



**To:** First 5 Alameda County Commission

**From:** Patricia Zapanta, Acting Director, Finance & Administration

**Date:** June 25, 2009

**Subject:** Long Range Financial Plan Recommendation

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#### **ACTION REQUESTED**

To review and approve the Long Range Financial Plan recommendation

#### **BACKGROUND**

First 5 Alameda County has adopted a Long Range Financial Plan annually since March 2004. Adoption of a Long Range Financial Plan is a statutory requirement of all First 5 Commissions since 2006-07. Historical background information about the Long Range Financial Plan is provided in Appendix D.

The current Long Range Financial Plan was approved in June 2008 (attached, Appendix A). Potential revisions were presented in January and February 2009 but no action was taken at those times because of the uncertainties caused by Proposition 1D.

An update to the Long Range Financial Plan is especially important now, as conditions have changed significantly in the year since the last approved revision to the plan. Factors having an especially large impact are:

1. The combination of the new federal tobacco tax to support SCHIP (State Children's Health Insurance Program) program expansion and continued declines in state tobacco tax collections are expected to cause a 10.5% drop in tobacco tax revenues allocated to First 5 Alameda County in 2009-10 and further declines of 5.3% in 2010-11 and 4.6% in each of the next two years (2011-12 and 2012-13). The compounded effect of these declines is projected to cause tobacco tax revenues to be almost \$4.7 million less in 2012-13 than the amount received in the latest full year (2007-08).
2. A budget has been approved for 2009-11, requiring the Long Range Financial Plan to be updated to align with the budget. The budget incorporates the fiscal impact of ACERA and other employee benefit cost increases, shift of TCM (Targeted Case Management) revenues to Children's Hospital Oakland and the receipt of new grants.

3. The Long Range Financial Plan needs to be aligned with the 2009-13 Strategic Plan that was approved by the Commission in March 2009.

Appendix E contains a more complete description of the assumptions used to prepare the Long Range Financial Plan scenarios that are attached. The first scenario, presented in Appendix B, shows the effect if spending at 2009-10 budgeted levels is continued throughout the four year period covered by the new strategic plan. Under that scenario, the Sustainability Fund would be depleted by 2013, resulting in a “cliff” whereby total expenditures would need to be cut by \$13.4 million (52%) in 2013-14.

A huge one-year drop in expenditures would be extremely difficult on community partners and First 5 Alameda County alike. A second scenario was therefore prepared to create a more sloping reduction that spread the funds in the Sustainability Fund over a longer time horizon. This scenario is presented in Appendix C. Under this scenario, 20% reductions in program expenditures would be made at the beginning of each two-year budget cycle as well as periodic reductions in evaluation and administrative costs.

The “slope” scenario presented in Appendix C enables a more systematic scaling back of program and administrative costs, and stretches the Sustainability Fund for an additional four years (through 2016-17) until it is depleted to a level required to be maintained as an annual operating reserve to cover ongoing cash flow needs.

**FISCAL IMPACT**

There is no fiscal impact.

**RECOMMENDATION**

To review and approve the Long Range Financial Plan, with the related assumptions presented in Appendix E.

Submitted by:

Reviewed by:

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Patricia Zapanta, Acting Director,  
Finance & Administration

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Mark Friedman, Chief Executive Officer

APPENDIX A – CURRENT LONG RANGE FINANCIAL PLAN, AS APPROVED IN JUNE 2008

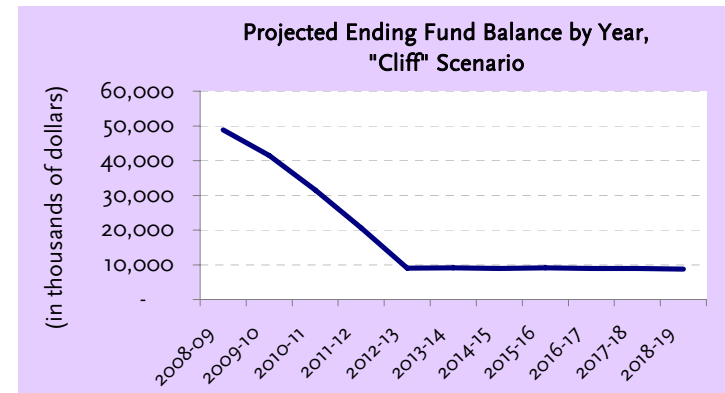
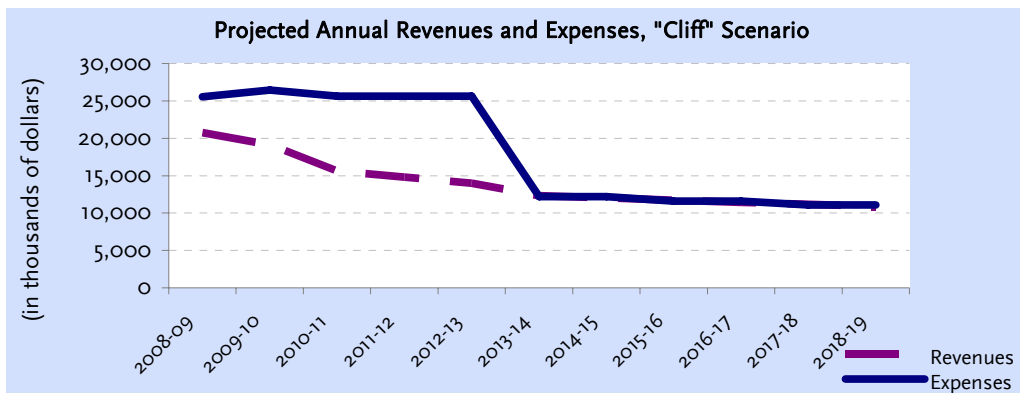
	2005-09 Strategic Plan		2009-13 Strategic Plan				2013 - 2019 Strategic Plan					
	2007/08 Budget	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
<b>Sustainability Fund</b>	53,785.1	50,439.3	43,722.1	39,517.0	33,404.6	28,895.0	23,998.1	20,723.6	17,081.1	15,079.5	12,728.0	12,035.3
<b>Revenue</b>												
<b>Tobacco Tax</b>	17,141.3	16,712.8	16,294.9	15,887.6	15,490.4	15,103.1	14,725.5	14,357.4	13,998.5	13,648.5	13,307.3	12,974.6
<b>School Readiness</b>	1,500.0	1,500.0	1,500.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>CARES</b>	744.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>AB212</b>	2,009.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Fiscal Leveraging</b>	650.0	570.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0
<b>Other</b>	109.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Interest and Investment Revenue</b>	1,678.7	1,008.8	874.4	790.3	668.1	577.9	480.0	414.5	341.6	301.6	254.6	240.7
<b>Total Funds</b>	75,939.3	69,222.1	62,017.0	55,904.6	49,395.0	44,498.1	39,223.6	35,581.1	31,579.5	29,228.0	26,535.3	25,510.0
<b>Expenses</b>												
<b>Programs</b>	23,000.0	23,000.0	20,000.0	20,000.0	18,000.0	18,000.0	16,000.0	16,000.0	14,000.0	14,000.0	12,000.0	12,000.0
<b>Administration</b>	1,300.0	1,300.0	1,300.0	1,300.0	1,300.0	1,300.0	1,300.0	1,300.0	1,300.0	1,300.0	1,300.0	1,300.0
<b>Evaluation</b>	1,200.0	1,200.0	1,200.0	1,200.0	1,200.0	1,200.0	1,200.0	1,200.0	1,200.0	1,200.0	1,200.0	1,200.0
<b>Subtotal Expenses</b>	25,500.0	25,500.0	22,500.0	22,500.0	20,500.0	20,500.0	18,500.0	18,500.0	16,500.0	16,500.0	14,500.0	14,500.0
<b>Total Expenses</b>	25,500.0	25,500.0	22,500.0	22,500.0	20,500.0	20,500.0	18,500.0	18,500.0	16,500.0	16,500.0	14,500.0	14,500.0
<b>Ending Fund Balance (Unobligated)</b>	<b>50,439.3</b>	<b>43,722.1</b>	<b>39,517.0</b>	<b>33,404.6</b>	<b>28,895.0</b>	<b>23,998.1</b>	<b>20,723.6</b>	<b>17,081.1</b>	<b>15,079.5</b>	<b>12,728.0</b>	<b>12,035.3</b>	<b>11,010.0</b>

Assumptions:

1. Tobacco tax projection declines at the rate of 2.5% annually, based on local trend analysis.
2. Local investment declines commensurate with the sunset of state funding initiatives such as CARES, Health Access for All and School Readiness. \$740,000 decrease due to CARES sunset, \$1.6 million decreases due to School Readiness sunset, and \$35,000 decreases with the Health Access for All sunset. The total decrease is \$2,375,000.
3. Fiscal Leveraging is retained as First 5 Alameda County continues to claim MAA and TCM, and potentially other sources. If programs are eliminated that generate claiming revenue (such as Special Start, or the HOC function, or CAS, etc.), then this assumption will require revision.
4. Investment revenue is projected with a 2% return on the Beginning Fund Balance (the reserve or Sustainability Fund), based on a volatile market environment. As the Sustainability Fund is used, the return decreases even more.
5. 2007-08 and 2008-08 Program Expenses are reduced from \$24 million to \$23 million, based on a more realistic estimation of actual expenses.
6. Administration and Evaluation expenses are frozen at the 2007-08 levels, based on realistic estimation of actual expenses in 2007-08 and implementation of tight cost controls in subsequent years.

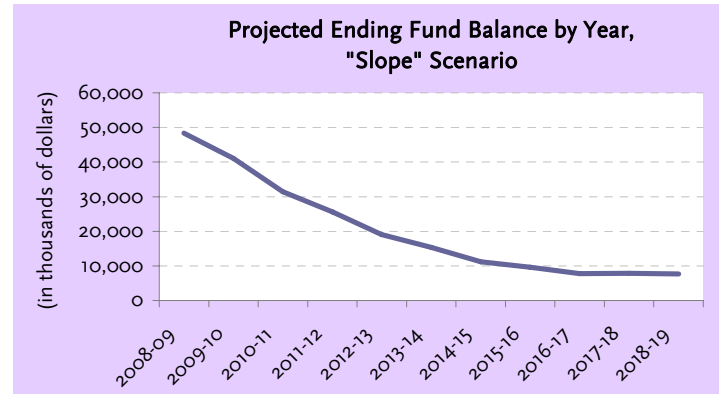
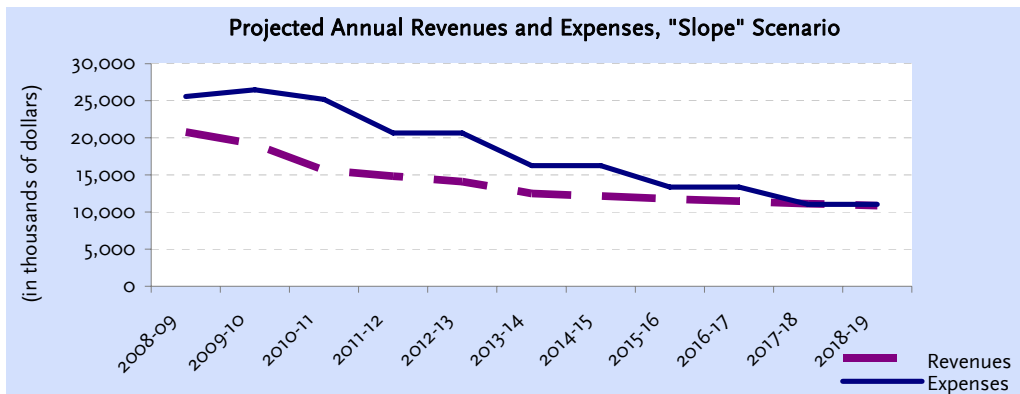
APPENDIX B – LONG RANGE FINANCIAL PLAN “CLIFF” SCENARIO (SUSTAINED SPENDING AT 2009-10 BUDGET LEVELS)

	2005-09 Strategic Plan		2009-13 Strategic Plan				2013 - 2019 Strategic Plan					
	2007/08 Actual	2008/09 Estimate	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
<b>Sustainability Fund</b>	53,808.6	53,631.2	48,847.3	41,515.6	31,501.0	20,666.6	9,031.0	9,144.3	8,960.9	9,082.4	8,922.2	8,981.6
<b>Revenue</b>												
Tobacco Tax	16,942.7	15,772.4	14,222.2	13,468.4	12,848.9	12,264.3	11,957.7	11,658.8	11,367.3	11,083.1	10,806.0	10,535.9
School Readiness	1,734.4	1,500.0	1,634.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CARES	453.4	388.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
AB212	1,854.3	927.1	986.3	986.3	986.3	986.3	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal Leveraging	957.9	565.0	350.0	350.0	350.0	350.0	175.0	175.0	175.0	175.0	175.0	175.0
Federal Grants	0.0	113.3	799.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	127.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest and Investment Revenue	2,815.1	1,500.0	1,125.0	830.3	630.0	413.3	180.6	182.9	179.2	181.6	178.4	179.6
<b>Total Funds</b>	75,879.0	74,397.3	67,964.9	57,150.6	46,316.2	34,680.6	21,344.3	21,160.9	20,682.4	20,522.2	20,081.6	19,872.1
<b>Expenses</b>												
Programs	19,605.6	23,000.0	23,379.5	22,579.8	22,579.8	22,579.8	10,400.0	10,400.0	9,800.0	9,800.0	9,300.0	9,300.0
Administration	1,541.5	1,500.0	1,729.0	1,729.0	1,729.0	1,729.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Evaluation	1,100.7	1,050.0	1,340.8	1,340.8	1,340.8	1,340.8	800.0	800.0	800.0	800.0	800.0	800.0
<b>Total Expenses</b>	22,247.8	25,550.0	26,449.3	25,649.6	25,649.6	25,649.6	12,200.0	12,200.0	11,600.0	11,600.0	11,100.0	11,100.0
<b>Ending Fund Balance (Unobligated)</b>	<b>53,631.2</b>	<b>48,847.3</b>	<b>41,515.6</b>	<b>31,501.0</b>	<b>20,666.6</b>	<b>9,031.0</b>	<b>9,144.3</b>	<b>8,960.9</b>	<b>9,082.4</b>	<b>8,922.2</b>	<b>8,981.6</b>	<b>8,772.1</b>



APPENDIX C – LONG RANGE FINANCIAL PLAN “SLOPE” SCENARIO (GRADUAL SPENDING REDUCTIONS)

	2005-09 Strategic Plan		2009-13 Strategic Plan				2013 - 2019 Strategic Plan					
	2007/08 Actual	2008/09 Estimate	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
<b>Sustainability Fund</b>	53,808.6	53,147.4	48,363.5	41,031.8	31,477.3	25,628.2	19,077.6	15,340.7	11,230.2	9,636.3	7,726.2	7,813.1
<b>Revenue</b>												
Tobacco Tax	16,942.7	15,772.4	14,222.2	13,468.4	12,848.9	12,264.3	11,957.7	11,658.8	11,367.3	11,083.1	10,806.0	10,535.9
School Readiness	1,734.4	1,500.0	1,634.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CARES	453.4	388.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
AB212	1,854.3	927.1	986.3	986.3	986.3	986.3	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal Leveraging	957.9	565.0	350.0	350.0	350.0	350.0	175.0	175.0	175.0	175.0	175.0	175.0
Federal Grants	0.0	113.3	799.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	127.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest and Investment Revenue	2,815.1	1,500.0	1,125.0	820.6	629.5	512.6	381.6	306.8	224.6	192.7	154.5	156.3
<b>Total Funds</b>	75,879.0	73,913.5	67,481.1	56,657.1	46,292.1	39,741.4	31,591.8	27,481.3	22,997.1	21,087.1	18,861.8	18,680.2
<b>Expenses</b>												
Programs	20,089.4	23,000.0	23,379.5	22,579.8	18,063.8	18,063.8	14,451.1	14,451.1	11,560.9	11,560.9	9,248.7	9,248.7
Administration	1,541.5	1,500.0	1,729.0	1,500.0	1,500.0	1,500.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Evaluation	1,100.7	1,050.0	1,340.8	1,100.0	1,100.0	1,100.0	800.0	800.0	800.0	800.0	800.0	800.0
<b>Total Expenses</b>	22,731.6	25,550.0	26,449.3	25,179.8	20,663.8	20,663.8	16,251.1	16,251.1	13,360.9	13,360.9	11,048.7	11,048.7
<b>Ending Fund Balance (Unobligated)</b>	<b>53,147.4</b>	<b>48,363.5</b>	<b>41,031.8</b>	<b>31,477.3</b>	<b>25,628.2</b>	<b>19,077.6</b>	<b>15,340.7</b>	<b>11,230.2</b>	<b>9,636.3</b>	<b>7,726.2</b>	<b>7,813.1</b>	<b>7,631.5</b>



**APPENDIX D – HISTORICAL BACKGROUND**

The Long Range Financial Plan tool was designed to strategically guide the use of First 5 Alameda County's Sustainability Fund. The Sustainability Fund was established by the First 5 Alameda County Commission as a strategy to ensure a long term commitment to funding services for children age 0-5, even as the tobacco tax revenue declined.

The Sustainability Fund is projected to be approximately \$48.8 million at the end of the current fiscal year (2008-09) and was accumulated in several ways. First, the Fund developed through the initial reserve that occurred when tax dollars were accumulated but funds could not be spent until a Strategic Plan was passed (Jan. 1999-Jan. 2000). In addition, contributions to the Sustainability Fund were budgeted over a number of years (2001-2004). Finally, budgeted funds that remained unspent were directed by the Commission to the Sustainability Fund rather than rolling to the subsequent year's budget (2001-present).

It is important to note that Sustainability Funds have been budgeted for program use since 2005-06, which means that expenses have been projected higher than revenues in each of those years, but budget savings in those years made it unnecessary to draw from the Fund. However, changes to budgeting procedures were instituted for the 2009-10 budget to reduce over-budgeting of expense line items. These changes should result in draws from the Sustainability Fund to actually occur in years like 2009-10 that the budget shows a projected draw from the Fund.

## APPENDIX E – ASSUMPTIONS FOR REVISED LONG RANGE FINANCIAL PLAN SCENARIOS

Presented below are the assumptions used to develop the Long Range Financial Plan scenarios contained in Appendices D and E.

### REVENUES

2009-10 figures are from the budget approved in May 2009. For 2010-11 and subsequent years, the same revenue assumptions were used in both scenarios as follows.

**Tobacco Tax** – The California Department of Finance (DoF) prepared revised projections of First 5 tobacco tax revenues in February 2009 that take into account the effects of the new federal tobacco tax, other declines in state tobacco tax revenues (such as those due to general economic conditions), Prop 99 backfill amounts and other factors. The DoF projections for Alameda County show expected drops of 5.3% in 2010-11, 4.6% in 2011-12 and 4.55% in 2012-13. Annual declines in tobacco tax revenues through 2012-13 were built into the Long Range Financial Plan based on these DoF estimates. Starting in 2013-14, the annual rate of decline was reduced to 2.5% because of historical experience that reductions in tobacco tax collections do not continue at a steep rate of decline but instead “flatten out” within four to five years.

**School Readiness and CARES** – State School Readiness matching funds are scheduled to end in 2009-10. It is assumed that no further funding from First 5 California will be made available to Alameda County. CARES state matching funds have already ended but are shown in the Long Range Financial Plan for historical purposes.

**AB212** – AB212 funds are included for all four years of the 2009-13 strategic plan at 2009-10 budgeted levels. It is assumed that any increase or decrease in these funds would produce an increase or decrease in program expenditures by the same amount, so this line item has no net effect on the Sustainability Fund.

**Fiscal Leveraging** – Starting in 2009-10, fiscal leveraging revenues consist entirely of federal reimbursements under the Medi-Cal Administrative Activities (MAA) program since Targeted Case Management (TCM) claiming has been shifted to Children’s Hospital Oakland. It is assumed that programs eligible for MAA claiming will be sustained throughout the 2009-13 strategic plan period in order to maintain fiscal leveraging revenues at 2009-10 rates. Starting in 2013-14, fiscal leveraging revenues are reduced 50% proportionate to program cuts that may eliminate staff and program activities that generate the MAA revenues.

**Other** – Other revenues in 2009-10 consist of a \$626,000 federal grant and \$173,700 in funds from other Alameda County agencies. No additional grants have been awarded yet to First 5 Alameda County. If new grants are awarded, the Long Range Financial Plan will be revised if appropriate at that time to incorporate the effect of those grants.

**Interest and Investment Revenue** – The 2009-10 budget estimates investment income to be earned at a rate of approximately 2.3% of the beginning fund balance. To be

conservative and to reflect the sustained low interest rates of recent years, investment income is estimated to be 2.0% of the beginning fund balance for all other years of the forecast.

## EXPENSES

2009-10 figures are from the budget approved in May 2009. For 2010-11 and subsequent years, the assumptions vary for each scenario as follows.

### “Cliff” Scenario (Appendix B):

Program spending in 2010-11 is reduced by \$799,700 compared to 2009-10 levels to reflect the ending of federal grants and other transfers. This is equal to the amount shown under the Other line in the Revenues section. Aside from this one change, this scenario assumes that Program, Administration and Evaluation expenditures would be maintained at 2009-10 budgeted levels throughout the period covered by the 2009-13 strategic plan. The Sustainability Fund is depleted rapidly over the four years under this scenario.

By the beginning of 2013-14, the Fund Balance will have been reduced to an amount close to the Minimum Fund Balance Requirements (explained at the end of this Appendix). Expenses are therefore cut to a level that is in line with annual revenues projected from tobacco tax allocations, fiscal leveraging and investment income. In order to meet all statutory requirements applicable to County Children and Families Commissions (such as but not limited to evaluation, reporting and fiscal accountability mandates) and continue the administration of all programs, a base level of Administration and Evaluation totaling \$1.8 million per year are maintained throughout the rest of the Long Range Financial Plan.

### “Slope” Scenario (Appendix C):

As under the Cliff scenario, program spending in 2010-11 is reduced by \$799,700 compared to 2009-10 levels to reflect the ending of federal grants. Program spending is then reduced by 20% at the beginning of each two-year budget cycle for the rest of the period covered by the Long Range Financial Plan.

To help stretch the Sustainability Fund further, this scenario assumes that Administration and Evaluation expenses will be reduced in 2010-11 through 2012-13 to go back to the approximate levels from 2007-08 and 2008-09. Starting in 2013-14, Administration and Evaluation costs are reduced further to a base level of \$1.8 million per year as explained under the Cliff scenario.

## MINIMUM FUND BALANCE REQUIREMENTS

The Sustainability Fund cannot be spent down to zero; some funds must be maintained as an operating reserve to cover ongoing cash flow requirements to act as a buffer if there are delays in receiving state tobacco tax revenues or other revenues. The recommendation is to maintain an amount in the Fund Balance, at a minimum, equal to six months of operating expenses plus an amount to cover fiscal obligations under the Reduction in Workforce Policy (currently about \$1 million).