ITEM # 11

FIRST 5 CALIFORNIA

January 26, 2017

SUBJECT	
SMALL POPULATION COUNTY FUNDING AUGMENTATION **Strategic Priority Area 2. System and Network:** Provide leadership to the First 5 movement and the development of a support system serving children prenatal through age 5, their families, and communities that results in a sustainable and collective impact. **Goal 2.2. Resource Exchange and Stewardship:** Strategically fund and co-fund, align resources, facilitate the exchange of information and best practices, and seek new opportunities to maximize positive impact for children prenatal through age 5 and their families. **Objective 2.2.1:** Address diminishing revenue, ensuring the viability of F5CA and all 58 First 5 county commissions to serve children prenatal through age 5 and the First 5 movement.	☒ Action ☐ Information

SUMMARY OF THE ISSUE

The State Commission has authorized additional funding to small population counties since the implementation of Proposition 10 in FY 1999–2000. The Commission recognized early-on that the statutory funding formula for counties with a small population of births did not provide adequate funds to fully operate a commission and effective First 5 programs.

First 5 California (F5CA) and the 38 counties not part of the Small Population Funding Augmentation (SPCFA) have experienced an annual decline in tobacco tax revenue over the past several years, while augmentation funding to SPCFA counties has held their funding levels constant. F5CA has worked with the First 5 Association of California (Association) and the small county workgroup to develop a proposal for the next cycle of SPCFA.

RECOMMENDATION

F5CA recommends the Commission approve up to $8.625 million annually over a four-year investment for the SPCFA program beginning in Fiscal Year (FY) 2017–18 and ending in FY 2020–21. Historically, SPCFA has been funded over three years; however, in this new funding cycle, that would coincide with the sunset of First 5 IMPACT. In order to stagger the work involved in the application for new funding, the term for SPCFA was extended to four years. This investment will include a new funding methodology and enhanced accountability framework for the allocation of augmentation funds to small population counties.

BACKGROUND OF KEY ISSUES

At the October 2016 Commission meeting, an information item was presented detailing the history of the SPCFA program, including the previous and current level of investment and recent evaluation findings.

It is current practice of F5CA to collaborate with small population counties and the Association on the development of proposed funding and program requirements for SPCFA. Meetings were held in November and December 2016 with a workgroup of small county representatives and the Association to discuss options for future program requirements and other key components, including funding, eligibility, accountability, declining tobacco tax revenue, and term (number of years) of the funding agreement.

The following proposed program details are the result of SPCFA workgroup, the Association, and F5CA meetings.

Funding Formula

The new SPCFA funding formula will not reduce current baseline funding (see Attachment A); however, the formula will include “trigger” language to allow F5CA to reduce budget-year funding if revenues decrease by 7 percent or greater than anticipated in the first five months (due to the one-month delay in receiving actual revenue figures) of each fiscal year. The trigger would allow counties a 6-month advance notification to plan for the coming-year 2 pecent reduction. If the trigger occurs, the current baseline would be reduced the following year. Due to the impact of Proposition 56 on revenues in FY 2017–18, trigger language would not go into effect until FY 2018–19. Conversely, if revenues increase by the amount previously decreased or greater after a previous year decrease, the 2 pecent increase would be restored to the SPCFA the following year. The baseline funding amount allocated in year one (FY 2017–18) would never be exceeded.

During discussion with the SPCFA workgroup, it was agreed the formula that qualifies a county for the SPCFA program will be based on the three-year annual average of 1,000 births or less. Currently, 20 counties qualify to participate in SPCFA (see Attachment B). F5CA will use the 2012–14 average of county births to determine eligibility (see Attachment C). SPCFA counties will be locked-in to the 2012–14 average of births for the entire four-year period of the proposed augmentation, regardless of the number of live births in subsequent years.

Funding Disbursement

Seventy-five percent of the estimated annual funding by F5CA for SPCFA will be disbursed to small counties identified in this proposal no later than September 30 of each year. The remaining augmentation will be disbursed once the June tobacco tax revenue has been transferred from the Board of Equalization to F5CA, and an accurate determination of each county's annual tax revenue can be established. The remaining 25 percent of the SPCFA funds will not be disbursed until the county has complied with all terms outlined in the Local Area Agreement (LAA) and all reporting requirements have been satisfied. Additionally, counties must fulfill all requirements outlined in the LAA in the previous year in order to receive the next 75 percent allocation. Table 1 below displays the timeframes counties should expect to receive disbursements over the four-year term of the SPCFA.

TABLE 1
Small Population County Funding Augmentation Disbursement Timeline

July 2017	• FY 2017-18 • Estimated Disbursement - 75%
July 2018	• FY 2018-19 • Estimated Disbursement - 75%
September 2018	• FY 2017-18 • Final Disbursement - 25%
July 2019	• FY 2019-20 • Estimated Disbursement - 75%
September 2019	• FY 2018-19 • Final Disbursement - 25%
July 2020	• FY 2020-21 • Estimated Disbursement - 75%
September 2020	• FY 2019-20 • Final Disbursement - 25%
September 2021	• FY 2020-21 • Final Disbursement - 25%

Funding Requirements

Counties will not be allowed to allocate more than 25 percent of their funding for administrative costs. An exception will be made for the two smallest population counties, allowing a cap of no more than 30 percent for administrative costs. SPCFA counties will develop a long-term sustainability plan that will include leveraging of other funding sources. A fiscal reporting template for use by all SPCFA counties will be designed with input from the SPCFA workgroup. Unspent augmentation funding and extended delays in submission of program deliverables will be addressed in the LAA.

Accountability Framework

The Accountability Framework was developed to provide specific and measurable evidence of the local commission's efforts to meet the requirements of the Act, which specifies use of "outcome based" accountability to determine future expenditures. The current Framework Implementation Plan (FIP) will be enhanced to include greater program accountability and reporting requirements that include the following:

- At least 25 percent of non-administrative SPCFA funding will be allocated for evidence-based or evidence-informed programs to ensure the highest likelihood of measurable improvement in key child and family indicators.

- SPCFA funds will be used to support evidence-based and evidence-informed programs through professional development, training and technical assistance, and monitoring that ensures implementation of evidence-based programs to fidelity.

- Clearly defined goals and activities for each SPCFA-funded program along with a plan for monitoring progress and identifying training and technical assistance (T&TA) needs.

- Alignment with First 5 IMPACT (Improve and Maximize Programs so All Children Thrive) and other local efforts.

- Completion of an Annual Evaluation report describing how each program was designed and evaluated. (F5CA will work with small counties to provide guidance on useful reporting formats.)

- Completion of a detailed Annual Performance Report for F5CA.

F5CA will provide SPCFA counties with T&TA on completion of required documents (i.e., Annual Evaluation Report, fiscal forms, etc.). Fiscal reporting will be strengthened to allow for a more refined report-back to the State Commission on the SPCFA investment.

SUMMARY OF PREVIOUS COMMISSION DISCUSSION AND ACTION

The history and background of the SPCFA program was presented as an Information Item at the October 2016 Commission meeting. That Information Item provides the broader context for this January 2017 SPCFA Action Item. The State Commission acknowledged small county challenges to fully operate a county commission and effective First 5 programs with the limited tobacco tax funding. They recognized the need to augment small county funding in support of local First 5 work, yet were cognizant of the State Commission's declining tax revenue and fund balance limitations. The Commission also conveyed the importance of holding counties accountable for reporting outcomes that tell the First 5 story, thereby being responsible stewards of public funds.

FISCAL ANALYSIS

The new funding formula will not reduce the current baseline, but does include trigger language to allow for reduction of the SPCFA baseline funding should revenues decrease by 7 percent or greater in a single fiscal year. A fiscal analysis of the proposal has been prepared (see Attachment D). This analysis looks at baseline funding by county and year, as well as the impact of the proposal on the Unallocated Fund (0639). The baseline funding analysis assumes two scenarios:

- Scenario 1 – Revenues do not decrease by 7 percent or greater in one fiscal year during the four-year SPCFA funding. This would result in a continuation of the current baseline funding, and assumes the continued Proposition 10 average revenue decline of 2.9 percent annually (Attachment D – page 1).

- Scenario 2 – Revenues decrease by 7 percent beginning in FY 2019–2020 through FY 2020–2021 resulting in a reduction to the SPCFA baseline funding in in FY 2020–2021 (Attachment D – page 2).

Additionally, the projected impact of each scenario on the Unallocated Fund (0639) has been included (Attachment D – page 3). The impact to the Unallocated fund balance varies, but in each scenario the fund balance is not eroded, ensuring F5CA's ability to plan for and sustain the ability to fund future programs in the face of declining revenues. This analysis includes:

- Scenario 1 – Revenues do not decrease by 7 percent or greater in one fiscal year during the four-year SPCFA funding. This would result in a continuation of the current baseline funding, and assumes the continued Proposition 10 average revenue decline of 2.8 percent annually. This scenario assumes that the F5CA contribution to the SPCFA is 46 percent based on the FY 2015–16 actual F5CA contributions.

- Scenario 2 – Revenues decrease by 7 percent beginning in FY 2019–2020 through FY 2020–2021 resulting in a reduction to the SPCFA baseline funding in in FY 2020–2021. This scenario assumes that the F5CA contributions to the SPCFA increase to 50 percent due to the decline in revenue.

The proposed trigger language provides F5CA with a safeguard to account for the uncertainty of a significant revenue decline.

ATTACHMENTS

A. Current Baseline Funding

B. Map of 20 Small Population County Funding Augmentation Counties

C. Annual Births for 2012–2014 and 3-Year Average Births

D. Fiscal Analysis

E. Association E-mail Re: Executive Committee Support for SPCFA