligations. This type of response to individual account cash deficits creates new challenges for the Commission. With the recent statutory change authorizing the transfer of funds “not needed” in a particular account to the Unallocated Account, the implementation of the transfer requires Commission approval, which could delay timely payment of expenditures.

Revenue and Expenditure Summaries

At the end of each planning document (Attachments B and C) is a summary of all accounts, which includes total resources (fund balance and revenue), total expenditures, total over/under (projected year-end fund balance), 15% reserve hold, and final planning balance. However, use of summary fiscal information comes with some caution. For example, in Scenario 2, the FY 2010-11 account summary balance is in the black ($24,455,471). However, four of six accounts are in the red. Therefore, the Commission would need to make a decision on how to shift the revenues from the accounts to bring each account into the black to support approved funding commitments.

ATTACHMENTS

A. Report of State Leveraged Funds
B. Revenue and Current Commitments Scenario1
C. Revenue and Current Commitments Scenario 2